International Fund for Agricultural Development

Women and Men in Rural Microfinance: The Case of Uganda

ABSTRACT

Uganda, where 85 % of the population live in rural areas, has experienced a rapid rise of rural and microfinance over the last ten years. There is a pronounced gender awareness in public policities and programs. *Best practices* have been mastered by institutions in the formal and the NGO sector. In the latter, women dominate as borrowers. Yet, as the vast majority still have no access to deposit and credit services, expansion of outreach remains as the biggest challenge. Rapid expansion of sustainable financial services to women is best achieved in Uganda not through *women-only* programs, but by a broad range of financial institutions with unbiased services to both women and men, the poor and the near-poor. NGO-supported microfinance institutions (MFIs), through group lending up to a ceiling, have provided start-up finance, particularly for women; but this has added borrower transaction costs and restricted growth. In Centenary Rural Development Bank and some MFIs, voluntary savings and individual lending to enterprising men and women have fostered sustainable farm and non-farm business growth beyond the poverty line, creating at the same time employment opportunities for the very poor. Under the prevailing conditions of a conducive policy environment, diversified agricultural and microenterprise opportunities, good practices in agriculture and microfinance, and effective agency coordination, the most effective means of donor assistance are equity investments in rural banks to extend their branch network and staff; equity investments in MFIs to transform into regulated deposit-taking institutions; support to banks and MFIs for staff selection and training; the facilitation of linkages between MFIs and banks; and the development of gender-sensitive strategies in different culture areas of Uganda based on the differential analysis of customer information in each institution's management information system.

15 February 2002

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Acronyms

ADB	African Development Bank
ADF	African Development Fund
AIMS	Assessing the Impact of Microenterprise Services (a USAID project)
AMFIU	Association of Microfinance Institutions in Uganda
BoU	Bank of Uganda
CRDB	Centenary Rural Development Bank
CEEWA	Council of Economic Empowerment for Women of Africa-Uganda Chapter
DANIDA	Danish International Development Agency
EU	European Union
FINCA	Foundation for International Community Assistance
FOCCAS	Foundation for Credit and Community Assistance
GoU	Government of Uganda
GTZ	German Development/Technical Cooperation
IFAD	International Fund for Agricultural Development
MF	Microfinance
MAAIF	Ministry of Agriculture, Animal Industries and Fisheries
MBP	Microfinance Best Practices
MFF	Microfinance Forum
MFI	Microfinance Institution
MFPED	Ministry of Finance, Planning and Economic Development
MGLSD	Ministry of Gender, Labour and Social Development
MSE	Micro and Small Enterprises
MTCS	Medium-Term Competitive Strategy 2000-2005
NAADS	National Agricultural Advisory Service Programme
NGO	Non-Governmental Organization
OPM	Office of the Prime Minister
PEAP	Poverty Eradication Action Plan
PMA	Plan for the Modernization of Agriculture
PRIDE	Promotion of Rural Initiatives and Development of Enterprises
PSDSG	Private Sector Donor Sub-Group
RMSP	Rural Microfinance Services Programme
SACCOS	Savings and Credit Cooperatives
SPEED	Support for Private Enterprise Expansion & Development Program
SUFFICE	Support for Feasible Financial Institutions and Capacity Building Efforts Programme
UCAP	Uganda National Microfinance Capacity Building Framework
UMU	Uganda Microfinance Union
USAID	United States Agency for International Development
UWESO	Uganda Women's Effort to Save the Orphans
UWFT	Uganda Women Finance Trust Ltd.

1. The rapid rise of rural microfinance in Uganda

A rapid recent start of microfinance in rural Uganda…

Rapid start of microfinance in Uganda: Starting virtually from scratch only ten years ago, Uganda now as a still small but rapidly expanding and diversifying microfinance industry, with strong support from the central bank and numerous donors. Two formal institutions are involved, one a commercial bank with a rural mandate (Centenary Rural Development Bank) and one finance company (Commercial Microfinance Ltd., CMF), and a large number of semi-formal NGOs/MFIs - among them 5 international NGOs, 17 large local NGOs and 50 financial cooperatives. In addition, there is an unknown and unrecognized number of unaffiliated informal microfinance institutions.

The policy framework in Uganda is conducive to the development and mainstreaming of MFIs – as one of several measures of liberalization and prudential regulation to improve domestic resource mobilization and financial deepening. A Microfinance Act is now (2001/02) before parliament, with stipulations for the transformation of MFIs into regulated deposit-taking institutions. There is effective coordination between BoU, government agencies, donors and MFIs.

The market for rural microfinance comprises 8 million adults in 4 million households engaged in agriculture, and some 800,000 microenterprises – in a total population of 23 million, of which 85% is rural (2001). As elsewhere in Africa, men and women in Uganda have separate income-generating activities (IGA) and therefore separate needs for deposit and credit services. Each individual tends to combine several agricultural and non-agricultural IGA, and, accordingly, has to finance a diversified enterprise portfolio. Total market size is thus 8.8 million people, among them 4.5 million women – approximately 55% of them poor -, with a multiple of IGA. They all require deposit services; fewer require credit.

Voluntary-saver outreach by authorized institutions in mid-2001 was around 300,000, dominated by Centenary with a market share of 84%. CMF and some 50 savings and credit cooperatives add another 9% and 3 %, respectively. UMU is the only NGO offering voluntary savings products. Major NGOs, CMF and government programs have another 160,000 customers with compulsory savings as liquid collateral. Together with smaller NGOs, this brings total saver outreach to around 500,000.

Total borrower outreach in mid-2001 was near 300,000. Centenary and CMF have a share of only 7% and 4%, respectively. The 22 biggest NGOs have a share of almost 50%, averaging 2% per NGO/MFI. Most have satisfactory repayment rates. There are three government programs with a market share of 31%, but at low rates of repayment.

… benefiting women in particular…

Women dominate the microfinance market; over 60% of borrowers are women. Based on Uganda's *National Gender Policy* of mainstreaming women, this is specifically due to NGO and donor policy of targeting women. UWFT, FINCA, FOCCAS and UWESO serve women at rates of 95-100%. UMU and PRIDE serve mainly women: at rates of 70% and 57%, respectively. Institutions without any gender bias, like Centenary, have 30-40% women clients. If they practice group lending with weekly meetings, outreach to women goes up to 50% and beyond, as in CMF (52%).

Box 1: Microfinance in Uganda: Who are the clients?

Who are the poor?.

- Over 85% of the Uganda population live in rural areas. The rural sector employs 80% of the labour force.
- 48% of the rural population are below the absolute poverty line.
- Both men and women are involved in production; but there is a clear division of labour. Women are more involved in food-crop and small livestock production, men in cash-crop production, large livestock and fishing.
- Women lag behind men in terms of education and income. Women have many economic opportunities; but there are limitations due to family responsibilities.
- Poverty reduction programs in Uganda focus on poor farmers

What are the economic activities of rural women?

- Self-employment and household enterprises constitute the major source of employment in Uganda. Participation rates in self-employment are similar for women (47%) and men (53%); but *household enterprises predominate among women* (77%; males: 23%).
- On the average, 90% of rural women compared with 53% of rural men are engaged in agriculture. Women contribute 70% of the agricultural work; 55% of the land preparation; 85% of seed sowing and weeding; and 97.5% of the food processing. Women and men have distinct roles, producing different crops and livestock. Men continue to do most of the marketing of farm products.
- There are three types of Ugandan farmers: large scale commercial farmers (5%), semi -commercial, small holder farmers (25%), and small scale subsistence farmers (70%). Women constitute 70% of the scale subsistence farmers. Women continue to lack access to market information contributing to their disadvantaged position in the agricultural sector.
- Female-headed household constitute one-third of all rural households.

… but expansion of outreach remains the big challenge

Expansion of financial services as the big challenge… impact guaranteed: Despite the boom in microfinance and the impressive results of major institutions, only 6% have access to financial services, leaving out 94%. The market for rural microfinance is thus wide open, with 8.3 million rural people without access. Women constitute a major share of the demand for financial services, independent of their spouses' demand. Conditions for expansion are very favourable in Uganda, comprising a conducive policy environment, a diversified infrastructure of experienced formal and semiformal financial institutions, a set of proven *good practices*, and close cooperation between government agencies, financial authorities and donors. Rapid expansion of institutional outreach remains as the biggest challenge – a rich field for donor intervention, with impact virtually guaranteed.

NGOs and banks differ in the way they target women and men…

NGOs provide starter microfinance…: NGOs lay the groundwork for microfinance among the poor, particularly women, in two ways:

- they finance start-ups, which banks rarely do
- they instil financial discipline among the poor with their rigid insistence on timely repayment.

… while banks tend to finance growth: Among the banks it is mainly Centenary which provides credit to existing farm and microenterprises. Given the vast number of such enterprises, Centenary promotes their growth and employment generation and leaves start-up financing to NGOs. Some NGOs finance growth up to a limit through individual loans; and may go beyond these limits once transformed into deposit-taking MFIs.

