AMFIU

ASSOCIATION OF MICROFINANCE INSTITUTIONS OF UGANDA

MICROFINANCE INDUSTRY REPORT 2023

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2023

ACKNOWLEDGEMENT

AMFIU would like to thank all Financial Institutions that managed to submit their data using the Performance Monitoring Tool on a quarterly basis. We also wish to acknowledge our development partners who have walked the journey with us ever since PMT was initiated up to this time when it is going through this further upgrade i.e. Soluti, MSC, among others. In a special way we wish to applaud aBi Finance and Feed the Future ISS for the financial support and Technical Assistance they have availed AMFIU in upgrading the PMT.

For the preparation of the report, gratitude goes to the Executive Director of AMFIU Jacqueline Mbabazi whose guidance and expertise contributed much to the report, Robert Ntalaka the Chief Editor who is the Manager in charge of Information and Marketing as well as Veronica Nakachwa the Senior Programme Officer in charge of PMT.

TABLE OF CONTENTS

List of Figures

LIST OF ACRONYMS

AFI	Alliance for Financial Inclusion
AMFIU	Association of Microfinance Institutions of Uganda
ATM	Automated Teller Machine
BN	Billion
BOU	Bank of Uganda
CAGR	Compound Annual Growth
CGAP	Consultative Group to Assist the poor
CIs	Credit Institutions
CLAP	Covid-19 Liquidity Assistance Programme
CRBs	Credit Reference Bureaus
DFS	Digital Financial Inclusion
DRC	Democratic Republic of Congo
EPRC	Economic Policy Research Center
ESG	Environment Social and Governance
FSP	Financial Service Provider
FY	Financial Year
GDP	Gross Domestic Product
GLP	Gross Local Portfolio
ID	Identification
IRA	Insurance Regulatory Authority
KYC	Know Your Customer
MDIs	Micro Deposit Taking Institutions
MFIs	Micro Finance Institutions
MFPED	Ministry of Finance Planning and Economic Development
MSEs	Micro Small Enterprises
NAD	Norwegian Association for the Disabled
NIN	National Identification Number
NIRA	National Identification and Registration Authority
NUDIP	National Union of People with Disabilities
OCR	Operating Cost Ratio
OTC	Over the Counter
PAR	Portfolio at Risk
PIN	Person Identification Number
PMT	Performance Monitoring Tool
PWDs	Persons with Disabilities
ROA	Return on Assets
ROE	Return on Equity
SACCOs	Savings and Credit Cooperative Organizations

SFIs	Supervised Financial Institutions
SPM	Social Performance Management
UAIS	Uganda Agriculture Insurance Scheme
UBOS	Uganda Bureau of Statistics
UGX	Uganda Shillings
UMRA	Uganda Microfinance Regulatory Authority
UN	United Nations
UNCDF	United Nations Capital Development Fund
USD	United States Dollar
WASH	Water Sanitation and Hygiene

EXECUTIVE SUMMARY

The microfinance sector in Uganda is among the growing sectors in the country not only changing the livelihoods of communities but also employing a huge number of people reducing the unemployment gap and contributing to the country's GDP. The present regulations in the country as well as the government support programmes are seeing the sector take positive trends year after year.

This year's report gives the overview of the Country's economy in Chapter two, the global financial services sector in chapter three, Financial Performance Analysis for Chapter four, and then Analysis of the Environment, Social and Governance as Chapter five.

Secondary data has been collected, data from financial institutions collected and analyzed, data collection tools have also been used to analyze data for some indicators.

Performance Highlights: 2023

	Outstanding portfolio	Total borrowers	Female borrowers	Voluntary savings	Total assets
MFIs	389,077,555,763	360,884	229,616	0	231,877,421,705
Saccos	441,641,017,805	220,437	90,379	125,559,962,690	459,379,919,447
MDIs	459,399,684,549	123,520	47,094	110,349,439,450	760,544,515,829
Banks & CIs	989,226,023,662	357,020	209,092	551,154,488,548	6,309,106,532,281
Totals	2,279,344,281,779	1,061,861	576,181	787,063,890,688	7,760,908,389,262

1.0 INTRODUCTION

Microfinance in Uganda continues to be recognized as one of the most prominent tools in tackling poverty. For the industry to have a common voice, the Association of microfinance institutions of Uganda was formed in 1996 and it has since then continued to exist to share information, offer capacity building, lobby government as well as giving updates on issues emerging in the industry to its member institutions in collaboration with other related stakeholders that play part in the sector.

AMFIU has for years been producing, publishing and distributing the annual industry report for purposes of keeping the different stakeholders informed and updated on the new developments both locally and globally. It is upon this background that AMFIU has compiled the microfinance industry report 2022/2023.

1.1 Objectives of the report

i. To present the current status of the microfinance industry and the new innovations and initiatives prevailing.
ii. To establish the contribution of the microfinance industry to Ugandan economy and identify possible opportunities that can support the industry to grow.
iii. To present the financial analysis of the financial institutions in the sector.

1.2 Methodology Used

A combination of methods have been used to collect information in the report which included reviewing of secondary data, interacting with financial institutions as well as reviewing data from reports submitted by AMFIU members and nonmembers using the Performance Monitoring Tool (PMT).

Questionnaires have also been used to collect data from member institutions on particular topics there after analyzed and presented.

2.0 THE UGANDAN ECONOMY

According to the World meter updates October 2023, Uganda's population was estimated at 48,582,334 mid-year, contributing to 0.6% of the world's population with 28.6% of the population living in urban areas.

The economy remained resilient and continued on a recovery path despite the lingering impact of COVID-19, global shocks and contractionary fiscal and monetary policy measures taken to contain inflation. According to the Ministry of Finance Planning and Economic Development, the economy increased to Ushs. 184,288 billion in FY 2022/23, from Ushs.162, 883 billion registered in FY 2020/21. In real terms, the economy grew by 5.3 percent, compared to a revised growth rate of 4.6 percent in FY 2020/21.

Economic growth is mainly attributed to Government initiatives to support private sector activity and increased regional trade. Government initiatives included; continued funding to EMYOOGA to support small service providers and businesses, Small Business Recovery Fund to support small and medium enterprises, and Uganda Development Bank to support manufacturers, among others.

The three sectors of the economy i.e. Industry, services, agriculture, forestry and fishing registered growth in FY 2022/23. The services sector grew by 6.2 percent and contributed 42.6 percent to GDP; the industry sector grew by 3.9 percent contributing 26.1 percent to GDP; the agriculture, forestry, and fishing sector grew by 5.0 percent contributing 24 percent.

Table.1: Real GDP Growth FY2018/19-2022/23

YOY Growth Rate	2018/19	2019/20	2020/21	2021/22	2022/23
GDP at market prices	**6.4**	**3**	**3.5**	**4.6**	**5.3**
AGRICULTURE,FOREST-RY&FISHING	**5.3**	**4.8**	**4.3**	**4.2**	**5**
Cash crops	4.7	7.8	12.5	5.7	2.1
Food crops	1.6	4.6	4.1	3.5	4.7
Livestock	7.3	7.9	7.8	8.3	8.9
Agriculture Support Ser-vices	8.8	6.4	2.1	4.5	2.2
Forestry	3.6	3.3	2.9	3.2	3.1
Fishing	39.2	0.3	-8.8	0.3	7.7

YOY Growth Rate	2018/19	2019/20	2020/21	2021/22	2022/23
INDUSTRY	**9**	**3.2**	**3.5**	**5.1**	**3.9**
Mining & quarrying	17.5	16.5	6.9	18.3	7.5
Manufacturing	7.7	1.3	2.2	3.8	3
Electricity	2.5	10.9	11.6	3.1	2.8
Water	4.7	4.1	4.8	6.3	5.4
Construction	14.2	3.8	3.6	5.2	4.7
SERVICES	**5.8**	**2.5**	**2.8**	**4.1**	**6.2**
Trade & Repairs	4.9	-1.3	-0.6	3.4	5.8
Transportation & Storage	0.8	-1.7	-0.3	-3.8	-7
Accomodation & Food Service	0.5	-8.6	-0.6	-2.5	11.9
Information & Communication	-6.8	19.6	11.8	7.4	10.4
Financial & Insurance	11.1	9.6	8.1	4.5	-1.5
Real Estate Activities	10.1	5.1	3.9	9.5	8
Professional, Scientific & Technical	6.4	2.8	2.1	3.1	28.4
Administrative & Support Service	17.2	7.5	2.3	3.5	18.3
Public Administration	4.2	16.2	12.6	3.5	0.8
Education	9.1	-2	-4.2	1.5	3.4
Human Health& Social Work	5.3	1	7.1	9.6	5.1
Arts, Entertainment & Recreation	22.1	-8.1	-13.7	-2.2	4
Other Service Activities	4.7	1.4	2.9	4.8	2.8
Activities of Households	2.8	2.8	2.7	2.8	2.7
Taxes on products	**4.4**	**-1.6**	**6.2**	**7.5**	**6.3**

Source: MFPED

The growth in the service sector was attributed to recovery in accommodation and food services, and strong growth in wholesale and retail trade, real estate activities, information and communication, education and human health activities. However, other services like financial and transport services registered negative growth on account of high inflation which led to lower profits.

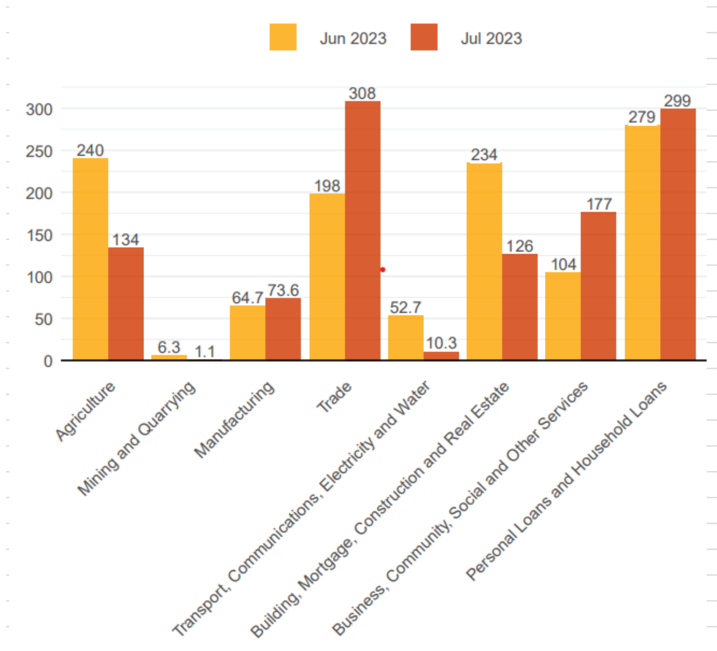
The industry sector registered growth of 3.9 percent a slowdown from 5.1 percent registered the previous Financial Year. This was largely due to slower growth in manufacturing and construction output. Growth in manufacturing was affected by lower production from mainly pharmaceuticals, furniture and tea processing while a slowdown in public construction affected output from construction. In addition to this, increase in price of inputs also led to slower growth in the industry sector.

The agriculture, forestry and fishing sector grew by 5.0 percent from 4.2 percent in FY 2021/22 on account of increased food crop production, livestock as well as recovery in fishing activities. Food crops such as maize, beans, matooke, sweet potatoes registered higher production supported by good weather conditions for most of the Financial Year. Fishing activities benefited from the removal of the burn on fishing in some parts of the country. On the other hand, slower growth in cash crop activities compared to the previous Financial Year is attributed to a decline in coffee prices which undermined the value of coffee.

2.1 Credit Extensions

The value of credit approved in July amounted to UShs. 1,128.8 billion a slight reduction from UShs. 1,180.7 billion approved in June. Nonetheless, this represents

Fig.1. New Credit Extensions Approved (Ushs Billion)



Source: (BOU)

an approval rate of 61.0% of the total loan amount requested during the month. The largest share of credit approved was towards the trade sector at 27.3% of total approvals, closely followed by Personal and Household loans at 26.5%. Other notable recipients of credit were Business, Community, Social and other Services at 15.6%, the Agricultural sector at 11.9% and Building, Construction and Real Estate at 11.2% as shown in the figure below.

2.2 Poverty Levels in Uganda

According to the World Bank poverty assessment report, **Strengthening Resilience to Accelerate Poverty Reduction in Uganda**, the share of Uganda's population that lives below the poverty line has fluctuated over the last seven years, greatly influenced by shocks that have tested the resilience of the people. Numerous shocks not only reduced economic growth, they also hampered the ability of households to increase their income. Shocks have disproportionately affected Uganda's poor and rural residents, according to the report, with 40% of rural and 30% of urban households experiencing at least one since 2013. About 90% of farmers report that climate conditions have grown worse for agriculture over the last decade.

According to the World Bank poverty assessment report, about 30% of the country's population was poor in 2019-20, which is comparable to the poverty rate of 30.7% in 2012-13. The poverty rate used in the study is based on revisions made to the poverty line by the Uganda Bureau of Statistics in 2021, which were meant to expand the scope of Uganda's poverty measurements to cater for the cost-of-living in the country "*within the context of modernizing societal aspirations and rising standards of living.*" Given the limited amount of social assistance available in Uganda and the low resilience of households, the poor were more likely to use detrimental coping strategies, such as reducing food consumption, which could have negative consequences for their human capital in the long run. As a result, at least 50% of Ugandans remain vulnerable to the risk of falling back into poverty in next two years. Education, health, and access to basic services are crucial for building resilience and for equipping a fast-growing population with the opportunities and skills needed to earn higher incomes. However, access to these services still remains very unequal.

