



## Project for Financial Inclusion in Rural Areas: Will the objectives be achieved?

### Overview

The Government of Uganda (GoU) and the International Fund for Agricultural Development (IFAD) recognize the continuing need to promote rural finance, and the focus on financial inclusion as one of the key pillars of Uganda's efforts to eradicate poverty. In line with that, the Project for Financial Inclusion in Rural Areas (PROFIRA) was designed in 2013 as a partnership between IFAD and GoU.

The project focuses on the large portion of the rural population that has little or no access to financial services. In addition, it covers two rural institutions that have successfully demonstrated that sound and appropriate financial services can be provided to even the poorest members of rural communities: Savings and Credit Cooperatives (SACCOs), and Community Savings and Credit Groups (CSCGs).

While the overall performance of the project is satisfactory, semi-annual field findings by the Budget Monitoring and Accountability Unit (BMAU) for FY 2018/19, revealed some constraints that have negative impact on the achievements of PROFIRA objectives.

All the constraints, however are surmountable, and their resolution would lead to higher performance levels by project end.

This policy brief explores the performance and the challenges faced by the project, since inception in FY 2015/16, and proposes recommendations.

### Key Issues

- Delays in re-negotiating and getting contract approvals might defer implementation.
- SACCOs are faced with two or more challenges (fraud, portfolio at risk, governance, and low business).
- Delay in signing contracts thus failure to meet targets during the project implementation lifetime.
- Failure of Service Providers (SPs) to successfully implement all the proposed innovations, due to lack of relevant players in their areas of operation.

### Introduction

PROFIRA is a seven (7) year project facilitating the strengthening of approximately 500 SACCOs. This is to enable them become sound and financially sustainable organizations that can provide their communities with a range of services—directly benefiting approximately 225,000 households. This initiative is being complemented by support to transform the union of SACCOs (i.e. Uganda Cooperative Savings and Credit Union - UCSCU) into a financially sustainable body, and to create a conducive environment for SACCOs.

The support for the establishment of 15,000 CSCGs, and strengthening of a further 3,000 CSCGs - involving 375,000 people in total is to focus on the poorest areas of the country where few savings and credit groups have been established. This is providing households in these areas with the first important step into the



rural economy and a means to finance micro-business initiatives and meet pressing household expenses.

The overall goal to which the project will contribute is to increase income, improve food security and reduce vulnerability in rural areas. The project development objective is to sustainably increase the access to and use of financial services by the rural population.

### Financial performance

By 31<sup>st</sup> December 2018, 64% (USD18.5million) of the IFAD loan had been received by PROFIRA and budget performance stood at 34%. The Government of Uganda has disbursed Ug shs 3.244bn (80% of the approved budget) as technical assistance and counterpart funding for the project.

### Physical performance

Overall, PROFIRA achieved 70% physical performance during semi-annual FY 2018/19 monitoring which was good. The beneficiary institutions were found in all regions; West Nile, Northern, South Western, Eastern, and Central Uganda. Facilitation was provided to the selected District Commercial Officers to work with SACCOs facing operational difficulties for the period up to December 2018.

SACCO strengthening was conducted through training in six modular areas: Financial Management (100%), Savings and Other Product Development (91%), and Credit & Default Management (80%). The residential trainings were well attended by an average of four (4)

participants from each represented SACCO as planned.

There was less progress in the delivery of onsite trainings. Nonetheless 74% of all onsite modules were completed as: Financial literacy (78%); Governance (75%), and Business skills development (68%). Other capacity building areas - Credit and Default Strengthening, Community savings, and Intensive capacity building were implemented through service providers, and worked better in about 50% (227) of the targeted SACCOs.

Implementation of the Management Information System (MIS) grant commenced with 27 SACCOs. As per the grant agreements, the respective SACCOs contribute 30% of the cost and PROFIRA 70%. This co-funding arrangement was confirmed at Namayingo Buyinja SACCO Ltd during BMAU's semi-annual monitoring FY2018/19.

PROFIRA played a big role in supporting passage of the Tier 4 Act, and establishment of Uganda Microfinance Regulatory Authority (UMRA). The project also facilitated sensitization meetings for both the Act and draft regulations.