Targeting women: Formal institutions, notably Centenary and CMF, provide financial services to both sexes without a particular targeting policy. NGOs tend to target either women and men or women only. An exclusive focus on women is usually due to donor influence. Under conditions of group lending with compulsory weekly meetings, as practiced by CMF and most

NGOs, poor women are more likely to participate than men, who tend to be more under external time constraints. Many women indicated that their family work loads to not keep them from attending group meetings. Under pressures to increase both sustainability and outreach, advanced NGOs have made their loan products more flexible and provide access to both sexes. Thereby they increase not only their overall outreach but also the number of participating women. While the proportion of women may decrease, their absolute number increases. Some NGOs, like UMU, maintain a women's participation rate of at least 50%.

Targeting the poor and non-poor: Poverty alleviation is at the core of NGO-based MFIs as well as church-owned Centenary. An exclusive focus on the very poor usually due to donor dependency. To increase their self-reliance, viability and outreach, Centenary and advanced NGOs extend access to the non-poor, most of which are near-poor. Weekly meeting requirements of NGOs and limited loan sizes lead to the self-exclusion of the local rich.

… and in their technologies, which affect women and men differently

Group technology favors women start-ups: Most NGOs start with solidarity group credit, with weekly meetings and instalment periods. *Credit discipline* is successfully instilled by rigid insistence on weekly repayment of all group members and the refusal to accept any repayment unless every single member meets his obligations. *Collateral* is thus replaced by peer pressure. *Weekly meetings and standardized group loans* are the main instruments for targeting women and the poor through self-selection.

Standardized repeat loans minimize risks, but may slow down growth: Group loans by NGOs are mostly designed to reach poorer women. They are usually provided in cycles of increasing size. On the positive side, this minimizes risks by starting small and gradually building up confidence in the willingness and ability of group members to invest and repay; while microentrepreneurs limit the risk of initial failure and gain experience with investments and loans of increasing size. On the negative side, standardized quasi-automatic progression in loan cycles limits or slows down growth among the more enterprising poor while it may compel less enterprising group members to accept loans beyond their need and capacity.

Individual technology promotes microenterprise growth: Most NGOs offer opportunities for graduation to flexible individual loans, which are larger-size and longer-term, with instalment periods adjustable to enterprise cashflow. Customized loans offer enterprising women and men opportunities to permanently move out of poverty. At the same time, they create employment for the non-enterprising poor. To prime customers, some NGOs offer individual credit without a preceding group loan trial period. In the absence of effective legislation and judiciary process, this may entail special risks which need to be carefully monitored.

Lack of grace periods: Most NGOs lend without a grace period, requiring payment of the first instalment one week after disbursement. Loan sizes are thus limited by the capacity to meet the very first instalment. This is heavily criticized by participants, who demand a grace period in line with the start of their cashflow after the injection of investment or working capital.

Borrower transaction costs affect women and men differentially: In individual lending, instant loan tracking and recovery action as in the case of Centenary shift transaction costs to the lender As these are being brought down through increased efficiency, men and women benefit equally as borrowers. However, the high costs of arrears prevention have slowed down borrower outreach considerably, affecting access to loans of both women and men. In group lending, transaction costs are shifted to the borrowers. First of all, they spend time on weekly meetings. Secondly, they bear the costs of delays in payment or defaults by group members. This affects women more than men, as the group technology is far more prevalent among women - due to imposition as well as choice. Many women close their shop while attending their meeting, though this may be mitigated by payments made through other group members.

A credit bias and the lack of deposit facilities affect women more than men

The risks of debt finance, particularly for women: The credit bias of most NGOs/MFIs, largely due to the prohibition to accept deposits if unregulated, can be harmful if the self-financing capacity of the poor through savings and the loan protection capacity through insurance are ignored. There are cases where debt-finance might keep the poor in poverty, who may have their assets wiped out at the first serious calamity. As a result, they may be settled with a debt they cannot repay and may remain ineligible for further loans. Due to the pervasive influence of the Grameen Bank model with its emphasis on continual access of women in solidarity groups to credit, ie indebtedness, and an absence of effective voluntary savings products, the credit bias affects women far more than men.

Compulsory vs. voluntary savings: CMF and virtually all NGOs require compulsory savings, which are a form of collateral rather than real savings deposits. The biggest constraint to the sustainability and growth of outreach among NGOs has been the lack of authorization to accept voluntary savings. This has seriously weakened the self-financing capacity of women and men and their ability to protect themselves against financial hazards. Most NGOs practice a *credit-first* approach, except UMU, which also accepts *savings-first* clients. While this is a disguised voluntary savings scheme, it may be considered, for legal reasons, a *scheme of predisbursement instalments* (similar to the practices of cooperative housing banks in many developed countries.

Tied products enable unregulated MFIs to mobilize voluntary savings: The prohibition of voluntary savings collection outside banks and financial cooperatives has practically ruled out tied savings-cum-credit products, where contractual savings over a prolonged period precede the granting of a loan. If termed *pre-disbursement instalments*, these deposits may be a legally acceptable circumvention of the prohibition to accept savings by unregulated MFIs.

Lack of deposit services hurts women: Women are more likely than men to choose savings over credit to finance investments, consumption and emergencies. A credit bias combined with a lack of voluntary deposit services, as in the case of most NGOs/MFIs in Uganda, or an absence of conveniently located deposit-taking facilities in the vicinity, as in the case of banks in Uganda, hurts both women and men, but women more so.

Savings collection strengthens self-reliance, particularly among women: There is overwhelming evidence that rural savings exist in Uganda and large numbers of farm and non-farm activities of both men and women have been financed from savings. Savings are the core of self-help and self-reliance, particularly among women who are less risk-prone and more savings-oriented than men. Easy and convenient deposit facilities and collection services in the vicinity are the most important service for enterprise development and poverty alleviation.

Effective savings collection requires institutional transformation: One of the biggest challenges is the transformation of NGOs/MFIs into properly supervised deposit-taking *tier-three* MFIs under the pending microfinance law in Uganda and the expansion of the deposit and delivery system of banks through networks of sub-branches and village-based agencies.

Insurance protects both the institution and the borrower, with double benefits for women: Life and hospital insurance are important tools of loan protection for the institution and of individual risk management for the household. Such insurance benefits women in two ways: directly as borrowers; and indirectly as spouses responsible for loan repayment in the case of their husband's death of illness. Premiums can be built into the interest rate, which increases only marginally. Effective insurance models have been developed by the credit union movement, but are absent among banks and rare among NGOs/MFIs. However, interest in insurance for loan protection and individual risk management is mounting among NGOs and deserves donor support, particularly during an experimental phase.

The leading institutions in Uganda have mastered the key problems of microfinance…

Sustainability of rural financial institutions with outreach to poor women and men is feasible in Uganda: Expansion of outreach requires sustainable institutions. The two most important factors of operational sustainability, present in most NGOs, Centenary and CMF, are cost coverage through (relatively high and variable) rural market rates of interest and rigid insistence on loan repayment. There are three additional factors of sustainability, which center on institutional and domestic self-reliance: deposit mobilization; additional resource mobilization from domestic sources (commercial borrowings); and equity capital build-up from internal and supplementary external sources. Only Centenary is strong in terms of deposit mobilization, in fact a source of excess liquidity, and equity capital. NGOs are week on all three accounts.

Costs covered….: High costs and low repayement rates have kept banks out of rural finance in most of Africa. In Uganda, under conditions of interest rate deregulation, both formal and semiformal financial institutions charge rural market rates of interest which generally reflect their cost structure. Most of them cover their costs from their operational income or are effectively working towards this objective. There are still wide differences in efficiency and, accordingly, in effective rates of interest. Once costs are covered, interest rates can be brought down by economies of scale and scope, increases in average loan size, decreases in costs of funds through deposit mobilization, and risk management, including loan protection and information on saver and borrower track record. Centenary may serve as a benchmark institution.

… and repayment mastered: One of the most impressive features of rural credit in Uganda is growing mastery over repayment. While some institutions are still struggling, others, including formal and semiformal ones, have attained very high rates nearing 100% in some cases. The basic principles are instant information on payments due, rigid insistence on timely repayment, and incentives rather than penalties. Positive incentives include staff performance incentives contingent upon loans repaid (rather than loans disbursed), as in Centenary; and customer incentives in terms of increasing loans including graduation from small group loans to larger individual loans as in most institutions; and decreasing interest rates as in Centenary. The two principal technologies of assuring timely repayment are tied to the two lending technologies. In group lending, no payment by *any* group member is accepted unless *all* pay at the same time. *CMF and several NGOs may serve as benchmark institutions.* In this case, it is up to the group to eject unreliable and defaulting members between cycles. In individual lending, successful institutions practice daily manual or computerized loan tracking combined with virtually instant action in terms of seizure of collateral, as practiced by Centenary.