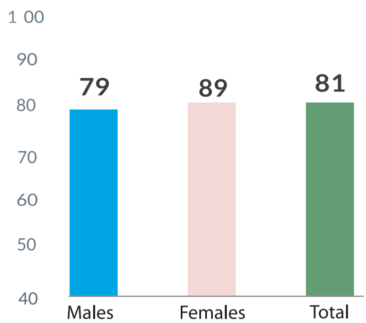
The study also examined telecommunication services, an increasingly important factor in people's lives and in income-earning prospects. Closing the digital infrastructure gap stimulates economic growth and is especially relevant given Uganda's large population of youth. Yet the sector is held back by limited competition, which gets in the way of making digital services more affordable for existing users and discourages take-up by new users, who are typically less well-off.

2.3 Overview of Excluded/Vulnerable Populations

2.3.1 Smallholder Farmers

The agricultural sector is the largest employer in Uganda and it remains essential to secure the livelihood of the Ugandan population according to the Annual Agricultural Survey 2018. The survey confirms that the agricultural sector ranks first in terms of labour force in the Uganda economy. Approximately 7.4 million households operate agricultural land and/or rear livestock. Within these agricultural households, 81.2% of the adult members report to be mainly engaged in agricultural activities.

Fig.2 Percentage engaged mainly in agricultural activities



The percentage of the household members engaged mainly in agriculture further increases to 90 percent when focusing solely on the female agricultural population. Agriculture represents an important employer for the youth although to a lesser extent, with about 38 percent of the agricultural household members in the 15 to 30 years age class reporting ' agriculture' as first occupation.

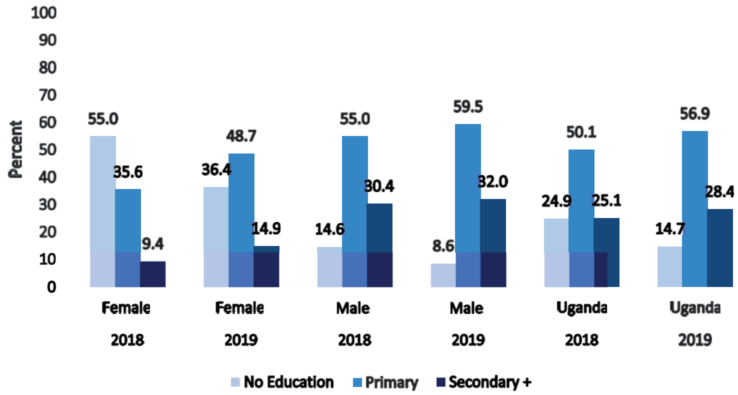
Around 80 percent of the agricultural households engage in crop and livestock production both for own consumption and to generate income, while 9 percent of the households declare to engage in those activities only for own consumption. As such, agriculture remains backbone in securing subsistence and income to a large portion of the population.

The survey also reveals that 39.6% of the adults (18+) living in agricultural households are owners or right holders over the agricultural land they cultivate. Such percentage gets as high as 48.7% among the men, while it goes down to 31.1% among the yet, women cultivate crops more frequently than men and for longer hours.

According to the Annual Agriculture Household Survey 2019 by UBOS, majority of the agriculture household heads had attained a primary education as the highest level (56.6%), an increase of approximately seven percentage points from the result in in 2018 (50.1 percent) while 28.4% had attained a secondary education and above and 14.7% had not attained any education. The percentage of the agriculture household heads with no education declined from 24.9% in 2018 to 14.7% in 2019.

Disaggregation by sex shows that the proportion of female heads with no formal education (36.4 %) was four times more than that of their male counterparts (8.5%). The male heads who had attained a secondary education and beyond (32%) were more than two times that for the female heads (14.9%) as shown in the figure below:

Fig.3: Education Levels of Agriculture Households

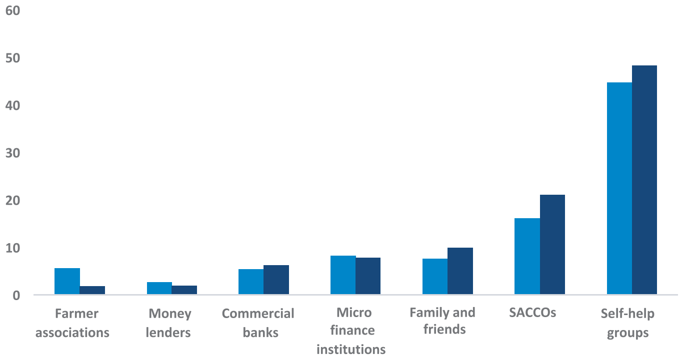


Source :UBOS Annual Agriculture Survey 2019

In Uganda, access to agricultural credit by the rural community, where the majority, over 80% are smallholder farmers, has remained very low and stagnating in the range of 10%-20% in the last ten years as revealed in reports assessed by the Economic Policy Research Center (EPRC) in their policy brief No.25. Analysis of the Uganda Census of Agricultural survey data showed that at national level, only 11.3% of total 3.9 million agricultural households accessed credit . Of this, 61% accessed credit through informal, 29% through semi-informal and 10% through formal financial institutions.

The table below shows the sources of finance for the famers between the years 2018 – 2019:

Fig.4: Sources of Credit for smallholder farmers



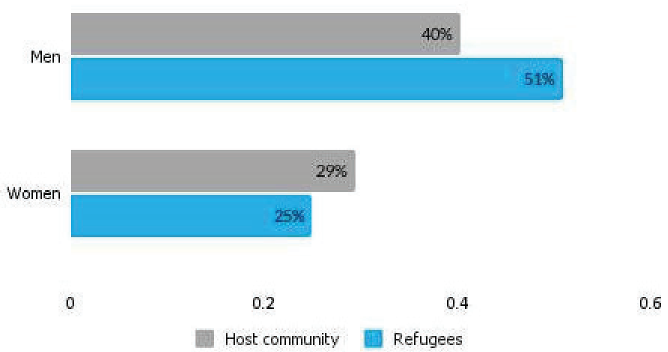
Source: Annual Agriculture Survey 2019

2.3.2 Refugees and Host Communities

Uganda is currently the largest-refugee hosting country in Africa, and the fifth largest globally. More than 900,000 refugees have fled to Uganda from South Sudan; nearly 450,000 hail from the Democratic Republic of the Congo (DRC); 51,000 are from Burundi; and the rest are from Rwanda, Somalia, and other African countries.

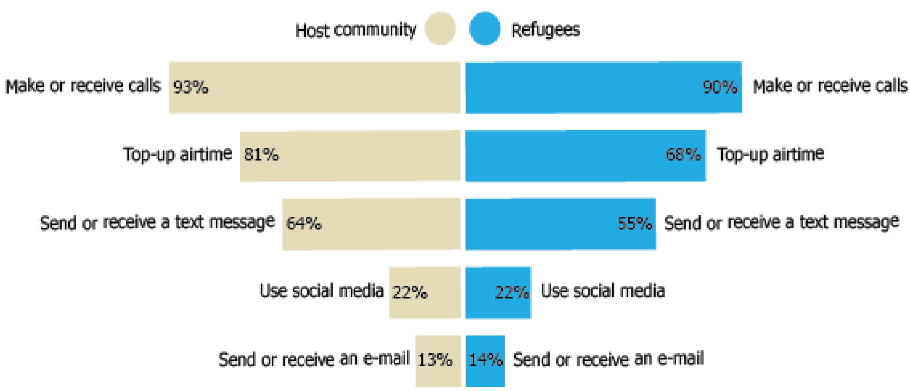
According to a study conducted by U-Learn, UK Aid and CWG on financial services for refugees in Uganda, levels of literacy in the refugee and host communities is low. Nearly two- thirds of refugees (66%) and host community members (65%) reported not being literate. When disaggregated by gender, (51%) of male refugees report being literate — compared to only 25% of female refugees — and 40% of male host community members — compared to 29% of female host community members as shown in the figure below:

Fig.5: Proportion of respondents with basic literacy skills by gender



The study further probed the digital literacy skills of the refugees and host communities and the findings revealed that the majority of refugees and host community members report being able to use basic phone functions — including making and receiving calls and topping up airtime — but this proportion decreases for more complicated tasks, with obvious implications for mobile money use. While 90% of refugees and 93% of host community members report being able to make or receive calls, these proportions drop to 68% and 81%, respectively, for topping up airtime on mobile phones — a task that requires basic numeracy and literacy skills but can be learned by illiterate individuals as shown in the figure below:

Fig.6: Proportion of respondents by population group, reporting having selected digital literacy skills



In terms of mechanisms of access/delivery channels for financial services, the majority of refugee (64%) and host community (75%) respondents use mobile money compared to other mechanisms. The study assessed feedback on alternative delivery channels and below is the feedback that was obtained:

MECHANISMS & PREFERENCES

Mobile money

Mobile money is the most popular choice to receive financial assistance as well as for commercial use. However, the use of mobile money is challenged by the limited presence of mobile money agents capable of performing complex tasks as well as low levels of digital and basic literacy.

Prepaid or smart cards

Prepaid or smart cards are rarely used outside of aid delivery. Refugees cited key barriers as the need to withdraw money at certain times — and missing out if they arrived late — the scarcity of agents, and the risk of lost cards or PIN numbers.

Bank transfers

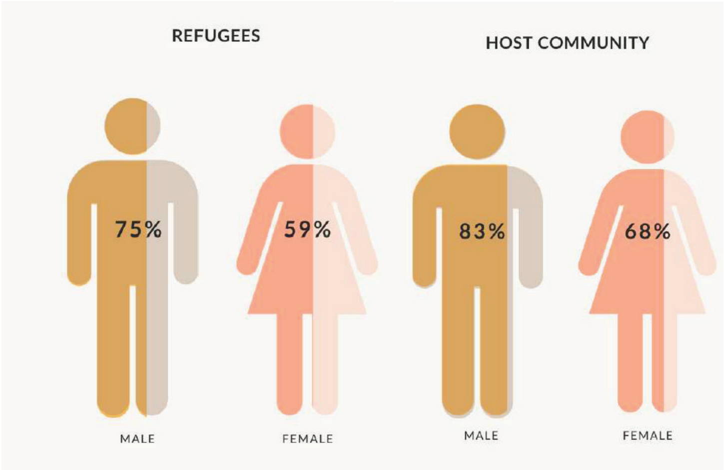
Only 17% of refugees and 15% of host community members reported having a bank account. Less than half of individuals without a bank account reported wanting one, due to lack of income, prohibitively high fees, low levels of digital and basic literacy and long distances to reach banks.

Direct or OTC cash

More than half of all refugees (52%) of refugees have or are receiving direct or OTC cash, which is the second-most frequently preferred financial assistance mechanism in most refugee and host communities. However, crowding and insecurity at public distribution sites are issues.

When disaggregated by gender, the study shows that there're less women who operate mobile money accounts in both refugee and host communities as shown in the figure below:

Fig.7: Proportion of Respondents with Mobile Money Accounts by Gender



Despite various efforts aimed at improving living conditions for refugees, in reality there is still a barrier to integration, as evidenced by numerous anecdotal reports supporting the perspective that a large proportion of refugees are still highly dependent on the support of humanitarian agencies, and have yet to be able to make progress towards self-reliance.

In general, social development has been limited as a result of the predominant reliance on unstable subsistence farming activities (78% of the refugee population) which contribute to entrenched vulnerability to poverty. According to the UN Habitat 2020 study on the Nakivale refugee camp, the refugees are mostly using their competencies and choosing the businesses they were engaged in before albeit the fact that they are working in a different environment. Credit conditions, lack of necessary documentation needed by financial institutions, lack of access to financial loans was identified as a major challenge by the business community in the refugee camps. This is made worse by the lack of access to capacity building services that could enhance their skills and make them attractive to financial service providers that can provide them with the much needed capital to build viable and resilient enterprises thereby leading to self-reliance.

*2.3.3 **Gender***

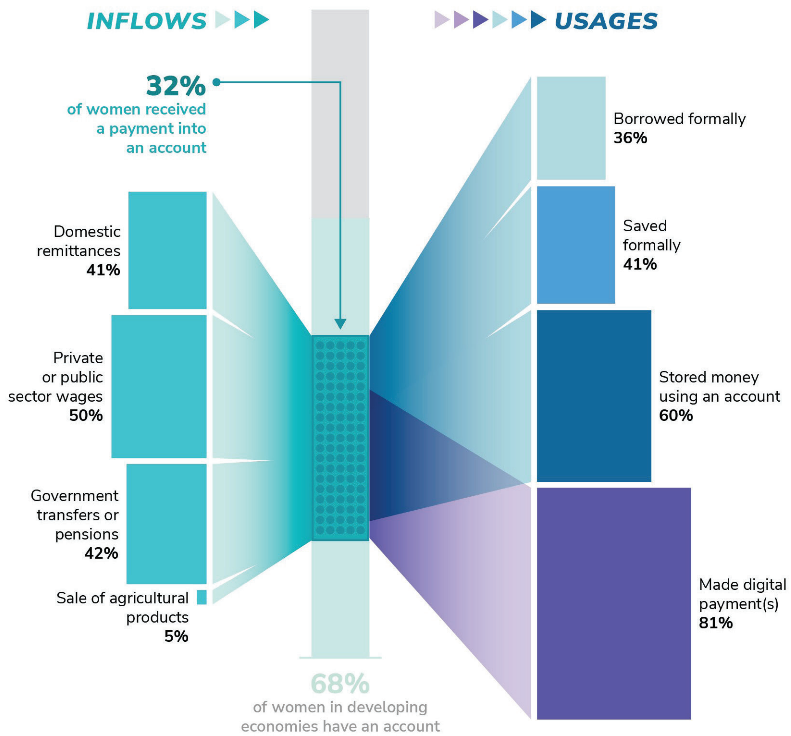
Economic empowerment of women is one of the most fundamental components of achieving the Sustainable Development Goals. Inequality threatens long-term social and economic development, harms poverty reduction and destroys people's sense of fulfillment and self-worth. Studies show that if women participated in the economy identically to men in the world, it would add up to USD 28 trillion, or 26%, to annual GDP in 2025 compared with a business-as-usual scenario; and this economic potential is highest in developing countries.