A total of 7,609 CSCGs had been established as at 31<sup>st</sup> December 2018, which was well over the targeted 7,500 CSCGs for phase one. Total membership stood at 218,927, of which 75% were women and 34% youth. Female and youth participation was also above the project targets.



# BMAU BRIEFING PAPER (17/19)

May 2019

**Table 1: Project Performance by Components (Access, Use and Sustainability)**

COMPONENT	INDICATOR	Baseline 2015	Midterm Targets 2018	Mid Term Actual targets June 2018	End of October 2018
<b>Access</b>					
	1. Households receiving project services	300,000	525,000	812,218	930,732
	1.Estimated corresponding number of total households members (no. of HHs* average of HHs members in Uganda)	1,800,000	3,150,000	4,873,308	5,584,392
<b>Usage</b>					
SACCO Component	Members of project supported <b>SACCOs</b> that actively save increasing amounts and repay <b>SACCO</b> loans	717,159	954,539	580,137	681,087
	Female members	23.8%	30%	31%	30%
	Youth members	-	15%	11%	11%
	Number of <b>SACCOs</b>	-	453	316	372
CSCG Component	Members of new <b>CSCGs</b> that actively save in increasing amounts of weekly savings and annual pay-outs in each annual cycle.	0	187,500	188,128	201,431
	Female Membership	0	131,250	149,369 (75%)	151,046(74.9%)
	Youth Membership		28,125(15%)	62,675 (33%)	72,038(35.8%)
	Number of Mature <b>CSCGs</b>	0	7,500	6,512	7,011
	Cumulative savings for newly established <b>CSCGs</b> (UG shs million)	0	0	11,102	13,051
	Cumulative loan value for newly established <b>CSCGs</b> (UG shs million)	0	0	10,358	11,582
	<b>Members of mature CSCGs</b>	0	37,500	43,953	48,214
	Female Membership	0	70%	67%	33,750 (70%)
	Youth Membership	0	15%	29%	15,078 (13.3%)
	Number of Mature <b>CSCGs</b>	0	1,500	1,512	1,663
<b>SUSTAINABILITY</b>					
SACCO Component	Percentage of partner financial service providers with operational self-sufficiency above 100% by project end.	85.9%	90%	62%	66%
	Percentage of partner financial service providers with PAR ≥ 30 days below 5%.			6%	8%

Source: PROFIRA Head Office



## Persistent implementation challenges

- i. Delays in re-negotiating and getting contract approvals for service providers. The contracts are in their 3<sup>rd</sup> and last year (less than 12 months remaining). This delay might reduce the implementation time yet a lot of work is required if the project is to realize the desired outreach to SACCOs.
- ii. Prevalence of fraudulent cases, poor governance (malfunctioning boards), low business volumes (less than 10 daily transactions), and large portfolios at risk (greater than 20% unpaid loans for 30 days) have compromised operations.

## Conclusion

PROFIRA is a good strategy to address the continuing need to promote rural finance, and enhance financial inclusion as one of the key pillars of Uganda's efforts to eradicate poverty. Basing on the project's current performance, it will meet its development objectives as set out in the project implementation plan. However, the challenges should be addressed in order to support the implementation processes.

## Recommendations

1. PROFIRA should extend the contracts by the period that will be lost in re-negotiation and obtaining approvals from IFAD and the Solicitor General.
2. The MFPED under the Financial Sector Development Programme, and PROFIRA should create a more resourceful pool of service providers that will help upscale the training and roll it out further so that more SACCOs benefit. This will reduce the fraud cases, governance weaknesses, and increase business volumes.
3. PROFIRA should maintain direct contact with SACCOs through District Commercial Officers and other partners like Uganda College of Cooperatives –Kigumba (UCCK) whose MoUs shall run until project end.
4. PROFIRA should fast-track the procurement processes and ensure that targets are spread within the remaining period of the contract, and negotiate with service providers to handle start up activities concurrently.

## References

1. BMAU Semi-Annual Budget Monitoring Report, FY 2018/19
2. PROFIRA Semi-Annual Report FY 2018/19

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