… resulting in a concern for equal and sustainable access for both women and men

Differences in repayment no longer justify the exclusion of men….: Based on the Asian experience, eg in Bangladesh and India, better repayment performance of women has justified credit programs for women only. This is different in Uganda, where lending technologies have evolved that generate extraordinary high repayment rates without a significant difference between men and women. Therefore, an exclusive emphasis on women can no longer be justified by repayment differentials. The Ugandan experience shows that once institutions have adequate financial products and monitoring practices, both men and women do repay their loans.

…, while equity and sustainability concerns lead to equal access: Under considerations of social equity and under pressures of sustainability, institutions increasingly tend to provide financial services to both women and men, unless prevented by donors. Rapid expansion of healthy institutions benefits women far more than a women-only approach by unhealthy institutions.

Whether the poor are kept in poverty or moved out of poverty …

The two phases of microenterprise development: The start-up phase of microenterprises requires some savings accumulation, access to small-size short-term credit, and rigid financial discipline. This minimizes the risk of early business failures, both for the institution and the investor. In a second phase, the growth and sustainability of farm and non-farm enterprises are contingent upon access to convenient deposit facilities for continued savings accumulation and access to credit on flexible individual terms without ceilings.

Microenterprise growth creates employment for the very poor: Access to finance for both phases of development has an impact on employment creation for the poorest. There is a large number of small farm and non-farm enterprises in Uganda which create employment. This is of particular importance to youth, who thereby acquire basic skills, and to the non-enterprising poor, who lack entrepreneurial abilities. Virtually all the enterprises with access to loans of increasing size by Centenary employ several workers. It is expected that big NGOs which evolve into deposit-taking MFIs will make larger-size loans available and contribute to poverty alleviation in powerful indirect ways through employment generation. This justifies support to banks and big NGOs/MFIs by donors with a mandate of helping the poorest developing.

Moving the poor out of poverty…: Centenary, CMF and NGOs sustainably move the poor out of poverty to the extent that:

- they provide unbiased opportunities for both, savings accumulation and credit
- they provide opportunities for graduating from standardized group loans to flexible larger-size individual loans
- they provide loans for productive, consumption and emergency purposes
- they provide loans to both husband and wife with their separate IGA

… vs. keeping the poor in poverty: Institutions limit opportunities for the poor to move out of poverty to the extent that:

- they provide credit only, keeping the poor indebted
- they provide only standardized small loans up to a low ceiling
- they limit credit to one spouse only in a family
- they give loans for productive purposes only, excluding emergency loans and income-smoothing consumption loans.

… depends on a mix of institutional strategies

Strategies of expansion and financial deepening: There are several avenues for financing business growth as a permanent way out of poverty:

- transforming NGOs/MFIs into regulated deposit-taking financial institutions with sustainable financial services

- graduating the enterprising poor to financial services provided by commercial banks like Centenary
- linking NGOs/MFIs to banks as wholesale refinancing institutions.

The potential for NGO upgrading, bank downgrading, and linkages: NGOs in Uganda are good at providing start-up finance through compulsory savings and small repeat loans, but face limitations of financing growth due to a lack of internal resources. This is expected to change for the better among big NGOs once they evolve into deposit-taking *tier-three* financial institutions. Banks like Centenary are good at financing growth of established enterprises, which have started at their own and attained sustainability. Since the recent banking crisis, there is no evidence that commercial banks other than Centenary are prepared to downgrade their operations to reach a rural market segment of poor women and men. To date there is little cooperation between NGOs and banks to combine their comparative advantages through cooperation and linkages, but discussions are being held by Centenary and some big NGOs. Given the size of the rural market, there is a vast potential for NGO upgrading, bank downgrading, and NGO-bank linkages. But as long as T-Bills offer attractive margins, there is little reason for banks to invest their excess liquidity in risky small loans. In a situation like this, it takes a strong conviction, as is present in church-controlled Centenary, to maintain a rural and small business orientation.

Opportunities for donor support

The need for domestic resource mobilization, rather than end-user credit lines by donors: Given the over-liquidity of the banking sector in Uganda, there no justification for revolving funds and other forms of end-user credit lines by donors. In addition, there are vast amounts of dormant savings in rural and urban areas ready to be mobilized. In Uganda, loanable funds must therefore be generated through savings deposits, pre-disbursement instalment savings, and commercial borrowings, augmented by domestic equity participation in MFIs and formal rural institutions. As banks are required by law to request collateral and NGOs/MFIs usually lack the required collateral, there is room for donor-financed guarantee programs for NGO/MFI borrowings.

Equity participation required for institutional transformation and expansion of outreach: Equity capital is a limiting factor in institutional growth in all cases. This is most pronounced in big NGOs which are preparing for transformation into deposit-taking *tier-three* institutions. This is a major opportunity for equity participation by donors.

Staff selection and training are the biggest cost factors preventing the rapid expansion of outreach. With a life-time impact, investments in staff selection and training are one of the most effective donor contributions, besides equity participation.

Donor-supported differential analysis of gender-specific customer information: Women benefit from all strategies geared to institutional sustainability and growth of outreach. There is little evidence for justifying support for women-only programs. However, regular reporting of sex differences in outreach and an analysis of imbalances in outreach between institutions or branches might yield new insights in the potential for differential marketing strategies and financial products, varying perhaps by culture area within Uganda. This would require the inclusion of sex as a variable in an institution's management information system (MIS). Donor support for the differential analysis of customer information in a selection of formal and semiformal financial institutions would lay the foundation for regular differential reporting and, possibly, the development of specific strategies and products for men and women adjusted to culture area.

Main opportunities for donor intervention comprise:

- Promoting the transition of NGOs/MFIs to *tier-three* deposit-taking MFIs or *tier-two* finance companies through support for equity and staff training
- Promoting linkages with banks either as refinancing institutions or for graduating enterprising customers to commercial banking services
- Promoting expansion of outreach among suitable banks and finance companies through support for equity and staff selection & training
- Promoting the analysis of customer information by sex and the development of innovative strategies and financial products that are inclusive of poorf women and men, with due adaptations to different culture areas in Uganda.

Conclusions and recommendations

Outreach to poor women is maximized through sustainable deposit and credit services without an undue gender bias: In Uganda, outreach to poor women is not achieved by focusing exclusively on women, the poorest of the poor, and credit-only through solidarity groups. Outreach to women can only be maximized through unbiased deposit and credit services to poor women, men, and the non-poor by sustainable deposit-taking institutions. These comprise banks, non-banks and NGOs/MFIs. BoU, the central bank, is preparing a conducive legal framework for the transformation of NGOs into *tier-three* deposit-taking institutions.

Best practices are widespread, but outreach to women and men remains the big challenge: On principle, problems of cost-coverage through adequate financial margins and of repayment have been solved in Uganda. Thanks to Bank of Uganda, its Bankers Training Institute, and coordinated donor technical assistance, *best practices* are widespread; while, in contrast to many other countries, there are only few *worst practices,* (among them subsidized credit by government programs). Problems of domestic resource mobilization can be resolved through institutional transformation into deposit-taking institutions and commercial borrowings. The principal unresolved problem, or challenge, is the large-scale expansion of financial services of banks, non-banks and NGO-MFIs in rural Uganda, which comprises 85% of the population.

Opportunities abound for diversified rural business and the financing of existing activities: In contrast to Jordan and Syria, lack of access to business development services (BDS) has not emerged as a major bottleneck in rural Uganda, though effective BDS (together with improvements in rural infrastructure and marketing channels) may be immensely beneficial. Opportunities abound among the rural population *along the commodity supply chain*, from agricultural production to agro-processing and trading. In many, if not most, rural households men and women combine several farm, off-farm and non-farm activities (though less so in marginal areas), thus spreading the risk of business failure. Similarly, opportunities abound for financial institutions to finance existing business activities, to strengthen the self-financing capacity of men and women through deposit services, and to lend to for new business activities utilizing existing skills. This has justified a *minimalist approach* in donor support, with the main emphasis on the building of operationally self-sufficient financial institutions.

Main bottlenecks are lack of trained staff…:
The primary bottleneck of expansion is the selection and training of management and staff. To compensate for the eradication of trained manpower during the Idi Amin regime and subsequent civil war, long-term donor support will be required to finance the selection and training of management and staff at all levels: university and bank training institutes, the banking sector, the NGO/MFI sector, and individual financial institutions. If the number and expansion of financial institutions is to increase rapidly, expatriate managers will continue to be employed for an interim period. They should also be involved in the training of junior managers and banking students; and as trainers of trainers.

… and shortage of equity capital:
The second bottleneck is equity capital, which is required for the transformation of NGOs into deposit-taking institutions and for the expansion of the delivery network of banks and non-banks.

NGOs and banks have comparative advantages that might be maximized through linkages:
While the markets of NGOs/MFIs and banks like Centenary overlap at the lower end, each type of institution has a comparative advantage: NGOs/MFIs excel at start-up finance; banks are better at financing growth above and beyond the poverty line, together with employment creation for the very poor. Linkages between the two types of institutions may combine *the best of both worlds*, though they are no panacea.