The Global Findex Database 2021 shows that the gap in access to financial services between men and women dropped to 4% points for the first time in the past decade. Worldwide, 78% of men now have an account, compared to 74% of women. In developing economies, the gap is somewhat larger at 6 percentage points (74% of men with an account compared to 68 % of women). Despite this general trend toward narrowing gender gaps in developing economies, however, barriers such as a lack of identification or a mobile phone, distance from a bank branch, and low financial capability continue to hamper women's ability to participate in the formal financial system. These barriers may contribute as well to the fact that women report low levels of financial resilience—meaning, they are unable to easily come up with money to deal with an emergency within 30 days. Programs aimed at expanding financial inclusion through the digitalization of cash payments can help increase both financial access and use in a way that improves women's lives.

Uganda has registered substantial improvement in digital financial inclusion, but there are still significant challenges to overcome in ensuring inclusivity in the transformation to a digital society especially for the Ugandan woman. An ongoing study by EPRC, together with the African Economic Research Consortium (AERC), points to the need to invest in gender-focused interventions to bridge the digital divide between men and women in Uganda. Preliminary findings on the gender digital financial divide in Uganda show a wide disparity between women and men in the use of digital financial services, with females 30% less likely to use digital financial transactions.

In developing economies, receiving a digital payment opens the door to engagement with the broader financial ecosystem. According to the global findex

Fig.8. The figure below shows inflows and usage of digital payments by women in developing economies



Source: Global Findex Database 2021.
Note: Inflows and usages are shown as percentages of the 32 percent of women receiving a payment into an account.

database, 30% of women and 40% of men received a digital payment in the 12 months prior to the Global Findex 2021 survey. However, the types of payments men and women received differed. For instance, 23% of men and 16% of women in developing economies received wages into an account. This gender gap in wage payment receipt is due, in part, to disparities in employment trends.

The findings on account access, use, and well-being collectively suggest the need to continue efforts to increase equitable financial inclusion for women. These efforts should be designed in a way that is mindful of women's specific concerns and needs. In Uganda, several initiatives aimed at increasing financial inclusion have been implemented – infact, a new National Financial Inclusion Strategy (2023 – 2028) has been designed. However, most of the interventions are gender neutral with limited focus on increasing the percentage of women using digital financial services. Also, studies have shown women struggle to meet the Know Your Customer (KYC) requirements, limiting their access to digital financial services. Easy access to national identity cards is important – women are usually held back in domestic care work and cannot afford spending an entire day in the queue to apply for the national ID, which is a permanent requirement to access most digital services. As such, there is need for public investment in gender-focused interventions to achieve inclusive digital financial inclusion.

*2.3.4 **Youth***

There is increasing awareness that youth have potential to drive economic growth. In many developing countries, youth are the largest and fastest growing segment of the population. Still, young people face numerous barriers to economic participation, from insufficient educational opportunities to an absence of jobs when they transition out of school. With limited options to generate income, young people, especially in developing countries, opt for self-employment. However, their earnings potential is hindered by a lack of financing tools to invest in their businesses and increase their incomes.

The persistent financial exclusion of youth has a negative impact on individuals, communities and the broader economy. A strategic effort to enhance financial inclusion for youth can make economies more dynamic and strengthen economic resilience over the long term.

Providing young people with financial services—whether a safe place to save or an appropriately structured loan for investment in an enterprise or education—can promote entrepreneurship and asset building, and emphasize sustainable livelihoods. The financial component is especially effective for youth when complemented with training in entrepreneurship and financial literacy, and mentorship opportunities.

Few financial service providers (FSPs) such as banks, credit cooperatives or microfinance institutions, do not understand and adequately serve the youth market, and regulatory frameworks are not designed to be youth inclusive or protective of youth rights. According to a fact sheet prepared by UNCDF on youth financial inclusion;

- Youth are 33% less likely to have a savings account than adults and 44% less likely to save in a formal institution
- Saving-account penetration rates for youth vary by geographical region, ranging from 12% in Africa to 50% in East Asia and the Pacific
- Youth are often excluded from access to formal financial services. Reasons include legal restrictions, high transaction costs and negative stereotypes about youth. Regulatory frameworks and inclusive policies that are both youth friendly and protective of youth rights are needed to increase youth financial inclusion.
- Traditionally, FSPs have neglected youth or offered them services that were not adapted to their characteristics and needs. However, over the last five to ten years, an increasing number of initiatives from different donors and non-governmental organizations are promoting youth access to finance. These initiatives work through partnerships with FSPs and youth serving organizations that share a long term vision for youth.

According to a report on youth inclusion regulatory framework by the Alliance for Financial Inclusion (AFI), youth are not a homogeneous group. Young people experience distinct life stages, first as adolescents with financial pressures primarily related to their education and, later, as young adults when they are under greater financial pressure to help support their household and eventually their own family. These transitions are a defining feature of young people's lives and require nuanced approaches to regulations, financial products and other support to ensure effective financial inclusion.

Financial products and services that could address youth needs are often out of reach because regulatory frameworks and societal biases tend to favor older, more stable population segments. Some of the same, often inadvertent, regulatory and policy barriers that affect other vulnerable populations have a strong impact on youth, who often lack resources and financial experience. These hurdles are experienced more acutely by youth who are most vulnerable, such as persons with disabilities, rural residents, refugees and others. Even when financial services are theoretically available, account ownership, usage and financial literacy are generally low among youth. This creates a vicious cycle that inhibits the development of financial capabilities and hinders economic potential from generation to generation.

Lack of usage is often the result of regulatory and product design that overlooks youth-specific demands and constraints. Young entrepreneurs struggle to access credit due to information asymmetries common in developing countries, inadequate credit bureaus and contract enforcement, and high collateral requirements that young people can rarely meet. Young women are especially disadvantaged due to additional cultural barriers that limit their mobility and access to resources.

Although financial technology appears to be a promising tool for expanding the outreach and increasing the uptake of formal financial services, digital financial services (DFS) present new risks for the financial sector and young consumers. An inclusive financial sector therefore requires supportive macro-level policies, as well as incentives and technical support to build capacity, manage risk and develop new product innovations that are truly accessible and ultimately used by youth.

Overcoming barriers to exclusion and achieving successful youth financial inclusion requires a multi-stakeholder approach that engages government (including policymakers, regulators and line ministries), FSPs, youth serving organizations and other youth stakeholders. Youth, of course, need to be at the centre of this dialogue.

*2.3.5 **Persons With Disabilities***

About 1.3 million people around the world live with significant disabilities according to data from the World Health Organisation. This figure represents 16% of the world's population. People living with disabilities are vulnerable to exclusion and discrimination despite being an integral part of society. Managing their own finances is oftentimes wishful thinking for People Living with Disabilities (PLWD). A 2019 UN report cites data that show persons with disabilities consider 28% of banks in developed countries, and between 8% and 64% banks in some emerging economies, to be inaccessible. It is therefore imperative to create an inclusive society that can empower them to reach financial independence.

According to the Uganda national household survey, at least 4 out of every 25, or 16% of the population, are disabled. Disabled people in Uganda, as in most developing countries in the world, face extreme conditions of poverty, have limited opportunities for accessing education, health, financial services, suitable housing and employment opportunities.

AMFIU implements an economic empowerment programme for People living with disabilities in collaboration with the Norwegian Association for the Disabled (NAD) and the National Union of People with Disabilities (NUDIPU). Under this programme, access to financial services for PLWDs has grown over the years and the table below shows the PWLDs that have been reached by September 2023:

Table.2. Access to Finance for Persons With Disabilities, Indicators as at September 2023

No	Item	Value
1	Outstanding portfolio to PLWDs	UGX. 1,692,281,805
2	Value of savings	UGX. 1,405,642,209
3	Number of female customers	6,247
4	Number of male customers	4,849

Source: AMFIU iSave Q3 Program Report

Persons with disabilities face a lot of challenges in their quest to access financial services. However, there are strategies and innovations that can foster financial inclusion for them that may include among others:

i. Innovative Service Delivery

Leveraging technology, financial institutions can enhance financial inclusion for persons with disabilities by developing and promoting assistive technologies, such as screen readers, voice recognition software, and alternative input devices, to make their digital platforms like mobile apps and websites more accessible. A combination of physical constraints in accessing financial institutions and services prevents many persons with disabilities from banking independently. Depending on the type of disability, this includes being unable to travel to and enter a financial institution, branch, or ATM, not perceiving and understanding what is written on paper or electronic devices, being unable to hear, understand, and communicate with banking service providers, and being unable to access paper or digital content. Additionally, ensuring compatibility with assistive devices like hearing aids or screen magnifiers is important. ATMs and documents should be Braille enabled for the visually impaired.

ii. Institutionalizing disability Inclusion.

Financial institutions should make sustainable interventions so that the focus on inclusive services for Persons with Disabilities is not periodic but rather integrated into operational manuals and strategic documents, creating clear targets and making deliberate adjustments is key to make this a reality.

iii. Financial Literacy

It is important to educate people with disabilities about finance. There should be programmes that focus on saving, budgeting, debt management, and understanding financial products and services. The information should be delivered in learning techniques suitable for PLWD.

iv. Policy and Regulation

Governments can play a significant role in promoting financial inclusion by enacting and enforcing policies and regulations that protect the rights of people with disabilities. This may involve ensuring equal access to financial services, prohibiting discrimination based on disability, and encouraging financial institutions to adopt inclusive practices.

By implementing these strategies, financial institutions, governments, and organisations can work towards greater financial inclusion for people living with disabilities, enabling them to actively participate in the economy, make informed financial decisions, and improve their overall quality of life.

3.0 OVERVIEW OF THE FINANCIAL SERVICES SECTOR

According to the global services global market report (2022) The global financial services market grew from $25848.74 billion in 2022 to $28115.02 billion in 2023 at a compound annual growth rate (CAGR) of 8.8%. The Russia-Ukraine war disrupted the chances of global economic recovery from the COVID-19 pandemic, at least in the short term. The war between these two countries has led to economic sanctions on multiple countries, a surge in commodity prices, and supply chain disruptions, causing inflation across goods and services and affecting many markets across the globe. The financial services market is expected to grow to $37484.37 billion in 2027 at a CAGR of 7.5%.

The financial services market includes revenues earned by entities by providing financial or money related services such as lending, investment management, insurance, brokerages, payments, and fund transfer services. The financial services industry is categorized on the basis of the business model of the firms present in the industry, and most firms offer multiple services.

As of April, 2023, global growth is projected to fall from an estimated 3.4 percent in 2022 to 2.8 percent in 2023, then rise to 3.0 percent in 2024 due to "surprisingly resilient" demand in the United States and Europe, an easing of energy costs and the reopening of China's economy after Beijing abandoned its strict COVID-19 restrictions.

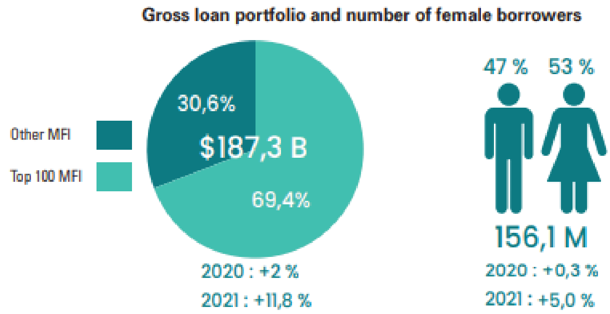
Global inflation is expected to fall from 8.8 percent in 2022 to 6.6 percent in 2023 and 4.3 percent in 2024, still above pre-pandemic (2017–19) levels of about 3.5 percent4. This is driven by the appreciation of the US-dollar against major currencies, lower foreign exchange reserves and delayed pass-through of higher energy and commodity prices.

3.1 Global Microfinance Trends

According to the Impact Finance Barometer report 2022, The global microfinance sector showed signs of improved growth in 2021 compared to the slow down observed in in 2020. For example, the medium growth in gross loan portfolio (GLP) at the microfinance level was 5.9 times higher in 2021 (11.8%) than 2020 (2.0%)
In dollar terms, MFIs managed a total gross loan portfolio of USD 187.3 billion with the top 100 MFIs remaining the sector's dominant players accounting for 69.4% of total GLP.

The sector has also continued to grow in terms of number of borrowers increasing to 156.1 million in 2021. This reflects an increase of 5.0% at the MFI level, which is closer to the annual pre pandemic growth rates observed in 2017-2019 (6-10%). In terms of demographic composition female clients make 53% of MFI borrowers.

Fig.9. Gross loan portfolio and number of female borrowers.



According to the 60 Decibels Microfinance Index survey report 2023 the top 114 financial service providers came from 32 countries in Asia, Africa, and Latin America, a 58% increase from last year's data (72 FSPs). Almost half of these FSPs (48%) are Non-Banking Financial Institutions/Corporations, and Banks or Credit Unions/Cooperatives account for nearly a quarter (24%). About a third (32%) of the FSPs offer only loan services, while the rest offer a blend of financial services, most notably savings and insurance. 71% of FSPs in our sample offer non-financial services like education and training, free of charge, to clients.