Differential customer information on women and men might lead to differential strategies:
Major financial institutions, including Centenary, do not include sex as a variable in their MIS and do not differentially analyze customer information. Information on differences between branches in terms of outreach to women and men, their respective savings habits and financial performance are therefore not available. This could be easily remedied: by including sex as a variable in the MIS and reporting sex-differentiated customer information. On that basis, each institution could develop differential marketing strategies and financial products for men and women as seen fit, but not exclude either women and men from its clientele.

Opportunities for donor support:
To expand outreach and deepen financial services to poor and near-poor women as well as men on a sustainable basis, donors may support (a) the expansion of the delivery system of suitable formal institutions, including deposit facilities and credit; (b) the transition of NGOs to deposit-taking MFIs – through equity investments and training assistance to both NGOs and banks; (c) linkages between NGOs/MFIs and banks; and (d) the analysis of customer information by sex in selected institutions and the development of special strategies for women and men in different culture areas of Uganda.

Benefits for women… and men:
Women, with their stronger demand for deposit services and their affinity to NGOs who financed their start-up activities through group loans would greatly benefit from such a broad approach, while men would not be left out. Women and men in the same household usually carry out a variety of separate income-generating activities, agricultural and non-agricultural, many with a potential for growth. Therefore, from their perspective, access to deposit and credit services without ceilings is required for both women and men.

2. Centenary Rural Development Bank: An African flagship of rural and agricultural finance for men and women

Centenary Rural Development Bank Ltd., variously referred to as Centenary, CERUDEB or CRDB, is a *Tier-1* commercial bank that provides deposit, credit and money transfer services indiscriminately to men and women of lower income. By insisting on loan recovery and cost coverage, it has reached more women and men in rural areas than any other institution in Uganda. With minimum deposits of $6 and minimum loans of $30, access barriers are low. 11 of its 16 branches, 73% of its deposits and 82% of its loans are in rural areas. Established by the Catholic Church of Uganda as a trust fund in 1983, it developed a strength in savings mobilization but performed poorly as a financial intermediary. In 1990, the political will to reform the fund evolved in the board, resulting in the fund's transformation into a commercial bank in 1993. With support from various donors, the bank evolved into the most successful financial intermediary in Uganda. The bank and its services will be presented from two perspectives: that of the clients and that of the institution (see ***Annex 1*** for a detailed presentation.

2.1 Client perspectives

2.1.1 Rural customers of the Mbale Centenary branch

Area development and employment generation through individual loans: In Bunyole County, Tororo district, Centenary has disbursed about 300 loans, generating a critical mass of farm and non-farm activities which put a cycle of growth into motion. In Nabiganda village, Tororo district, Centenary has financed rice fields and microenterprise activities on a large scale. As a result, there has been a general increase in income and employment throughout the area. Eg, the number of rice mills in Nabiganda village has increased from two to six. Before Centenary financed rice mills in the district, the rice had to be milled in Mbale. The traders now buy the rice in the villages at value added. We visited one of the mills, a rice and cassava mill. Its expansion had been financed since 1999 through four consecutive loans from Centenary: Ush 600,000; 800,000; 1.5 million; and 1.0 million. During this two-year period, the value of assets has increased from 2.2 million to 6.0 million: 4.5 million in machinery and 1.5 million in the building. The mill generates a daily income of Ush 70,000 and gives employment to five workers. ***(Slides S1/ 25-35; prints P2/6-8)***

Credit for agricultural expansion: On land owned and prepared for irrigated rice cultivation by the government, Centenary has given numerous working capital loans to tenants. Tenancy contracts, which are alienable, are accepted as collateral. One of the tenants is Kifude Abdu, 68 years old. He has two wives, Nula (55) and Madina (58), and 15 children. He received a loan of Ush 1 million from Centenary to double his rice fields from 4.5 acres to 9.5 acres. ***(P2/22-28)***

Repeat loans for vertically integrated activities: *Were Kalifani* is a rice farmer and rice trader, 45 years old, married, with 8 children. He had four loans from Centenary since 1998: Ush 300,000; 550,000; 800,000; and 2 million. He used the loans as working capital on his 2-ha rice farm, for trading, and for the purchase of a rice mill. He employs workers and contract laborers. Since 1998, the value of his assets has increased from 3 to 7 million. ***(P2/9-10)***
The successful woman-entrepreneur who financed diverse microenterprise start-ups through profits from farming: *Nandina Zauma* is 35, married, and has four children 13-20 years old. She went to primary school up to grade VII. She runs four business operations of her own: a one-acre rice farm; a grain mill; agricultural produce trading; and two minibuses. In 1983, she started with a small rice farm. To protect her savings from inflation, she put up a building for a mill in 1992, continued saving and was finally able, in 1996, to install the first mill – all self-financed from the proceeds of her farm. Whatever Nandina does, she does well.

Examining her household economics and business record in early 1999, Centenary had no reservation against financing the further expansion of her business operations. Since then, she received four loans from Centenary, each amounting to Ush 2 million. She first purchased a second mill, then expanded her produce trading operations, and finally bought two minibuses. During this 2 ½ year period, the total value of her business operations grew from Ush 6 million to 14 million. She has two full-time employees and several contract laborers on her farm. Her husband has his own business as a subcontractor, clearing road sides from greenery for the government. ***(P2/29-35)***

The unsuccessful woman-entrepreneur who failed to master diversity: *Dorothy Salira is* 43, married, and has six children. She lives on a farm 7 km from Mbale, where she has been involved in a multitude of activities. But it seems that whatever she did, she did poorly: crop farming, coffee seedlings, animal husbandry, a maize mill, feed mixing, a piggery, poultry farming, and gastronomy. There is a fish pond on her property, which dried out; and there are four incubators, two of them not in working order. In 1992, she defaulted on a Ush 2 million loan from the Uganda Women's Finance Trust for a restaurant in an inappropriate location that failed. She has applied for a loan from Centenary; but there is little chance that she will be found creditworthy. ***(S2/7-12)***

The diverse farm and non-farm activities of Musana Ali Koire and Robinah Koire: *Musana Ali Koire* and his wife *Robinah* are in their early thirties and have five children. Musana Ali has 4 ha of rice fields, a grain mill and a grain store. Since 1999, he had three loans from Centenary for investments and working capital: Ush 1.5 million to purchase a rice huller; Ush 2.0 million for working capital; and Ush 2.0 million for another rice huller. He has five employees and 6 contract workers. From mid-1999 to mid-2001, his assets have increased from 8 million to 10 million. He is satisfied with both the service by Centenary and the loan sizes. On his frequent trips to Mbale, he deposits his savings in Centenary. He has far-reaching expansion plans, expecting more and ever-bigger loans from Centenary: building other types of mills in various locations and going into coffee hulling. *Robinah Koire* has a rice farm of 1.3 ha of her own, sells soft drinks out of two refrigerators, and runs two commercial video shows. ***(P2/11-21)***

2.1.2 Urban customers of the Mbale Centenary branch

Madina Naro, sole proprietor and supporter of the family: *Nadina Naro* is 50 years old, married, and has seven children. Her first investment, self-financed, was a small textile store in 1978. As this did not do well, she converted it in a cosmetics store in 1988, with three employees. From the proceeds, she acquired a farm with 20 cattle and purchased two lock-up stores. Since 1998, she has received six working capital loans from Centenary, from Ush 2 million to Ush 9.8 million, to expand her business. All these businesses are in her own name. Her husband *Suleiman* has no income of his own and does not share in the work. **(S2/6)**

Connie Watuwa's business empire in Mbale:

> *I worked when I was pregnant up to my 9th month. I can work. All I need to expand is bigger loans.*

Connie Watuwa is a married woman with six children, who doesn't want to tell her age. Born in a village, where she now owns a house, she found that the town is the place where business opportunities are unlimited. She is one of the few women we met who started out with her husband, opening a Wimpy's Restaurant in 1971. From the income she earned, she saved money in a bank. In 1975, she used her savings to open a hardware store, which is her biggest single investment. During the 25 years in operation, it has grown to an asset size of Ush 40 million, now trading in hardware and building materials. She got her first loan in 1986 from the now defunct Cooperative Bank and opened a lock-up store. In 1991 she got a loan from the Uganda Women's Finance Trust (UFWT) for produce trading, buying rice at Ush 400/bag and selling it after 3 months at Ush 1000/bag. She complains about the Trust's high interest rate; but it is quite clear that with a 150% gross profit margin in three months she could have paid virtually any interest rate. She received several loans from Bank of Baroda. When the Mbale branch opened in 1998, she became one of Centenary's first depositors with a current account. *Centenary is a greener pasture*, she explained, *it gives you no headaches*. During the same year, she obtained a six-month loan of Ush 2 million, followed by two other loans of Ush 4 million and Ush 10 million. As all her payments had been on time, she then graduated to an *automatic loan* of Ush 15 million at a substantially reduced interest rate. She invested the loans in a second lock-up store, a mattress store, and in an extension to the restaurant. From the proceeds she finances, among other things, her children's education: one at Makerere and another one at Nairobi University. Her business empire comprises a hardware store worth Ush 40 million, a matress store of 15m, a restaurant of 3m, two lock-up stores of 20m, commercial plots of 20m, a ranch of 50m, 2 vehicles of 22m, plus a residential house of 35m and a house in her home village of 30m: all in all Ush 230 million ($134,000). ***(S2/1-5)***

2.1.3 **Customers of Centenary in the Kampala area**

The village woman who built a microbusiness empire in the city - self-financed start-up, profit- and credit-financed expansion: Grace Mangeni, 45 years old, is a client of Centenary in Ntinda, a periurban area of Kampala. She comes from a farming family in Busia District in the eastern part of Uganda. She has been married since 1977 and has six children between 10 and 22 years of age who all go to school. Her husband is a civil servant.
At the age of 13, her parents sent her to Kampala where she lived with an uncle, went to high school for four years, and subsequently attended a secretarial college. For nine years she worked as a secretary in the Public Service, saving as much as she could. In 1979, she was one of the first customers to open a savings account (*no. 173*) with Centenary. In 1986, while in the public service, she opened a small general merchandise shop. She financed it with the savings at Centenary, about Shs. 350,000, and a loan of Shs1 million. The start-up was entirely self-financed, there was no other source of funding. She repaid the loan, which at that time carried an interest rate of 40%, within six months. Since then she has taken about eight loans. In 1992 she left the public service because she found business more profitable. In 1996, she moved to a bigger shop, *St. Theresa's Supermarket*, at Shs 400,000 rent a month, where she is now, with two employees. Only once was she late with a payment, because of a death in the family in 1997, when she had to stay away from her business for two months.

She currently has a loan of Shs 7 million at 22% interest p.a. for one year, with monthly installments. Half of it she invested in her business, buying merchandise. The other half she put into a building of her own where she will open her own shop, probably in January 2002. She built her first house in 1994-97 with loans from Centenary and from the profits of her business . She rents out five shops in that building, which is a commercial building. The value of her business is around 15m. Her monthly profit from the store is Shs1.5 million; her rental income is Shs 0.5 million.

Since 1999, she also has a poultry farm with 500 chicken, managed by an employee. The investment was Shs 2.5 million, financed through part of a loan of Shs 7 million from Centenary. The monthly income from the poultry farm is Shs 300,000.

Her first loans were securitized by her husband's land title. As both buildings belong to her and are titled in her own name, she now uses them as collateral, plus movable business and household property, such as refrigerators.

What are the benefits of her longstanding relationship with Centenary? Setting up and expanding her shop, putting up two own buildings, a chicken farm, and a savings account with Shs 1 million, plus income and employment for several. Economically, she is independent; her husband has his own income, she does not know how much. For a women of her background from a rural area, what she built is a microbusiness empire, financed through accumulated savings, profits and loans. (**P1/10-12)**

The village woman who made Ush 200 million in seven years, with unlimited further opportunities in manufacturing: *Jane Draville Assimwe* was born in 1960 in a farming family in Bushenyi District, western Uganda. She is now married and has four children between eight and 16 years of age. After high school, she went to a business college in Kampala, paid for by her father. Her first job a sales executive for her uncle in his textile store; she then worked in the Ministry of Education as a sales officer for chemicals. In 1994, she retired from the civil service because the pay was too low. With the severance pay of Shs 3 million plus one million of savings from her current account at Centenary, she established *JEC Science Equipment, Chemicals & Laboratory Supplies* in a backyard in central Kampala in 1995, providing supplies to schools for their chemistry and physics classes – much of it on credit. In addition to herself, the store employs three people. The start-up was completely self-financed, without any loan.

Jane had opened her first current account in 1986 with UCB which she kept for the transfer of her salary as long as she worked at the Ministry. She eventually discontinued her banking relationship with UCB, because she was unable to get the loans she wanted. She now has two deposit accounts with Centenary, a personal current account since 1987 and a company current account since 1997. She has no savings passbook. She started borrowing from Centenary in 1996, a total of seven loans by mid-2001, all for working capital: the first two loans for six months each, Shs 2.5 million and Shs 5.0 million; the following loans all for one year each: Shs 7.5 million, Shs 10 million, Shs 15 million, Shs 20 million, and currently Shs 25 million. The current loan is repayable in three installments; all other loans were paid back in monthly installments. On loan security she said:

> *“They take everything: a land title, household items, guarantors. In case you default, they take everything.”*

The monthly turnover varies from Shs 5-20 million. Within a seven-year time span, 1994-2001, the total value of her business grew from the initial investment of Shs 4 million to Shs 200 million in 2001: a phenomenal growth, which enabled her to pay any interest rate on her loans. To diversify her business operations, she opened a retail shop for general merchandise in 1999. She financed the Shs 2 million investment with the sale of her car.

Centenary is a good bank, Jane says. But despite a banking relationship which has been highly profitable for the customer as for the bank, she finds the terms and volume of available loans inadequate. The maximum loan period is one year; and the Bank does not finance start-up businesses, except when repayments are made from the income of an existing business. With a loan of Ush 150,000, she would start a manufacturing enterprise for chemicals. She herself has the necessary business experience. For the technical part, she would hire technical staff. Knowing that her collateral is not sufficient, she has not yet discussed her business plan with the bank.

With access to bigger loans, she could also produce all kinds of school supplies, for instance wooden rulers and retort stands, which are all imported at high costs. There are 4,000 schools in the country, the market is virtually unlimited, she says. ***(P1/13-15)***

A booming family enterprise in plastics manufacturing: Peter Kayongo and Farida Kayongo are business partners. They have six children, aged 4-18 years. Peter received his technical training certificate in 1980, then learned shoemaking from his father, who is a shoemaker. In 1985, he started his own leather shoemaking business with an initial investment of Shs 250,000, which he received from his father as gift. For the next eight years, the business kept growing from its profits without any other source of finance. In 1993, he went to UK for one year, leaving his business with his wife. During that year his main job was in a hotel. Through his part-time work in a plastics factory, he got to know the process of plastics manufacturing and became acquainted with the machinery. When he returned in 1994 with savings of 5,000 pounds, he hired a technician, bought parts in Kampala and Nairobi, and had the machines built by informal sector craftsmen for plastics manufacturing. In Kibuye, the outskirts of Kamala, he and his wife established a plastic soles manufacturing workshop, *Peter Kayongo & Co*, and gradually diversified production. He now has 12 workers working in shifts, producing plastic shoes and heels, tricycle tires, pallets, and other plastic articles. The raw material are recycled and ground-down plastic soles, which are provided by informal sector suppliers. Farida, Peter's wife, works on the finishing of the products. During the one-year absence of her husband in England, she ran the family business.

Peter Kayongo has been banking with several banks, but switched to Centenary in 1997 because of the prospect of loans. Within four months after having opened a current account, he applied for a loan of Ush ten million and got his first loan of Ush one million. With his own money and the loan, he ordered a first set of moulds from Manchester at a cost of Shs 8 million. Since then, he has received approximately eight loans, increasing in size up to the present level of Ush 6 million, which he repays in 12 monthly installments. He has never been late on a single payment.

The value of the business in 2001 is Ush 45 million; monthly sales are Ush 5-8 million; monthly profits are Ush 3 million. In addition, the Kayongos have built three houses with a total value of Shs 25 million, financed from the profits of the manufacturing business. The monthly rental income is Ush 300,000. In 16 years, Peter and Farida Kayongo's assets have grown from a parental grant of Shs 250,000 to a total investment of Ush 70 million.

The present investment needs are Ush 15 million to buy more moulds from England, moulds being his main capital-intensive investment. Beyond that, the Kayongos want to relocate from the present backyard location and built a factory at an investment of Ush 100 million. This could only be financed through a big loan; but the problem is: *You don't get what you ask for.* The Kayongos have their houses as collateral, but no title – a common problem in Kampala. The houses are build on land owned by the Kabaka, the traditional king of the Baganda, and the Catholic Church. They have applied for the registration of a lease, which would allow them to offer the houses as collateral; but this is a long process. Their overall assessment of Centenary: *The service is good, but the size of loans is inadequate* – as is their collateral. ***(P1/ 16-28; P2/1-5)***

2.1.4 Men an women as farmers and microentrepreneurs: an abundance of equal opportunities

Financing self-made women and men: Without exception, the customers of Centenary visited in both rural and urban areas are self-made. They have self-financed their start-up from their own personal resources. Financial contributions from spouses or other relatives seem to be rare, the frequently cited contributions from friends or neighbors nonexistent. Savings accounts at different financial institutions usually played an important role in early capital accumulation. Once they had access to a loan from Centenary, their business operations grew rapidly. Husbands and wives have separate economic activities; there was no instance of joint business operations.