Fig.10. Type of Financial Institutions in Africa, Asia and Latin America.

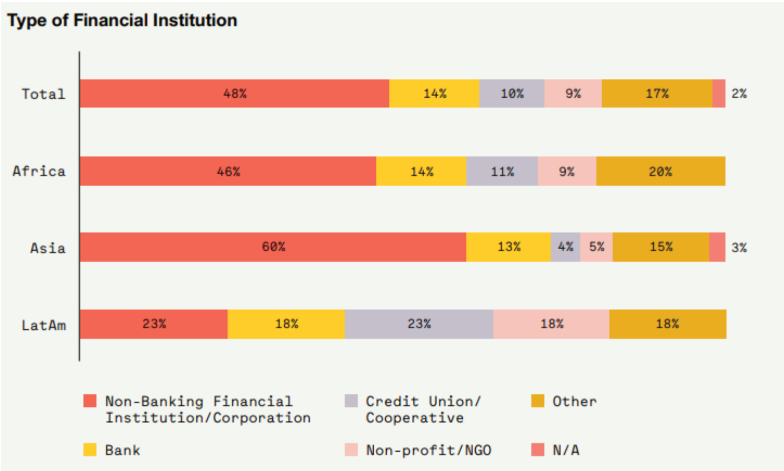
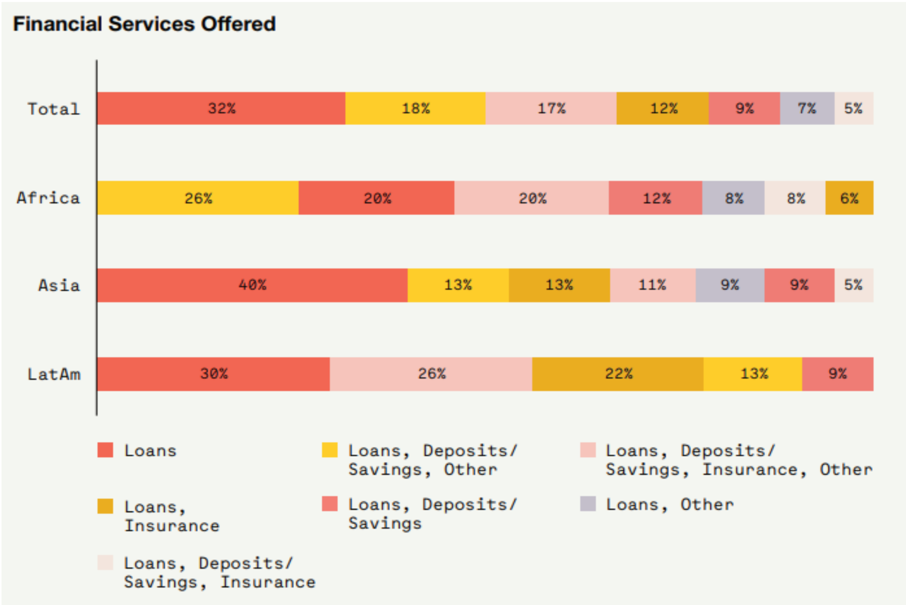
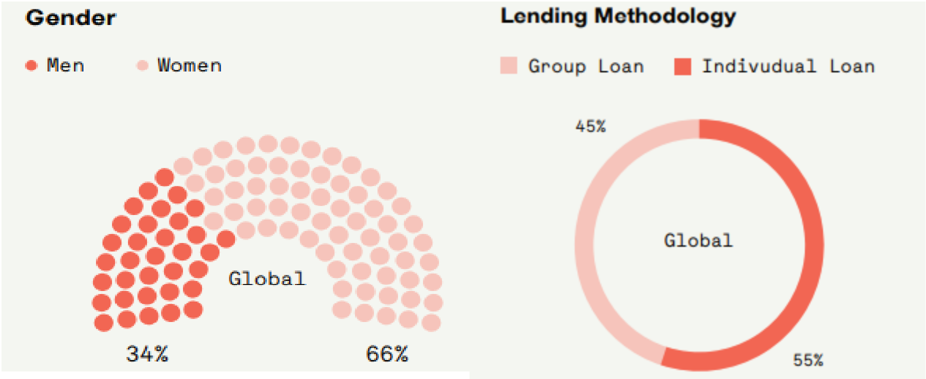


Fig.11. Financial Services Offered in Africa, Asia and Latin America.



From the report it was indicated that globally there were more female borrowers compared to male borrowers however in terms of lending methodology individual lending had more borrowers compared to group lending.

Fig.10. Gender and Lending Methodology.

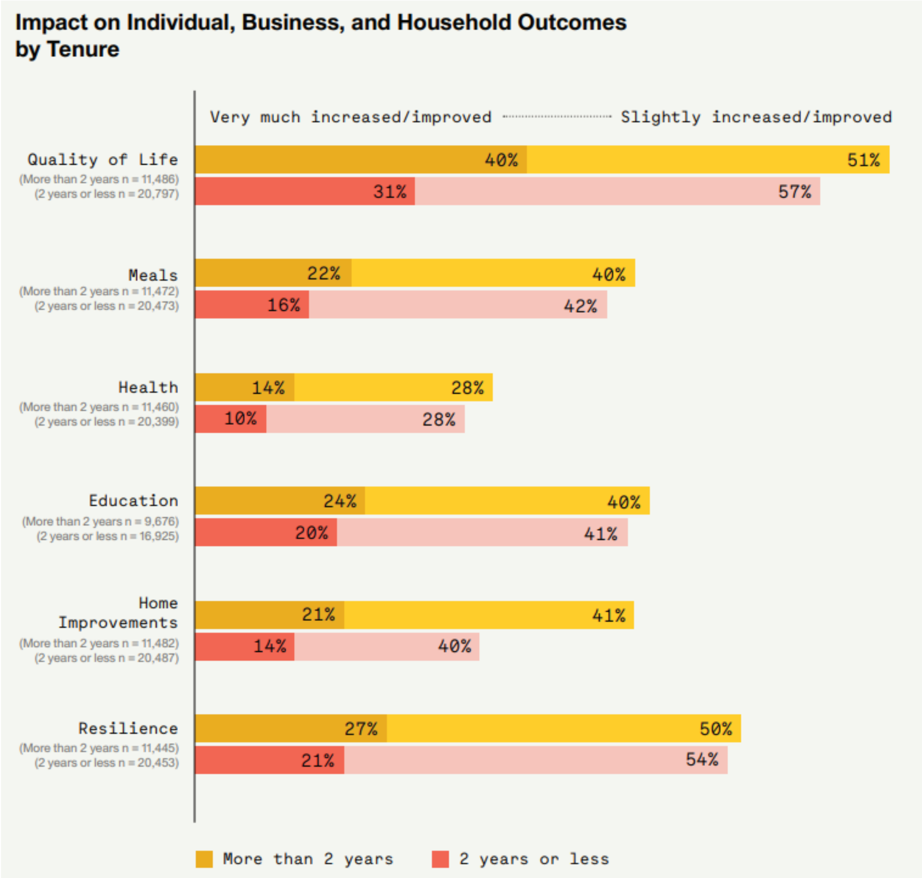


Furthermore the research indicated how clients who have been with their service providers for a period >2 years were able to say how their lives have improved compared to those who had stayed with them for a shorter tenures ≤2 years.

This difference also plays out with other household outcomes: about 25% of longer-tenured clients report significant improvement in their spending on home improvements, eating better quality and quantity of meals at home, and increased spending on their children's education. This compares to 20% of shorter-tenure clients reporting similar improvements.

The data also revealed that longer-tenured customers are more likely to report resilience to financial shocks. Nearly 3 in 10 longer-tenure clients report significant improvement in their ability to face an emergency expense because of their financial service provider, compared to 2 in 10 shorter-tenured clients. The compounded benefits of long-term associations are evident across various household metrics, and reveal the transformative power of longer engagement with FSPs.

Fig.11. Impact of Loans on individual, Business and Household Outcomes by Tenure

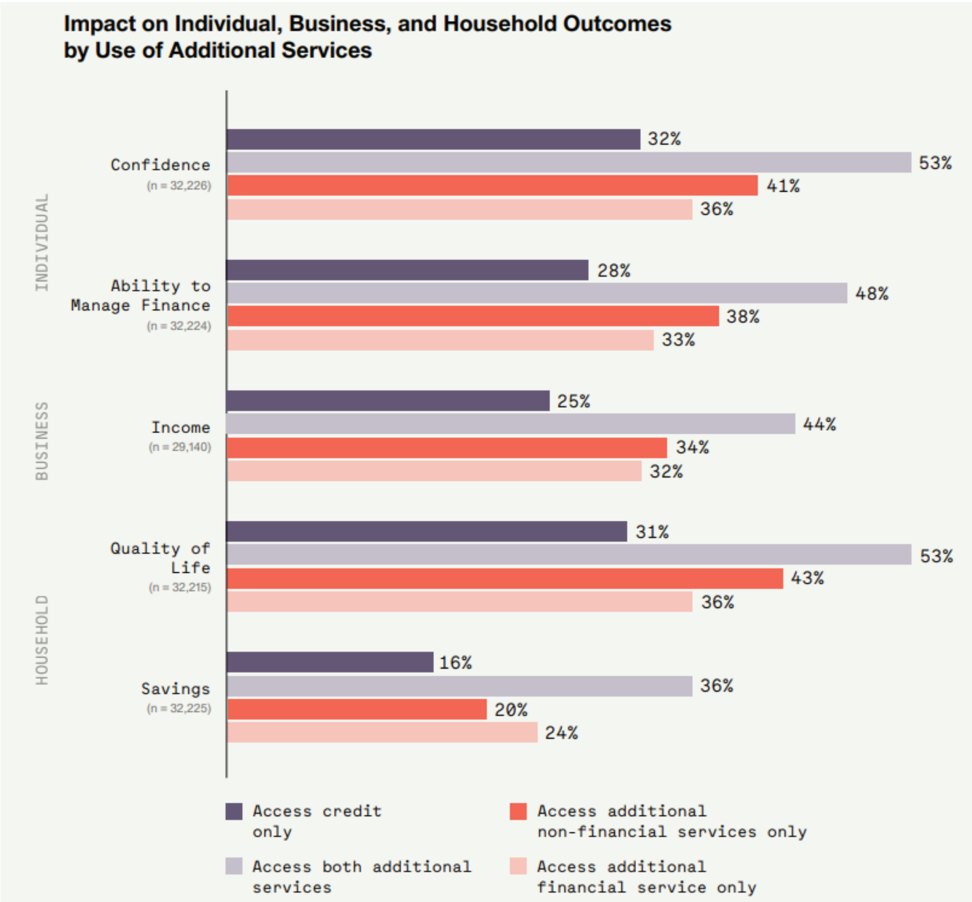


The report also showed that clients who accessed additional services beyond loans only had stronger individual, business and household outcomes.

At the individual and household level, clients who access both non-financial and financial services in addition to their loan from the FSP are more likely to report very much improved quality of life (53% of those who accessed both vs. 31% who accessed only credit), increased savings balance (36% vs. 16%), ability to manage finance (48% vs. 28%), and confidence in their abilities (53% vs 32%)

The trend is similar for business-level outcomes, where 44% of clients who access both additional services are more likely to report 'very much increased' income compared to 25% of clients who access only credit

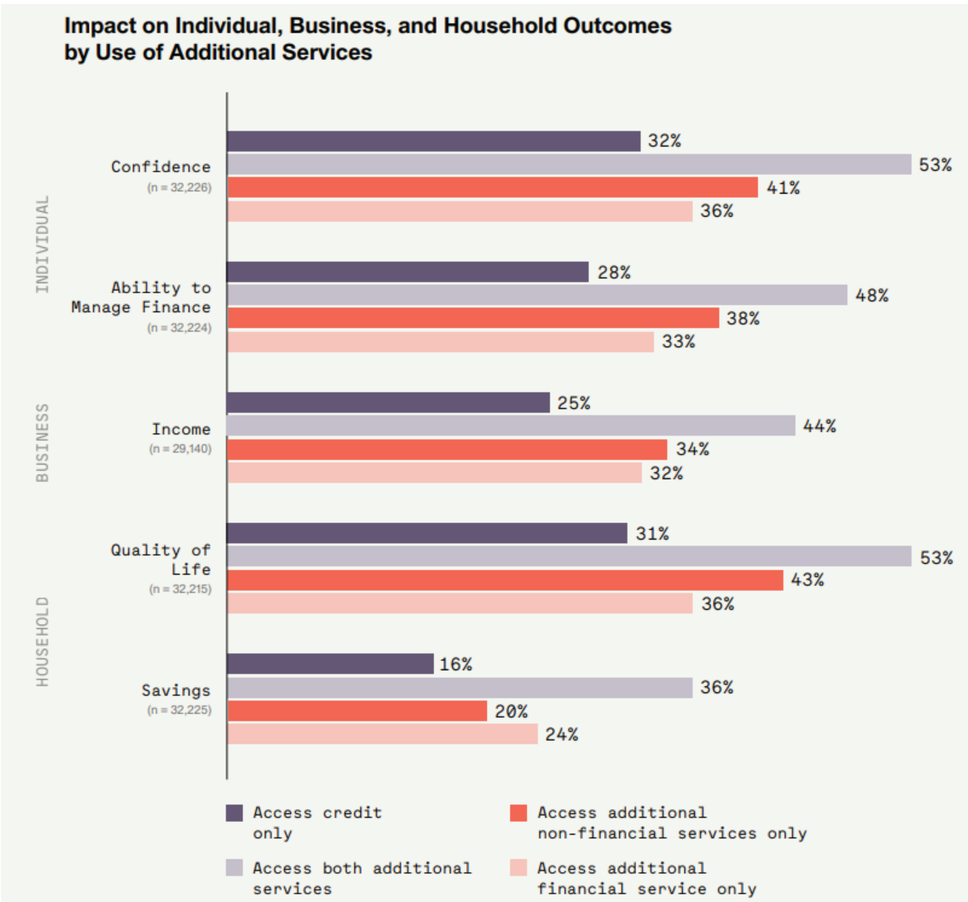
Fig.12. Impact of Individual, Business and Household Outcomes by use of additional Services.