Diversified microbusiness activities: Business operations are highly diversified. Male or female borrowers usually combine 4-6 different activities; the non-borrowing spouse is usually less active and has only one or two income-generating activities. Opportunities for new businesses and for business expansion are pervasive. The crucial factor during the start-up phase is the willingness and ability to accumulate savings. Rapid growth of business operations is usually financed through consecutive loans from Centenary – hardly ever from any other institution.

Equal opportunities for women and men: Centenary's women borrowers have large numbers of children and combine this with large numbers of business activities. Opportunities seem to be equal for men and women, both in terms of starting a business and in terms of access to financial services. Husband and wife may borrow simultaneously from Centenary, with positive effects on family income, occasional business cooperation between spouses, and no adverse effect on repayment. There were no complaints from either women or men about discrimination or inequalities. Neither large families nor early marriage seem to be a hindrance to the entrepreneurship of women.

No complaints about loan terms: There were no complaints about the quality of service or the interest rate. A few exceptionally successful business women and men felt constrained by lending limits in the tens of millions of Ush, but admitted that the limiting factor was inadequate collateral for large-size loans. There was no doubt in their minds that for the financing of either farm enterprises or small and microbusinesses, there is no alternative to Centenary. Several men and women had held deposit accounts with other banks; they all switched to Centenary because of access to loans – limited only by their ability to secure, invest and repay their loans.

Compared to NGOs, no limits to growth: Centenary provides loans to very small businesses in rural areas, the sizes and terms of which overlap with those of NGOs. Centenary differs from MFIs run by NGOs in two respects: it provides agricultural loans – and does well at it! -, which virtually none of the NGOs does. And for all practical purposes, its loan sizes are unlimited, except by collateral constraints. This is clearly shown in the progression in the scale of loans from villages to Mbale as a rural town and ultimately to Kampala, where many of the successful women-entrepreneurs originate from villages: definitely a **progression out of poverty.**

The potential for linkage banking: NGOs in Uganda have provided start-up finance for microentrepreneurs, particularly among women, and have created avenues for graduating from standardized group loans to more flexible larger-size individual loans – up to a ceiling. This has been an important learning experience for new microentrepreneurs. Linking NGOs to Centenary could open up new avenues for microenterprise growth and employment generation, in two ways: either by access of NGOs to Centenary as a wholesale and refinancing institution; or by enabling successful microentrepreneurs to graduate to the commercial banking services of Centenary. ***(S1/1-24; S2/12-16)***

2.2 The institutional perspective

Centenary has several stories to tell:

(1) one about the feasibility and impact of **rural and agricultural bank reform** - addressed to the community of agricultural development banks (AgDBs) in Africa and those who decide on their fate;
(2) another one about the **compatibility of institutional sustainability and outreach to both men and women** in rural areas - addressed to the community of microfinance institutions (MFIs) and their donors;
(3) a third one about the **feasibility of agricultural lending to men and women** - best told by the staff and clients at Mbale branch and addressed to financial institutions weary of risky agricultural lending.

The big story behind all is addressed to the rural as well as urban people in Uganda: in terms of **access of both women and men to adequate financial services and impact** of these services on their life and business. A detailed assessment is given in ***Annex 1***.

As a trust fund established in 1983, Centenary did well in providing deposit services, but poorly in lending. Threatened by bankruptcy, its owners, the Catholic bishops of Uganda, decided to invite technical assistance and transform the fund into a commercial bank in 1983. While continuing to mobilize deposits vigorously, IPC, a German consulting firm specialized on microbanking reform, introduced a **highly effective lending technology** based on:

(a) the analysis of the total household as a complex IGA entity;
(b) an incentives-driven repeat loan system, providing access to lower-interest *automatic loans*;
(c) flexible but comprehensive loan security requirements; and
(d) stringent enforcement of timely repayment, backed up by a system of computerized daily loan tracking, instant recovery action, customer incentives, and staff performance incentives at all levels of the bank.

This has made the bank the **African flagship of rural and agricultural banking,** combining sustainability with outreach to the rural poor and demonstrating the feasibility of agricultural lending. With an equity capital of $6.84 million and total assets of $49.85 million (*Dec. 2001,* up 35% over *Dec. 2000*), Centenary Rural Development Bank:

- mobilizes its own resources ($ 39.9 million, up 34%) from 280,000 depositors (up 18%) , some 115,000 of them women;
- lends to 22,000 small borrowers (up 29%), some 7,000 to 8,000 of them women, at practically unlimited loan sizes ($ 14 million loans outstanding, up 31%);
- has its loans repaid by both its male and female borrowers at a portfolio-at-risk rate of 2.1%;
- pilot-lends to 3,000 male and female smallholders (14.4% of the portfolio) at below-average arrears;
- earns returns of 4% on average assets and 28% on average equity during 2001;
- and, since 1999, finances its expansion from its profits.

Despite Centenary's impressive expansion of saver outreach and, to a far lesser extent, of borrower outreach, its single most important **weakness** has been its constricted lending. Given its financial technology and growing deposited resources, Centenary faces a vast rural market potential of up to 8.8 million rural people, among them 4.5 million women, most of them with multiple income-generating activities. Centenary covers little more than 3% of that market. Centenary could greatly benefit from *economies of scope* by extending credit to more of its depositors. Major **constraints** to a more rapid increase in borrower and saver outreach are a lack of capacity to train large numbers of new staff, inadequate premises, and limited management capacity. Capital inadequacy (*bridging equity*) is a lesser problem in Centenary compared to other institutions.

In terms of **gender**, Centenary has no bias, using its highly efficient financial technology to provide sustainable financial services to increasing numbers of male and female customers. Husband and wife may borrow simultaneously from Centenary, which is crucial to substantial impact and lasting poverty alleviation. 30-35% of its borrowers and 40% of its depositors are estimated to be women, a total of 115,000 (*Dec. 2001*). Their access to credit is not limited by any ceilings, opening the way to virtually unlimited growth and employment generation. However, in the absence of sex-differentiated information in its MIS, the bank misses the chance of developing specific strategies and products for women and men within the different culture areas of Uganda.

NGO/MFIs have rapidly expanded in Uganda over the past decade, providing start-up finance for microentrepreneurs, particularly women. Through **linkage banking**, Centenary could help solving their perennial problem of shortage of funds and, at the same time, its own problem of excess liquidity: either through wholesale refinancing or by enabling successful microentrepreneurs to graduate to the commercial banking services of Centenary. This would vastly increase and deepen Centenary's rural financial services, particularly to women.

Given its successful financial technology and the virtually unlimited size of the rural market, untapped in many areas, further **expansion of outreach to rural and agricultural areas** remains the Bank's biggest task. This is of particular importance to low-income people, among them **microentrepreneurs, smallholders, women and the enterprising poor**. Convenient deposit services for small savings are normally not available in their proximity, but are of utmost importance to self-financed business growth and borrowing capacity. In this vein, major **challenges and opportunities** for Centenary include the following, centering on the **further expansion of outreach and deeper services for both women and men:**

(1) Bringing the bank to the people:
- Expanding into remoter areas through sub-branches and linkage banking
- Improving its branch services by expanding its staff and premises
- Expanding its small saver outreach through nearby deposit and collection services
- Expanding its small borrower outreach through sub-branches and through more balanced staff incentives for both, arrears prevention *and* disbursement.

(2) Bringing the bank closer to women:
- Including sex of customer in the bank's MIS
- Providing information differentiated by sex of customer to branches
- Monitoring discrepancies in outreach to women and men between branches
- Developing differential marketing strategies and products for women, men and youth as seen fit

(3) Bringing the bank to intermediaries:
- Lending wholesale to NGOs, MFIs and associations of farmers and microentrepreneurs
- Graduating clients of NGOs and SHGs to bigger loans, voluntary deposits and money transfer
- Monitoring linkages with women-only vs. mixed-clientele intermediaries

(4) Deepening financial services and impact:
- Offering tied savings-cum-credit products and cross-selling of financial products
- Strengthening microenterprises through business services by cooperating agencies

(5) Strengthening the delivery capacity of the bank:
- Expanding staff and staff training facilities
- Expanding and modernizing bank premises
- Modernizing the MIS, introducing a graphic user interface system
- Expanding management capacity

(6) Disseminating sustainable rural finance, agricultural lending and agricultural bank reform:
- Providing exposure training to MFIs and commercial banks in Uganda
- Providing exposure training to rural and agricultural banks in the wider region

(7) Harnessing donor support:
- Working out strategies of expansion and financial deepening jointly with donors
- Coordinating donor inputs through leading donor agencies with local presence
- Encouraging co-financing by financial and technical assistance agencies
- Revising the *Business Plan* as a living document in cooperation with major donors.

Donor support to Centenary for spreading its highly successful rural and agricultural financial technology and deepening its impact is recommended in the following fields:

(1) development of strategies of expansion including new products at national level
(2) capital adequacy bridging
(3) cooperation with NGOs and MFIs (*linkage banking*) at national and local level
(4) expansion into underbanked areas with a potential for sustainable banking
(5) management and staff training
(6) national and regional exposure programs for agricultural banks and rural MFIs
(7) coordination of donor interventions and co-financing with leading TA agencies.