The differences for clients who accessed only non-financial additional services or only financial additional services are lesser than those who access a mix of additional services, but still significant when compared to those who accessed credit only.

These findings support the notion that offering additional services beyond credit to clients—bundled or unbundled— and when clients use them, individual, business, and household outcomes significantly improve.

Fig.13. Impact on Individual, Business and Household Outcomes by Use of Additional Services



3.2 Overview of the Financial and Insurance Services Sector in Uganda

Uganda's national financial system comprises of financial institutions (formal, semi-formal and informal), financial markets, and the payment systems, which together enable the exchange of goods and services and the allocation of capital. The formal financial institutions include Commercial Banks, Microfinance Deposit-taking institutions, Credit Institutions as well as Non Deposit taking Institutions and SACCOs.

The financial and insurance services sector declined by 1.5 percent in FY 2022/23, from 4.5 percent growth registered in FY 2021/22. In nominal prices, the activity recorded a value addition of UGX 5,069 billion in FY 2022/23, compared to UGX 4,659 billion in FY 2021/22 with an overall contribution to GDP of 2.8 percent in FY 2022/23, down from 2.9 percent in FY 2021/22.

According to data released by the Insurance Regulatory Authority (IRA), the insurance industry maintained its growth trend by the end of December 2022. The industry's total value increased from UGX 1,183.86 billion in 2021 to UGX 1,438.79 billion in 2022, reflecting a growth rate of 21.5 percent during the reporting period. Non-life insurance business experienced a growth of approximately 21.8 percent, generating UGX 896.55 billion in 2022 compared to UGX 736.09 billion in 2021. On the other hand, life insurance business generated UGX 501.74 billion, increasing from UGX 351.3 billion in the third quarter of 2022, which represents a growth rate of 26.3 percent for that segment in the full year when compared to 2021.

According to the MoFPED, Perfomance of the Economy Report, 2023 a major part of the FY 2022/23 was characterized by heightened uncertainty about the economic outlook largely underpinned by the grim global economic environment which had only just begun to recover from the COVID-19 pandemic and then heightened by the Russia-Ukraine conflict and its adverse spill-overs on international prices and global output. Nonetheless, the BoU, within its mandate, took appropriate actions to moderate the likely impact of these disruptions on the performance of Supervised Financial Institutions (SFIs) in particular, as well as the wider financial system.

Since last reporting, the COVID-19 Liquidity Assistance Program (CLAP) for managing potential liquidity risks arising from the pandemic as well as the restriction on payment of dividends and other discretionary distributions of SFIs expired on May 31, 2022. The BoU also phased out the remaining targeted credit relief measures for the education and hospitality sectors on September 30, 2022. Credit risk remained a concern in the near term due to rising lending interest rates amidst a slow economic recovery. There were signs that global and domestic macroeconomic conditions were starting to improve. However, the implications of tightening of monetary policy on financial institutions were yet to fully emerge. On aggregate, Uganda's SFIs held strong liquidity and capital buffers to withstand ongoing shocks.

In addition, there was an increase in SFIs' minimum paid-up capital. Pursuant to the Financial Institutions Act (Revision of Minimum Capital Requirements), the deadline for the first phase of the capital increment was December 31, 2022. For this first phase, commercial banks, credit institutions, and MDIs were required to increase their minimum capital to at least Ushs. 120 billion, Ushs. 20 billion, and Ushs. 8 billion, respectively.

3.3 Structure of the financial Services Sector

In Uganda, financial Institutions continue to be categorized under four tiers i.e. Commercial Banks for Tier 1, Credit Institutions for Tier 2, Microfinance Deposit Taking Institutions for Tier 3 and Non deposit Taking Institutions and SACCOs for Tier 4.

3.3.1 Commercial Banks

The commercial banking sector in Uganda is regulated by the commercial bank under the Financial Institutions Act 2016 (ask Robert of the current act). Currently, 26 commercial banks are licensed and regulated by Bank of Uganda as shown in the list below.

Table.3. List of Commercial Banks in Uganda

No	Name of Commercial Bank
1	ABC Capital Bank Uganda Limited
2	Afriland First Bank Uganda Limited
3	Bank of Africa Uganda Limited
4	Bank of Baroda Uganda Limited
5	Bank of India Uganda Limited
6	ABSA Bank Uganda Limited
7	Cairo International Bank limited
8	Centenary Rural Development Bank Limited
9	Citibank Uganda Limited

No	Name of Commercial Bank
10	Commercial Bank of Africa Uganda Limited
11	DFCU Bank Limited
12	Diamond Trust Bank Uganda Limited
13	Ecobank Uganda Limited
14	Equity Bank Uganda Limited
15	Exim Bank Uganda Limited
16	Finance Trust Bank Uganda
17	Guaranty Trust Bank Uganda Limited
18	Housing Finance Bank Uganda Limited
19	KCB Uganda Limited
20	NC Bank Uganda Limited
21	Opportunity Bank Uganda Limited
22	Post Bank Uganda Limited
23	Orient Bank Limited
24	Stanbic Bank Uganda Limited
25	Standard Chartered Bank Uganda Limited
26	Tropical Bank Limited
27	United Bank for Africa Uganda Limited

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In the year to March 2023, the banking sector registered a growth of Ushs. 3.5 trillion or 8.1 percent in total assets from Ushs. 42.5 trillion in March 2022 to Ushs. 45.92 trillion in March 2023. This growth was, however, slightly lower than UGX.4.1 trillion or 10.8 percent registered in the twelve (12) month period to March 2022. The deposit base grew by Ushs. 2.5 trillion or 8.4 percent from Ushs. 29.5 trillion to Ushs. 32.0 trillion over the same period.

The banking sector has remained resilient to shocks due to liquidity buffers as well as the interventions by the Bank of Uganda. In a bid to further strengthen the banking sector's capital position and reduce the impact of shocks on banks from the risks in the global economy, BoU implemented the revised capital adequacy requirements effective December 31, 2022.

*3.3.2 **Credit Institutions (CIs)***

In Uganda there are four Credit Institutions, regulated by the Bank of Uganda under the Financial Institutions Act 2016 as shown in the table below:

Table.4. List of Credit Institutions

No	Name of Credit Institution
1	Brac Uganda Bank Limited
2	Mercantile Credit Bank Limited
3	Top Finance Bank
4	Yako Bank Uganda Limited

The aggregate core and total capital held by the CIs subsector increased by 39.3 percent and 37.6 percent, respectively, from Ushs. 43.6 billion and Ushs. 46.5 billion as at March 31, 2022 to Ushs. 60.7 billion and Ushs. 63.9 billion as at March 31, 2023, respectively. Consequently, the aggregate core and total capital to risk-weighted assets ratios increased from 13.4 percent and 14.3 percent as at March 31, 2022 to 16.9 percent and 17.8 percent, respectively, as at March 31, 2023.

3.3.3 *Microfinance Deposit-Taking Institutions (MDIs)*

The Microfinance Deposit Taking institutions (MDIs) are regulated by Bank of Uganda under the under the MDI Acted 2003, amended 2023 to allow for agent banking, Islamic banking and Bancassurance. Currently, there're four MDIs operating in Uganda as shown below:

Table.5. List of Micro Deposit Taking Institutions.

No	Name of Institution
1	EFC Uganda Limited
2	FINCA Uganda Limited
3	Pride Microfinance Limited
4	UGAFODE Microfinance Limited

The MDIs have a total capital of **UGX 113,518,191,260** and total assets of **UGX 760,544,515,829.**The Microfinance Deposit-Taking Institution (Registered Societies) Regulations, 2021 were finalized and gazetted in 2022. These regulations will guide licensing, regulation, and supervision of registered societies (the Large SACCOs) by the Bank of Uganda in accordance with its mandate derived from Section 110 of the Tier IV Microfinance and Money Lenders Act, 2016.

3.3.4 *Tier IV Institutions*

The Tier 4 financial institutions majorly aim at serving the bottom of the pyramid and include; Non-deposit taking microfinance institutions, Savings and Credit Cooperatives (SACCOs), savings groups and money lenders. These remain some of the fastest growing and dynamic components of Uganda's financial sector. Their wide geographical coverage and countrywide presence is ideal for providing financial services to the large unbanked population with low incomes that would otherwise be excluded from the formal financial sector.

The Tier 4 financial institutions are regulated by the Uganda Microfinance Regulatory Authority (UMRA) under the Tier4 Microfinance institutions and money lenders act. Since 2018, UMRA has witnessed an increasing trend in the number of institutions that are licensed under its regulatory ambit which are contributing to social economic transformations of Uganda's economy through job creation, providing access to credit and this has led to an increase in financial inclusion. By April 2023, institutions licensed by UMRA stood at 1,513 as indicated below:

Table.6. List of UMRA Licensed Institutions

Column1	2018	2019	2020	2021	2022*	2023*
Money Lenders	190	611	755	760	1144	1180
NDMFIs	49	117	146	183	197	208
SACCOs	0	0	0	25	57	125
Total	239	728	901	968	1396	1513

Source: UMRA as at April 2023

In the coming FY 2023/24, UMRA will aim at strengthening the supervision of institutions under its jurisdiction through;

i. Rolling out a robust Information Management system to increase efficiency in delivering the mandate.
ii. Strengthening the Credit information sharing Mechanism.
iii. Popularization of the Self-Help Groups Guidelines.
iv. Strengthening the complaints resolution mechanism.
v. Prepare for licensing and supervising of EMYOOGA and Parish Development Model SACCOs.
vi. Enforcement of Standards and compliance requirements for all Tier 4 Microfinance Institutions and Money Lenders under UMRA.
vii. Undertake consumer education and financial literacy awareness campaigns through UMRA consumer protection guidelines.

3.4 Developments in the financial services in Uganda

3.4.1 The Credit Reference Bureaus (CRBs)

Bank of Uganda regulated and supervised financial institutions continue to embrace the use of credit reports from the CRBs in their loan appraisal process in a bid to improve the quality of loans advanced. By 31st March 2023, 33 financial institutions accessed CRB services, through 607 branches connected to CRB services.

The Financial Institutions (Credit Reference Bureau) Regulations, 2022 intended to expand access to Credit Reference Services to other non-regulated credit providers were gazetted on September 30, 2022. Effective January 1, 2023, all credit applications of Ugandan citizens reported to the CRBs were required to have a National Identification Number (NIN) as the primary unique identifier while a combination of a refugee number or passport number or work permit number is required for Non-Ugandans until the National Identification and Registration Authority (NIRA) starts issuing Alien Identification Numbers.

The number of registered borrowers (clients) who had financial cards increased to 2.36 million as at end of March 2023 compared to 2.2 million financial card holders as at end of March 2022 representing a 7.3 percent increase. Similarly, the number of credit inquiries made by SFIs to CRBs increased by 35.3 percent from 1.02 million as at end of March 2022 to 1.38 million as at end of March 2023. The average processing time for data requests for the CRBs from SFIs is in seconds or in real-time.

The average number of registered borrowers with NINs across the three licensed CRBs stood at 1,939,772 as at end of March 2023 compared to an average of 1,562,890 as at end of March 2022. Supervised Financial Institutions continue to update the profiles of both individual and non-individual borrowers with existing unretired facilities, with the applicable unique identifier or registration number as prescribed by BoU.

3.4.2 Agricultural Insurance

The Uganda Agriculture Insurance Scheme (UAIS), through the Government of Uganda has since its inception in FY 2016/17 been implemented and will continue to operate until FY 2024/25. The scheme is currently being implemented by Agro Consortium (U) Limited, which is a secretariat that consists of thirteen (13) insurance companies offering the following specific products: multi-peril crop Insurance, Livestock, Weather Index, Poultry, Apiary, Forestry and Aquaculture

Insurance.

The main objective of the scheme is to cushion farmers from losses associated with risks arising from climate and environmental changes that pose a high threat to farmers' livelihoods and business growth altogether. The scheme also facilitates access to credit from various financial institutions, whose confidence is bolstered by the de-risking framework of the scheme, especially small holder farmers. Loan repayment by the farmers remains guaranteed as the activity is protected in case of loss pertaining to covered perils.

Under the scheme, the government provides premium subsidy funds, in collaboration with industry players who endeavor to undertake behavioural change efforts through education, sensitization and training of farmers.

By December 2022, the most significant impact of loss suffered was from drought which contributed to 73.8 percent of all the insurable risks. This has led to the emphasised promotion of the Weather/Drought Index Insurance product.

By the end of December 2022, total claims pay-out stood at Ushs.32.6 billion, and written premiums amounted to Ushs.84.9 billion. Cumulatively by the end of December 2022, the scheme had provided cover for over 665,240 farmers across all regions of the country. A considerable number of small-scale farmers are covered under weather index insurance whereas large-scale farmers are covered under the traditional multi-peril crop insurance.