Donor cooperation will be of crucial importance, to be coordinated by lead technical assistance agencies with local presence, which all are potential partners to IFAD. DFID is a major donor of technical assistance to Centenary. GTZ provides technical assistance to Bank of Uganda (BoU) in financial systems development as well as regional training capacity building and to AFRACA's regional linkage banking program. Other major donors include AfDB with resources for an apex fund; and the EU, USAID, DANIDA and ADC with their capacity building programs.

3. NGOs in Uganda: Architects of a dynamic microfinance industry for women and men

The Ugandan microfinance sector is one of the most advanced in Africa. Because of its recent origin, its overall outreach is still small. Unregulated NGOs are legally barred from collecting voluntary savings deposits. Ugandan microfinance encompasses a variety of formal and nonformal institutions. **Over 60% of the borrowers from formal and semiformal institutions are women.** In the process of commercialization, advanced Ugandan MFIs are developing financial products to reach women as viable clients, not as beneficiaries targeted according to donor directives. The core of the NGO microfinance sector comprises:

- 5 international NGOs: Finca, Pride, Faulu, World Vision, Aid-Infeem
- 16 advanced Ugandan NGOs, including UWFT, UMU, FOCCAS, UWESO
- Over 50 less advanced Ugandan NGOs and microcredit programs
- 50 savings & credit cooperatives (SACCOs): employment-, market- and community-based.

The level of development and sustainability of these heterogeneous organizations varies from advanced institutions like Centenary to weak governmental programs that provide microcredit at subsidized rates of interest in rural communities. The government of Uganda, donors, international and the most advanced national NGOs are collaborating in a joint effort to develop a microfinance industry that follows sound practices and internationally accepted performance standards. The government is creating an adequate policy framework; the donors are supporting the commercialization of MFIs and support services to strengthen the industry; and the MFIs are responding to competition, innovating their products and operations to become more efficient and profitable. A more detailed report on the NGOL/MFI sector in Uganda is presented in ***Annex 2,*** a case study of the Uganda Microfinance Union (UMU), one of Uganda's leading MFIs, is presented in ***Annex 3.***

3.1 Some client perspectives: NGO customers

Uganda Women's Finance Trust (UWFT), with support from IFAD, is one of several NGOs providing financial services in Mbale and the surroundings. UWFT and Centenary start approximately within the same range of small loans, but differ widely in the upper range. Entrepreneurial growth among UWFT customers is held back by UWFT's limited financial capacity; while Centenary's capacity, for all practical purposes, is virtually unlimited. In addition, NGOs finance start-ups, while Centenary does not. NGO loan terms tend to be standardized and restricted by a "regression toward the mean" of group members, while Centenary is far more flexible in its individualized loan terms. All this raises the question of linkage banking: linking UWFT (and other NGOs/MFIs) to Centenary by allowing their more enterprising customers to graduate to Centenary's commercial banking opportunities. First steps towards graduation were taken in 1998, but have not been followed through. Pursuing this option systematically would require an agreement between the head offices of the two institutions, backed up perhaps by a linkage banking agreement between Centenary and the microfinance community. ***(S2/17-18, 25-30)***

Start-*up finance from UWFT:* *Asina Sijja* is 25, married, and has 3 children between the ages of 5 and 10. She sells second-hand baby clothes. She started her business in November 2000 with a total investment of Ush 920,000. Ush 120,000 she had saved with UWFT; the remaining Ush 800,000 she received as an individual loan, which she repaid in six monthly installments. In May 2000, she received a second loan of Ush 800,000, again for six months, which she is now (August 2001) paying back in monthly installments. Her total assets are now Ush 1 million. During the 9 month period, the net worth of her business has grown from Ush 120,000 to Ush 600,000: small in absolute value but spectacular in percentage terms. Without the loan from UWFT, Asina Sijja could not have started out at her own. ***(S2/24)***

Betty Muliro's Beauty saloon, cosmetics store and secretarial services: Betty Muliro, 42 years old, married, has six children between the ages of 11 and 18. From 1981 to 1997, she worked as a secretary for a cooperative union in Mbale. When she was retrenched in 1997, she received Ush 1 million as compensation from the union and Ush 540,000 in accumulated payments from the National Insurance Corporation and invested Ush 1.2 million in a cosmetics store and beauty saloon – entirely self-financed. In 1998 and 1999, she received two small loans through a women's group from UWFT, one of Ush 250,000 and one of Ush 500,000, each for four months with bi-weekly installments. In 2000, she received an individual loan of Ush 1 million for 6 months with monthly installments; and in June 2001 a loan of Ush 2 million for 9 months. She finds the size of her loans adequate, which she used for working capital and the purchase of a computer. Betty Muliro has diversified her business operations within her store. Besides operating a saloon and cosmetics store, she sells soft drinks and fabric and provides secretarial services at Ush 1000/page from her own computer. During the three years since 1998, the value of her business has grown from Ush 1.2 million to Ush 3 million, an increase of 150%. ***(S2/20-23)***

Eva Nambafu, FOCCAS Samazi Group founding member and rural shop keeper: Eva Nambafu lives with her husband and five children in the Samazi subcounty area about 30 kilometers from Mbale. They own 8 acres of land. Eva is one of the forty-founding members of FOCCAS Group 101, created in January 1999. Eva first heard about FOCCAS through a promoter. During three months, Eva and other women in the area received training on how to organize themselves to join the FOCCAS credit program. She remembers that the message was about obtaining a loan which "to help yourself." Eva had never had a loan in her life. Her first loan of for Ush 50,000 from FOCCAS helped Eva to start a small home-based shop on the main road to the community primary school. In the current cycle, the seventh, she borrowed her largest amount, Ushh 300,000 (US$176), at 12% interest (flat). She will repay the loan in 16 weekly installments. She believes that FOCCAS has been very good to her. ***(Almeyda Roll 1/1-7)***

Village Bank Agawawa, a FINCA women's group in Luvero District: Twenty-six rural women form the Agawawa village bank group, created in 1998. Most are in their 30s, a few in their twenties, and some are "senior" members. They take loans and invest them in poultry, seeds, commercialization of coffee and vegetables, trading in used clothes, a brewery, and a bakery. Some new members are in their first cycle, borrowing Ush 50,000 (US$29). Some members are in their 9th and 10th cycle, borrowing up to Ush 1 million (US$581). The members have their savings accounts in the Uganda Commercial Bank. One of the women in the group spoke emotionally about the importance of being part of Agawawa. Her husband was killed in a car accident and she was left with four children. Her team members have been a great support. She acknowledges the benefits of the loan as well as the relationship developed among women in the group. ***(Almeyda Roll 2/ 33-36)***

Village Bank Wobulenzi: The group in Wobulenzi has twenty members. The interview, during a rainy afternoon which made walking in the mud difficult, took place with only half the membership. All of them are women with large families. The members are already in their 13th loan cycle. One member, who received loans of Ush 100,000 ($58) to keep her retail shop openk, commented that borrowing money made her work harder: the loan is an incentive to be productive in her business and to make it grow. The member with the largest loan amount, Ush200,000 ($116), produces milk. Members are happy with their village bank. They feel that without FINCA, they would have never received a loan in this remote rural area. ***(Almeyda Roll 3/1-21)***

3.2 **The institutional perspective**

A conducive framework

Rapid improvements in economic and political conditions during the past decade have created an enabling environment for the development of microfinancein Uganda. *Best practices* have been adopted, which demonstrate that "*development aid works when good policies are in place*" (E.Rhyne). The Government of Uganda (GoU) has recognized the importance of microfinance in agriculture and the private sector and has included women as key participants in all its major programs: the Poverty Eradication Action Plan (PEAP), the Plan for the Modernization of Agriculture (PMA), and the Competitive Strategy for the Private Sector (CSPS) 2002-2005. The government, donors and microfinance practitioners coordinate their efforts through the Microfinance Forum (MFF), chaired by the Ministry of Finance, and the Apex Subcommittee on Rural Finance (ASRF).[1]

With respect to microfinance in rural areas, the main thrust proposed in the PMA is on MFI capacity building, risk management, savings mobilization and credit for production, processing and marketing as well as consumption-smoothing during the lean season. It is explicitly stated that the *government "should not become involved in the direct provision of microfinancial service.*" Its main functions is to provide a conducive regulatory framework.

Gender policy, gender mainstreaming, and women's empowerment

Uganda's *National Gender Policy* is an integral part of the National Development Policy. As a result of advocacy by women's NGOs, the PEAP and the PMA incorporate the concerns of women, particularly the poor in rural areas. Women now actively participate in policymaking. The Ministry of Gender, Labour and Social Development (MGLSD) focuses on poverty eradication and is responsible for mainstreaming and promoting gender issues. Women's participation in politics and the public sector is promoted by the National Council of Women. Monitoring is facilited by required gender-disaggregated reporting of public data.