*3.4.3 **E-Money***

E-money has continued to post an upward growth trajectory. This is largely attributed to the licensing of more e-money issuers and the central bank-led public campaigns on e-payments. As at March 31, 2023, twenty five (25) institutions had received licenses under the National Payment Systems regulatory framework, of which eleven (11) payment service providers were licensed as e-money issuers. The growth is also on account of the introduction of new e-money use cases and innovative payment solutions which seem to be gaining traction. These include public sector transport, savings and investment solutions. In addition, the rising cost of living seems to have occasioned the masses into frugal behaviour and use of digital channels to send money.

As at March 31, 2023, the registered number of customers stood at 41.7 million, up from 36.9 million in April 2022 reflecting a 13.1 percent increment. However, the ratio of active 56 to registered customers posted modest growth, rising from 16.5

percent in April 2022 to 25.1 percent in March 2023, indicative of a reasonable number of users who hold inactive e-money wallets.

Notwithstanding the above developments, there remains concerns with regard to digital fraud. Accordingly, during the year, BoU issued cyber security guidelines as well as guidelines on the annual systems vulnerability assessments as a measure to address the increased cases of digital fraud. These initiatives are expected to strengthen the risk management frameworks and internal controls among payment service providers. Additionally, it is anticipated that the ongoing efforts to build digital literacy will address the human factors which remain a major vulnerability exploited by digital fraudsters. Other interventions have been proposed for inclusion under the second national financial inclusion strategy which is under development.

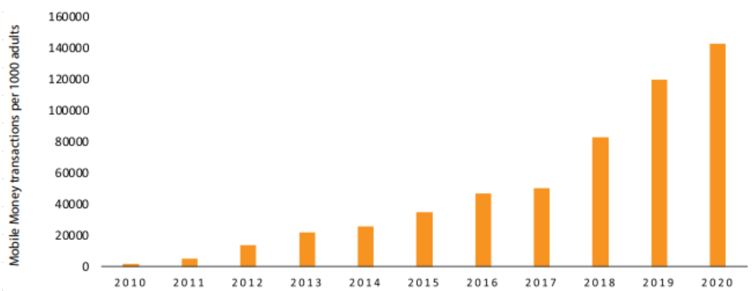
Table.7. Mobile Money Service Segment Evolution: April 2020 to April 2023

Service Segment -Value (Billion Ushs.)	Apr-20	Apr-21	Apr-22	Mar-23
Person to Person (P2P)	7,996.13	13,073.47	17,677.73	21,129.72
Person to Business (P2B)	1,970.73	2,504.63	8,898.38	22,339.74
Bank to Wallet (B2W)	1,609.67	2,796.22	4,045.56	4,716.48
Wallet to Bank (W2B)	699.17	1,436.69	4,150.72	6,977.44
Mobile Credit Disbursed	481.30	334.72	295.26	655.92
Service Segment -Volume (No. Millions)	**Apr-20**	**Apr-21**	**Apr-22**	**Mar-23**
Registered Customers**	28.02	30.89	36.90	41.73
Active Customers***	16.49	19.73	22.13	25.13

Source: Bank of Uganda

Mobile Money Transaction rate in Uganda.

From the International Monetary Fund report, mobile money transactions have been steadily increasing from 2010 up to 2020 when the report was produced.



Data Source: International Monetary Fund (IMF)

3.4.4 Digitalization.

Digitization has been a source of hope and frustration in the microfinance industry hope because it is seen as the means to make microfinance institutions (MFIs) competitive and frustration because few digitization initiatives have transformed the traditional MFI model despite the significant resources invested**.**

CGAP argues that it is in the interest of the microfinance industry and the broader financial inclusion community to generate value for customers and businesses through digitization. MFIs play a vital role in delivering credit and other financial services to low-income customers, including closing the financing gap for micro and small enterprises (MSEs) estimated at nearly US$5 trillion globally.

CGAP's early findings about what contributes to the success or failure of digitization involved combining the most successful practices found in their research and testing them through practical implementation. As a result, they proposed five core principles for successful digital implementation:

1. **Deploy agile product development teams to drive the digital implementation**. The product team develops the product concept into operational and commercial form through a process of iterative testing and takes the product to market. Management delegates authority to the product team to lead the action and provides the resources and support needed for it to be successful.
2. **Define and measure the expected value to be generated from the digital implementation**. Use clear metrics for measuring how value is created for the customer and the company. Develop the business intelligence capacity to track the customer behavior change associated with value creation.
3. **Prioritize the product features that create value. Use customer research and business case analysis to identify product features that generate customer and business value.** Prioritize those features on the product roadmap in a sequence of product development tests that prove the concept before scale-up.
4. **Prototype and test solutions with simple technology.** A Minimum Viable Product approach streamlines implementation, contains cost, and minimizes technology and data challenges during the initial product tests.
5. **Design for a good user experience for staff and customers.** Customer and staff satisfaction are the primary drivers of product adoption and value creation. The customer experience drives customer adoption, while the staff user experience is a key driver of internal change management.

4.0 PERFORMANCE ANALYSIS

4.1 Portfolio and Outreach

From the table below, the outstanding portfolio of the reporting institutions is totaling to **UGX** 2.27 Trillion with 1,061,861 borrowers and 54% of these as women. Non-deposit taking MFIs had the highest number of borrowers and the highest number of women.

These institutions had total voluntary savings of UGX 787Bn with a total asset value of 7.76 trillion as shown in table 8 below.

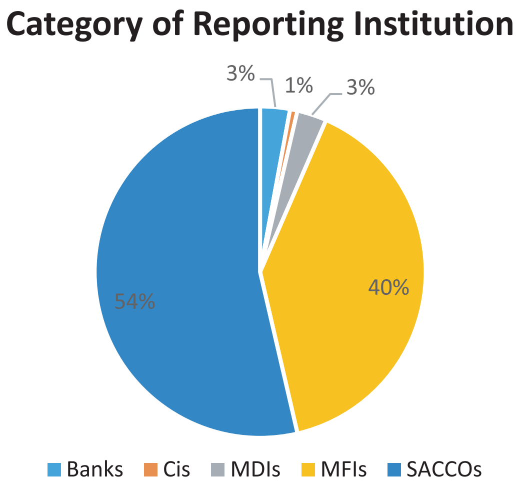
Table.8. Portfolio and Outreach

	Outstanding portfolio	Total borrowers	Female borrowers	Voluntary savings	Total assets
MFIs	389,077,555,763	360,884	229,616	0	231,877,421,705
Saccos	441,641,017,805	220,437	90,379	125,559,962,690	459,379,919,447
MDIs	459,399,684,549	123,520	47,094	110,349,439,450	760,544,515,829
Banks & CIs	989,226,023,662	357,020	209,092	551,154,488,548	6,309,106,532,281
Totals	2,279,344,281,779	1,061,861	576,181	787,063,890,688	7,760,908,389,262

4.2 Categories of Reporting Institutions

According to the pie chart below, the highest percentage of reporting institutions is SACCOs with 54%, followed by MFIs with 40%, Banks and MDIs share the same composition of 3% and Credit institutions by 1%.

Fig.14. Category of reporting Institution.

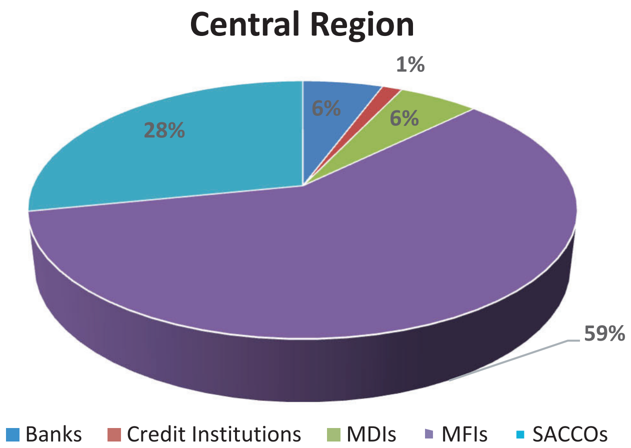


4.3 Category of Institutions by Location

The Central Region

In Central region, non-deposit taking MFIs have a higher concentration compared to the rest of the categories. As shown below, (59%) are non-deposit taking MFIs, (28%) are SACCOs, (6%) are MDIs and Banks.

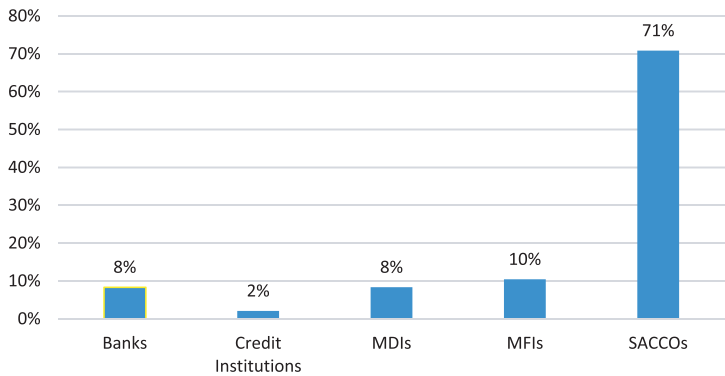
Fig.15. Category of reporting Institutions in the Central Region



Western Region.

As shown below, majority of the institutions located in Western Uganda are SACCOs (71%) followed by non-deposit taking MFIs with (10%), MDI and Bank branches at (8%) and Credit institutions at (same composition of MDIs and Banks and least with Credit Institutions' branches at (1%).

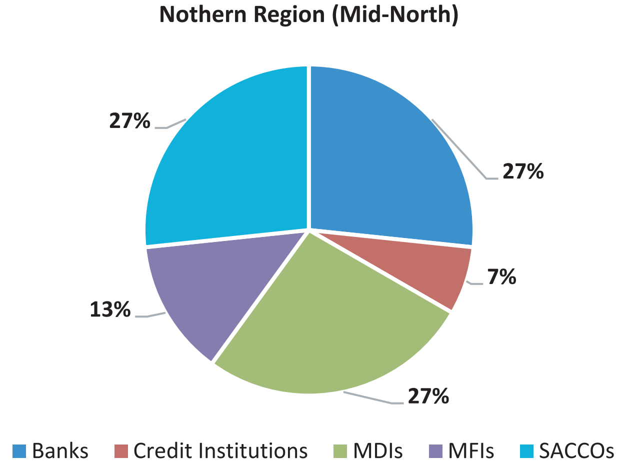
Fig.16. Category of Reporting Institutions in Western region.



Northern Region

In the Northern region, the bank branches, MDI branches and SACCOs have the same location spread with (27%), followed by the non-deposit taking MFIs with (13%) and the Credit institutions at (7%) as shown below.

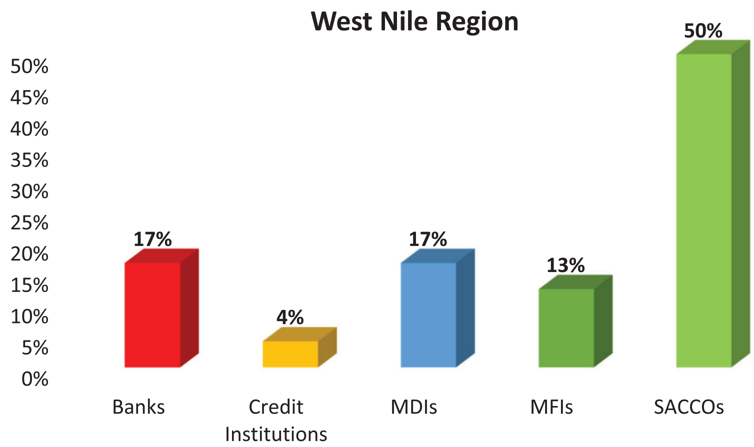
Fig.17. Category of Institutions in the Northern Region.



West Nile Region.

In the West Nile region, majority of the institutions (50%) are SACCOs, followed by Bank and MDI branches at (17%), non-deposit taking MFIs at (13%) and Credit Institutions' branches at (4%) as shown below.

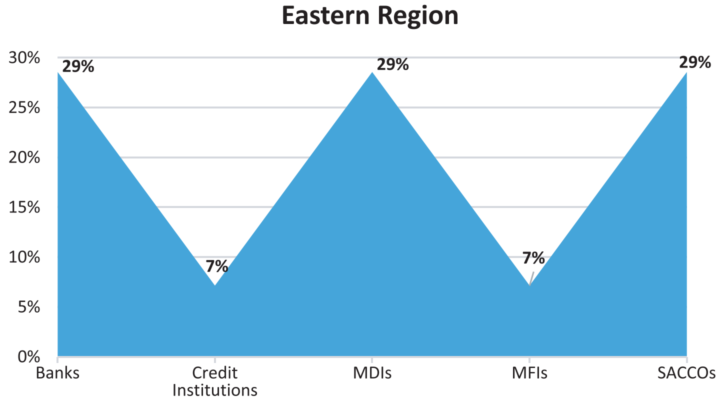
Fig.18. Category of Institutions in West Nile Region



Eastern Region

As shown from the diagram below, majority of the institutions operating in Eastern Uganda are SACCOs, MDI and bank branches at (29%) followed by the credit institutions and non-deposit taking MFI branches at (7%).

Fig.19. Category of financial institutions in Eastern Region.



4.4 Outstanding Portfolio by Regions

In terms of outstanding portfolio and borrowers, the Central region has the highest outstanding portfolio with the highest number of borrowers. However, this also includes the portfolio of the branches that may be located outside the central region. The Central region is followed by the Western region, West Nile, Eastern region and then northern region as shown in the table 9 below.

Table.9. Outstanding Portfolio by Regions.

Region	Outstanding Portfolio	No of Borrowers
Central Region	1,854,658,876,040	757,398
Eastern Region	21,145,328,227	65,459
Western Region	343,427,951,372	171,249
Nothern Region	9,886,634,694	33,594
West Nile Region	50,225,491,446	34,161
Total	2,279,344,281,779	1,061,861

4.5 Profitability Indicators.

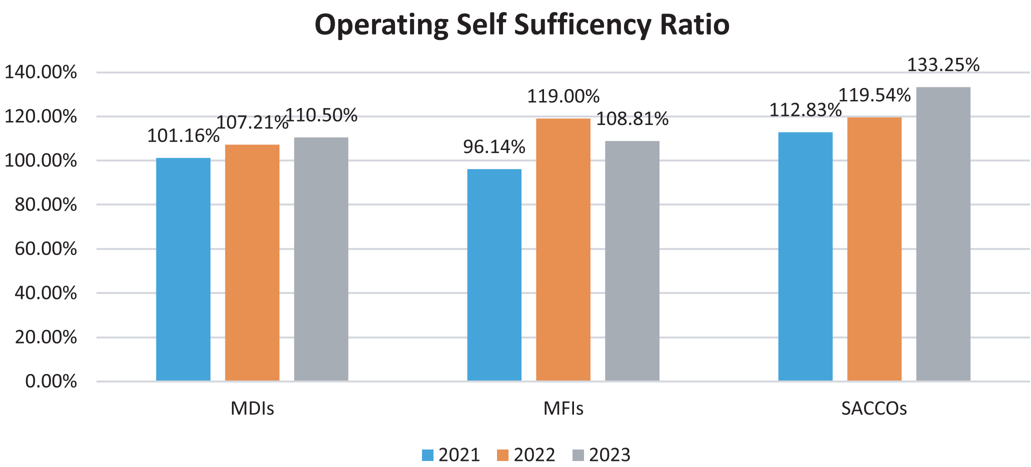
Profitability indicators measure the efficiency with which the financial institution uses its resources to generate returns. They also reflect the institution's ability to continue operating and grow in the future. The main ratios prioritized here include Operating Self Sufficiency, Financial self-sufficiency, Portfolio yield, Return on assets and Return on equity.

4.5.1 Operating Self Sufficiency Ratio

Operating self-sufficiency measures how the financial institution is able to meet its expenses using income generated from its operations. When an institution achieves beyond the breakeven point of 100%, it is considered to be self-sufficient. However, the period in existence also matters as institutions that have existed beyond five years should be able to register a relatively higher score than others that have stayed less than this.

MDIs and SACCOs have registered a steady progress for the three consecutive years and by close of September 2023, they had (110.5%) and (133.2%) respectively compared to MFIs that had declined to (108.8%) compared to the previous years as shown below.

Fig.20. Operating Self Sufficiency Ratio

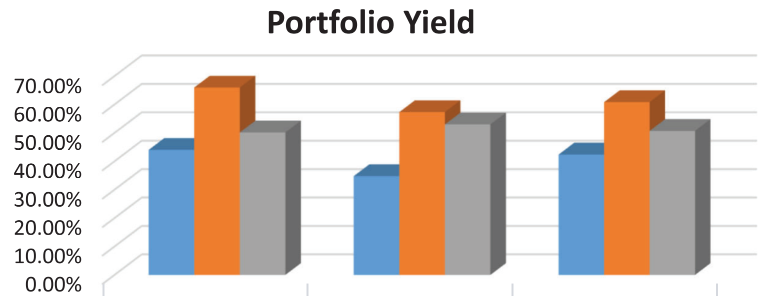


4.5.2 Portfolio Yield.

The portfolio yield indicator shows how much income, fees and other incomes a financial institution is able to generate from its portfolio. A higher portfolio yield on the other side may not necessarily indicate a good yielding portfolio but may also indicate that a financial institution imposes high interest and fees on its portfolio and vice versa. The industry benchmark for this indicator for MFIs and SACCOs is ≥42%.

By the end of September 2023, both MFIs and SACCOs had registered healthy ratios of 60.83% and 50.71% respectively as shown below.

Fig.21. Portfolio Yield



	2021	2022	2023
MDIs	44.02%	34.78%	42.40%
MFIs	65.97%	57.31%	60.83%
SACCOs	50.17%	52.99%	50.71%

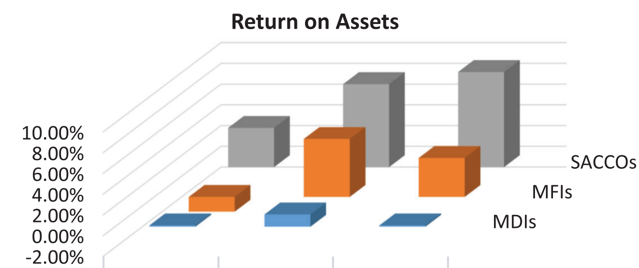
MDIs MFIs SACCOs

4.5.3 Return on Assets

The return on assets ratio presents the income a financial institution is able to generate from the utilization of its assets. A low ratio indicates inefficient use of the assets whereas a higher one indicates efficient use.

The MDIs scored (0.13%) ROA which is below the industry benchmark of 5% and above, whereas MFIs had (3.7%) and SACCOs (9.2%) which are all below the industry benchmark of 15% as shown below.

Fig.22. Return on Assets



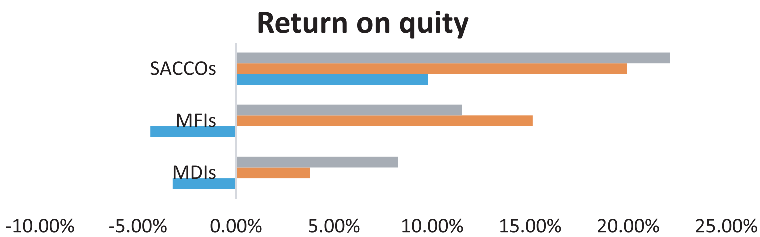
	2021	2022	2023
MDIs	0.13%	1.18%	0.13%
MFIs	-1.42%	5.59%	3.76%
SACCOs	3.78%	8.00%	9.17%

MDIs MFIs SACCOs

4.5.4 Return on Equity

Return on Equity Calculates the rate of return on the average equity for the period. It is calculated by dividing net income (after taxes and excluding any grants or donations) by period average equity. ROE is a measure of paramount importance since it measures the return on their investment in the institution. According to the graph below by Q3 SACCOs had the highest ROE of 22.13% followed by MFIs with 11.52% and MDIs with 8.26%.

Fig.23. Return on Equity



	MDIs	MFIs	SACCOs
2023	8.26%	11.52%	22.13%
2022	3.78%	15.13%	19.93%
2021	-3.23%	-4.37%	9.78%

2023 2022 2021

4.6 Portfolio Quality Ratios.

4.6.1 Portfolio at Risk 30 days

Portfolio at risk 30 days indicates the balance of loans outstanding that have a payment past due more than thirty days as a percentage of gross loan portfolio.

The industry benchmark for PAR 30 days for MFIs and SACCOs is ≤3% whereas MDIs are recommended at ≤2%. By end of September 2023, MDIs achieved a PAR 30 days of 3.17% followed by MFIs at 9.61% and the SACCOs with 13.71%. All these scores were below the industry standard as shown in the table below.

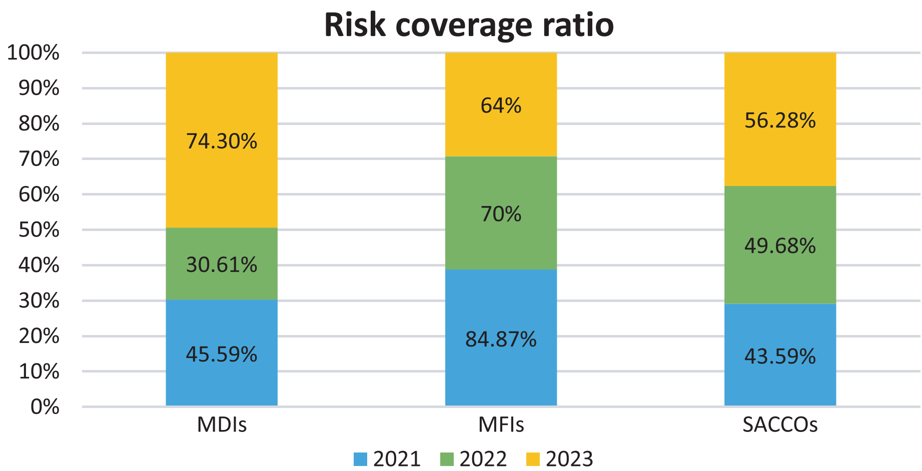
Table.10. Portfolio at Risk 30 days

Year	MDIs	MFIs	SACCOs
2023	3.17%	9.61%	13.71%
2022	1.69%	11.47%	14.27%
2021	3.50%	11.02%	18.98%

4.6.2 Risk Coverage Ratio

The risk coverage ratio shows how much of the financial institution's portfolio at risk is covered by the loan loss reserve. The industry benchmark for MDIs is 100% and above whereas MFIs and SACCOs should cover above 120%. For this period, MDIs covered (74.3%), the MFIs covered (64%) while the SACCOs could cover (56.28%). None of the categories was within the required standard.

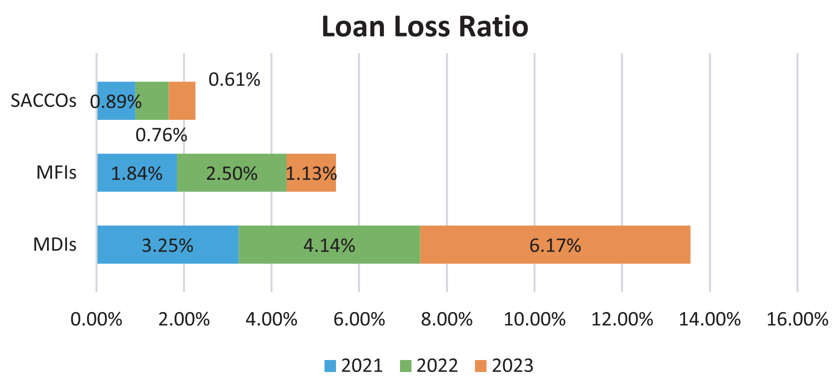
Fig.24. Risk Coverage Ratio



4.6.3 Loan Loss Ratio

The loan loss ratio compares how much of the portfolio has been written off compared to the total gross portfolio in a given period of time. The loan loss ratio is recommended to be at ≤1. At the end of the period, SACCOs had a loan loss ratio of (0.61%), the MFIs stood at (1.13%) and the MDIs at (6.17%) as shown below. This could also be because SACCOs rarely write-off bad loans.

Fig.25. Loan Loss Ratio



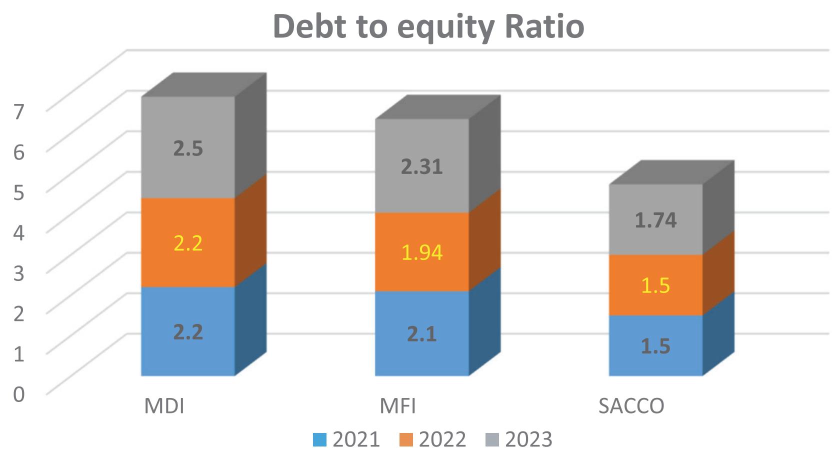
4.7 Capital Ratios

4.7.1 Debt to equity ratio

The debt to equity ratio measures how much of the safety cushion in form of equity is available to absorb losses before the lender is put at risk. According to the industry standard, MDIs are recommended to acquire debt not exceeding 4 to 6 times their total equity, MFIs not exceeding 2 to 3 times their equity whereas SACCOs it should be equal or less than 1 of total equity.

According to the graph, MDIs scored 2.5, 2.31 for MFIs and 1.74 for SACCOs. For the MDIs and MFIs, these were healthy scores whereas for the SACCOs, this was slightly high by 0.74% as shown below.

Fig.26. Debt to Equity ratio

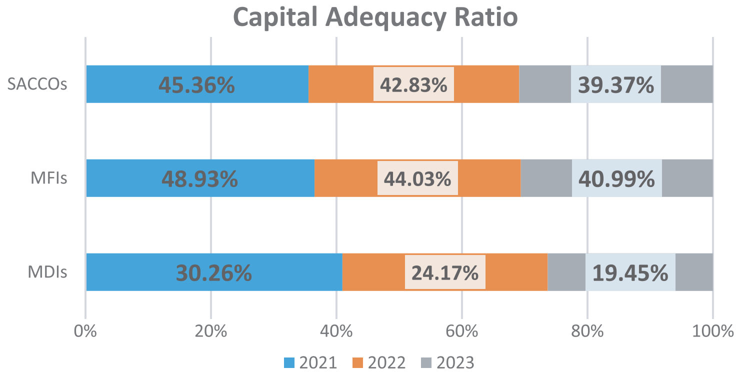


4.7.2 Capital Adequacy ratio

A financial institution's ability to cover losses expected and unexpected is referred to as capital adequacy. A safety cushion is required to protect the deposits and ensure stability of a financial institution. SACCOs are recommended to have a capital adequacy ratio of ≥30% while that od MFIs is set at ≥ 50%.