Agreement on *best practices*

One of the key factors contributing to strengthening the microfinance industry has been the coordination of efforts between donors, government and practitioners. Agreement was reached on the following principles:

- ✓ Transparency and information sharing about projects, programs, and support
- ✓ Adherence to sound practices and international standards
- ✓ Donor cooperation or co-financing when feasible
- ✓ Adherence to CGAP disclosure guidelines
- ✓ Leveraging commercial funds
- ✓ Appropriate use of loan funds (eg, for equity lending) and grants (eg, for institution-building).

Donors increasingly encourage a shift to commercial sources of loanable funds and institutional linkages: between deposit-taking non-deposit-taking MFIs; MFIs and commercial banks; and MFIs and social investors. Equity grants should be used to build the capital base of mature MFIs and their transformation into regulated *tier-three* institutions.

Financial services

Credit: Flexibility and innovation have become the key factors enabling MFIs/NGOs to compete and reach financial viability. As microfinance expands in Uganda, MFI clients are becoming more aware of their options and the advantages or disadvantages of various financial products. This has induced MFIs to introduce new products to keep their clients.

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[1] See: *Expanding the Outreach of Sustainable Microfinance in Uganda - Implementation Plan, July 2001.*

MFIs/NGOs respond to client demand tghrough more flexible loan terms, repayment schedules and loan sizes. The offer of individual loans, an innovation to the conventional "village bank" model, has enabled women to finance businesses other than trade.

MFIs continue to focus on the group technology as a collateral substitute. Group guarantees reduce the costs of outreach to poor women, shifting the onus of creditworthiness examination of microborrowers to the groups themselves. The rigid credit discipline imposed by the groups is the main factor of the high repayment rate among MFIs/NGOs. However, in order to retain clients, MFIs/NGOs are adding individual loans to reward good group clients. UMU has been the first local MFI to offer individual loans. FINCA and PRIDE followed more recently. UWFT already disburses 30% of its loans to individuals. FINCA, FOCCAS and UWESO, which target almost 100% women, have more standardized systems and less flexibility and individual choice. UMU and UWFT provide more individual flexibility in terms of loan size and repayment schedule. UWFT requires collateral plus two guarantors in addition to the group guarantee. Poorer women face more restrictions and requirements from MFIs that target women.

Savings: MFIs/NGOs are not authorized to provide voluntary savings services and to intermediate funds. Deposit facilities are offered as a service linked to credit. They all require obligatory savings as a guarantee for their loans. The type of obligatory savings schemes varies by institution. UWFT and UMU collect clients savings and deposit them in a bank; they do not use them for onlending. Most NGOs maintain group savings accounts in a commercial banks depending primarily on proximity to clients. In FINCA, PRIDE, FOCCAS and UWESO, the clients themselves are responsible for opening a group savings account in a commercial bank. This has not always been fortuitous as in the case of the collapse of the Cooperative Bank, when FOCCAS clients had their accounts frozen for months. UMU is the only MFI that accepts savings, offering both passbook savings accounts and fixed- term deposits.

Recent impact assessments report that access to savings deposit facilities is a major concern. (AIMS 2001). The clients, most of whom are mainly women, are becoming more aware of the comparative advantages of each MFI. In response, many MFIs are eager to become deposit-taking institutions once the law is passed.

Sustainability
By December 2000, two of the six largest NGOs, FINCA and UWESO, had reached operational and financial sustainability. PRIDE and UMU were close (96% and 92% financial sustainability). FOCCAS and UWESO were at a low level of operational sustainability (35% and 17%, respectively). The two MFIs/NGOs working with poorer and more rural women clients have lower level of operational sustainability. The ratio of total administrative cost to loan portfolio is generally high, but varies enormously: from a low of 37% in the case of UWFT, followed by UMU (49%), PRIDE (57%), FINCA (80%), and FOCCAS (198%), up to a high of 691% in the case of UWESO. (See Annex 2, App. 2, Table 3-C)

Adaptation to client needs in Uganda: strategic issues of *ugandanizatio*n
MFIs/NGOs in Uganda are under pressure to become more flexible and efficient, being ugandanized in the process. They are in the process of departing from traditional solidarity group, village bank and Grameen Bank international models and offer financial services tailored to the needs of clients in. Strategic issues in this process of adaptation in Uganda include:

- ***Number, Quality, and Gender Perspective***: Responding to the results of recent impact studies, MFIs are focusing on the *quality of services rather than merely the number of women clients.* They are becoming more competitive in order to keep their clients and reduce high dropout rates. Using a gender perspective, MFIs learn about client preferences (e.g., convenient opening hours) services) and characteristics (e.g., level of literacy required) in order to customize their products and services.

- ***Poor vs. Mixed Clientele***: All of the MFIs/NGOs target women clients. Ugandan women are poorer and less educated than men, particularly in rural areas. FINCA, PRIDE, UMU, and UWFT serve a more mixed clientele, while FOCCAS and UWESO target poorer women. Group guarantees enable MFIs to lend to the poorer clients who lack collateral. A mixed clientele contributes to faster and higher operational sustainability. FOCCAS and UWESO incur higher social intermediation costs to reach more rural and poorer women. They all now offer individual loans to clients with an excellent track record, expecting that this will improve their sustainability and thereby, indirectly, also their outreach to women.

- ***Product Differentiation***: MFIs are becoming more flexible in terms of repayment schedules (e.g., from weekly to bi-weekly and monthly), loan sizes (less standardization, higher or no ceilings), and graduation from group to individual loans. The design of financial products with this demand-driven approach is more open to gender considerations. MFIs compete more through lending conditions, while clients are becoming more aware of the differences. When clients have options, they do make choices between different institutions.

- ***Minimalist vs. Credit-Plus Approach***: UWESO and FOCCAS target lower-income women who require social intermediation and a credit-plus approach, with training in self-awareness, nutrition, and business development. Among the MFIs with 100% women clients, only UWFT and FINCA—with a minimalist approach--have reached financial sustainability. Social intermediation adds to costs, resulting in low operational sustainability of UWESO and FOCCAS.

- ***Urban vs. Rural Coverage***: Services in rural areas are more costly in urban areas or more populated rural towns. High operational costs (e.g., for transportation, security) require innovations to make rural services more efficient. Donor funds, following sound microfinance standards, provide incentives to reach a larger rural population. A mixed urban-rural clientele contributes to greater operational sustainability. Urban female microentrepreneurs, many from rural origins, have more options today to access credit and savings.

- ***Formal vs. Semi-Formal Institutions--Towards Commercialization****:* UWFT, FINCA, PRIDE, and UMU are more advanced in commercialization are getting ready for transformation into regulated deposit-taking microfinance institutions. Access to both credit and savings services contributes to economies of scope and reduces transaction costs for clients. This is of particularly to poor women. Mobilization of savings can also help reduce financial costs and, therefore, lead to more competitive interest rates on loans, benefiting all clients.

3.2.3 Conclusions and Recommendations

Coordination of efforts among donors, government and practitioners is one of the key factors contributing to strengthening the Ugandan microfinance industry. Donors have agreed to a *shared vision.* Multilateral agencies such as IFAD should join this effort by:

- Supporting a shift to commercial sources of funding.
- Providing equity to leverage from internal and other domestic sources
- Promoting an enabling environment, industry-wide networking, linkages within the overall financial sector, capacity building, product deelopment, and expansion into rural areas.

- Promoting linkage banking: links between deposit-taking and non-deposit taking MFIs; links to commercial banks; and links to social investors and other sources of commercial capital.

IFAD should use these shared guidelines as a basic framework for dialogue with local donors and other stakeholders in the Ugandan microfinance sector, supporting:

- *More competitive mechanisms to improve financial services to poor women* MFIs should compete for funding rather than simply receiving them because of targeting women.

- *More competition among MFIs to find new ways to operate in rural areas*. Strategic alliances should be supported among financial and nonfinancial NGOs as well as banks and non-banks.

- *Social intermediation vs. financial intermediation*. There is a great need for innovations in inter-institutional linkages between MFIs and other types of institutions with basic services to poor women (e.g., health, education, community development). Many NGOs in basic services add microfinance as an input, rather than building linkages with MFIs. This leads to atomization, incompetence and waste of funds.

- *Capacity building for business development services (BDS)*. There is a need to support capacity building of organizations that provide marketing, technical assistance, information, support services (such as storage, transportation, representation). Women clients continue to use financial services to solve problems that are non-financial (for example, wanting to have grace periods because of marketing problems. Good BDS will contribute to better use of microfinance.

- *NGOs with gender expertise.* Gender expertise about finance can improve financial services. Support to organizations and programs to incorporate gender issues in microfinance and BDS should be on a competitive basis.

- *Study the level of microsavings mobilized by commercial banks in Uganda.* Generally, microfinance sector data do not include this type of information. Reporting on the microfinance sector should include all institutions involved.

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