From the graph below, all institutions performed within their industry standards thus scoring a healthy capital adequacy ratio.

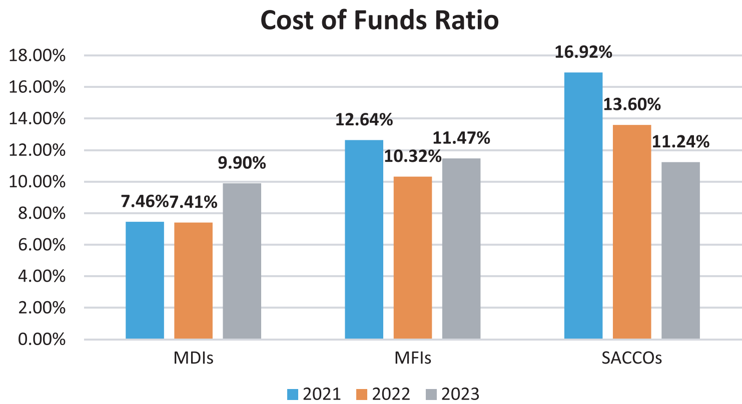
Fig. 27. Capital Adequacy ratio



4.7.3 *Cost of Funds Ratio*

The cost of funds ratio shows the rate at which a financial institution acquires debt and all other liabilities. The current standard recommends SACCOs and MFIS to acquire debt not exceeding 15%. By end of September 2023, MDIs averaged at (9.90%), MFIs at (11.47%) and SACCOs at (11.24%) as shown below.

Fig.28. Cost of Funds Ratio



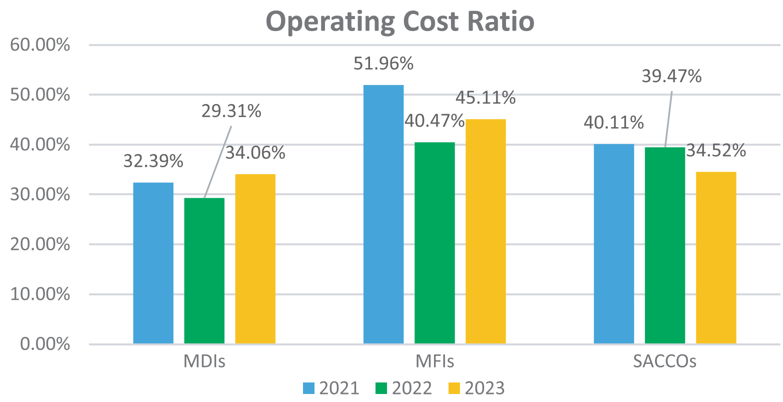
4.8 Efficiency and Productivity Ratios

4.8.1 *Operating Cost Ratio (OCR)*

OCR measures the operating expenses in relation to the institution's average portfolio. It compares the recurrent expenses in relation to the volume of the business (portfolio). The industry benchmark for MDIs is <60% whereas for MFIs and SACCOs older than 3 years, it is at <20%.

By the end of September 2023, MDIs scored a healthy ratio of 34.06%, MFIs and SACCOs scored on average 45.11% and 34.52% respectively which is not within the standard as shown below.

Fig.29. Operating Cost ratio



4.8.2 ***Average Loan size***

According to the table below, MDIs had the highest average loan size of 3,719,233 followed by Banks and Credit institutions with 2,770,786, SACCOs with 2,003,479 and MFIs with the least loan size of 1,078,123.

Note: For Banks and Credit Institutions only portfolio under microfinance has been considered.

Category of financial Institution	Average Loan Size
Banks & Credit Institutions	2,770,786
MDIs	3,719,233
MFIs	1,078,123
SACCOs	2,003,479

5.0 ENVIRONMENT SOCIAL AND GOVERNANCE (ESG)

5.1 Introduction

Globally, organisations are recognizing that a strategic, corporate-wide approach to ESG can create meaningful value on many dimensions. ESG refers to a set of criteria that investors and companies use to evaluate the environmental, social, and governance aspects of a business/institution. These factors provide a framework for assessing the broader impact and sustainability of an organization beyond just financial performance. They represent a multi-dimensional framework that has gained significant traction in the realm of investing and corporate decision-making. “ESG” stands for “Environmental, Social, and Governance,” and each of these components carries specific considerations as explained below.

Environmental factors encompass a company’s practices in relation to issues like carbon emissions, resource usage, environmental conservation and general efficiency at using the planets Natural Capital. Environmental considerations, zeroes in on an organisation’s interactions with the natural world. This involves scrutinizing the organization’s carbon footprint, waste management practices, resource consumption, products offered and efforts towards environmental conservation. Companies committed to environmental sustainability often seek to minimize their negative impact on the planet by adopting practices like reducing emissions, embracing renewable energy sources, considering environmental impact when making financing decisions and implementing efficient waste reduction strategies. Such actions not only align with global environmental goals but also enhance long-term resilience against environmental risks.

Social aspects delve into how a company interacts with its employees, communities, and stakeholders, focusing on issues such as diversity, labor practices, social impact, customer welfare and livelihood and community engagement. In short, how it creates (or destroys) social value. Organisations with strong social standing prioritize fair treatment of employees and customers, promote diversity across all levels, engage responsibly with local communities, and uphold human rights within their operations and supply chains. These endeavors not only foster positive public perception but also foster stronger bonds with employees, customers, and communities, ultimately bolstering business stability.

Governance pertains to an organisation’s internal structure, leadership quality, diversity, inclusion and transparency in decision-making. It encompasses elements such as board composition, executive compensation, transparency, and overall management quality. Effective governance ensures that a company operates ethically, mitigates conflicts of interest, and maintains accountability to its stakeholders.

5.2 Advantages of Investing in ESG

Integrating ESG principles into an organisation's operations goes beyond financial performance, impacting reputation, resilience, and long-term viability. Specifically, it can culminate into the following advantages:

Enhanced Reputation and Brand Value: Embracing ESG practices can bolster a company's reputation as a responsible corporate citizen. Demonstrating commitment to environmental stewardship, social responsibility, and ethical governance resonates with consumers, investors, and employees, potentially attracting loyal stakeholders and boosting brand loyalty.

Access to Responsible Capital: The ESG movement has prompted a surge in investment funds and institutions that prioritize companies with strong ESG profiles. Businesses aligned with ESG principles may find it easier to access capital from these sources, enabling expansion, innovation, and sustainable growth.

Risk Mitigation: By addressing ESG issues, businesses can identify and manage potential risks more effectively. Proactively managing environmental and social risks, such as regulatory non-compliance or supply chain disruptions, can protect a company from financial and reputational damage.

Innovation and Efficiency: ESG considerations can drive innovation by pushing companies to develop environmentally friendly products, streamline operations to reduce waste, and explore sustainable business models. This can lead to cost savings and increased operational efficiency.

5.3 Why are ESG Reports Important?

ESG reports play a vital role in the modern business landscape for several reasons:

Transparency: ESG reports offer transparency into an organisation's operations and practices related to sustainability and responsibility, allowing stakeholders to make informed decisions.

Risk Management: ESG reports help identify and manage potential risks associated with environmental and social issues, enabling companies to proactively address vulnerabilities.

Investor Decision-Making: Investors increasingly consider ESG factors when making investment decisions. ESG reports provide valuable insights for investors seeking to align their portfolios with their values and risk preferences.

Stakeholder Engagement: ESG reports facilitate effective communication with stakeholders, including customers, employees, regulators, and communities, by demonstrating a company's commitment to positive impact.

Competitive Advantage: Organisations with strong ESG performance can gain a competitive edge by attracting responsible investors, customers, and talent who prioritize sustainability.

Long-Term Sustainability: Focusing on ESG factors helps organisations align their strategies with long-term sustainability, contributing to their resilience and success in an evolving global landscape.

However, ESG reports need not be so complex. Companies need to recognize that simplicity can enable an effective start on an ESG reporting journey.

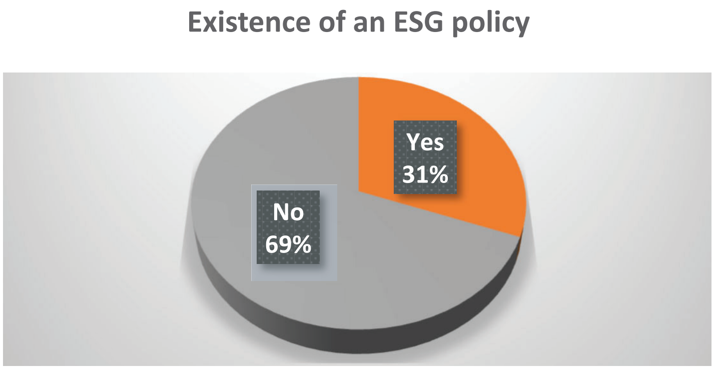
5.4 ESG Findings from Reporting AMFIU Members

The PMT was upgraded to include ESG indicators and the section below presents the findings from the data received and additional research conducted with open ended questions to gather more information.

Much as this is still a grey area, some organisations are making steps towards institutionalization of environmental issues as shown by the findings below:

Existence of an ESG policy

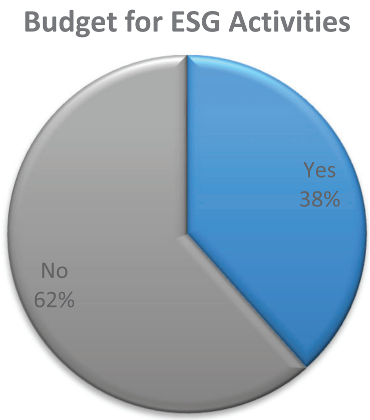
According to the findings, majority of the institutions (69%) revealed that they did not have an ESG policy and only (31%) had a policy in place as shown in the figure below.



A further problem among those that did not have the policy showed that they were all interested in having such a policy but they did not have the required technical capacity to develop the policy.

Budget for ESG Activities

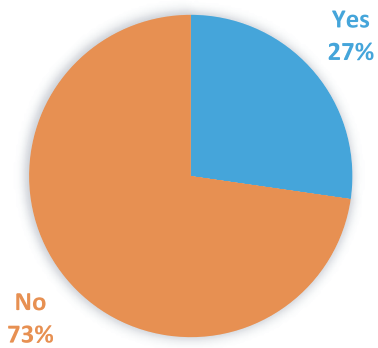
On whether the financial institutions set aside a budget for ESG related activities, the majority (68%) responded that they did not have such a budget item as shown in the figure below. For those that had an ESG budget (38%), the biggest part of it was going to mainly governance costs and social costs like financial education for customers.



ESG Reporting/Performance Monitoring

The findings on reporting/tracking progress on ESG show that majority of the institutions (73%) do not produce ESG reports and even the (27%) who responded in affirmative mainly track social indicators and not environmental indicators as shown in the figure below:

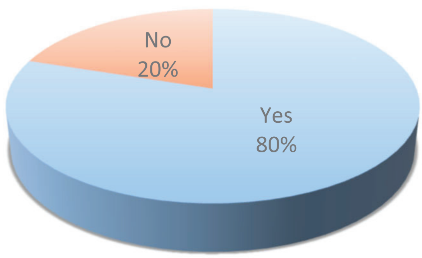
ESG PERFORMANCE MONITORING



Existence of an ESG Focal Staff

To ensure that ESG is given the due attention it should be given in an organisation, there's need for board and management to appoint a focal person/staff that takes it on as a priority, otherwise, it takes a secondary level. Based on the reports obtained, majority of the institutions (80%) had an ESG focal staff as shown below.

Existance of an ESG Focal Staff



5.4.1 ***Environment***

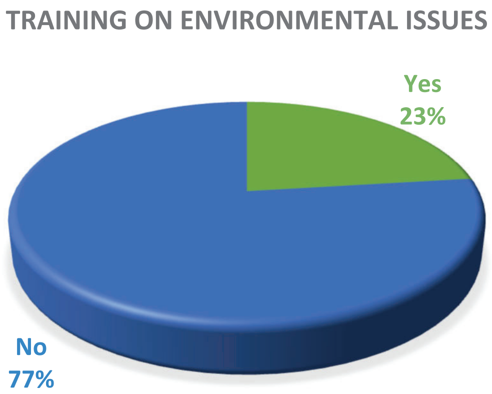
For quite sometime, environmental and climate change issues have not been a priority in the microfinance industry but recently, there's been a growing perception that incorporating an environmental lens to microfinance is essential and critical for the future of the sector. In fact, the performance of microfinance institutions has been expanded from just looking at a double bottom line to a triple bottom-line that includes; People, Profit and Planet.

Global climate change is likely to affect both directly and indirectly MFIs/SACCOs and their customers because the ecosystem and natural resources that most MF/SACCO customers depend on for their livelihoods will be hit hard by the altered climatic conditions and this will compromise their ability to pay back their loans.

Therefore, to manage the risks that arise out of environmental factors, affecting both the financial institutions and their customers, there's need to monitor and report on them. Below are findings on the environmental factors from the institutions that reported using the upgraded PMT and the follow-qualitative study.

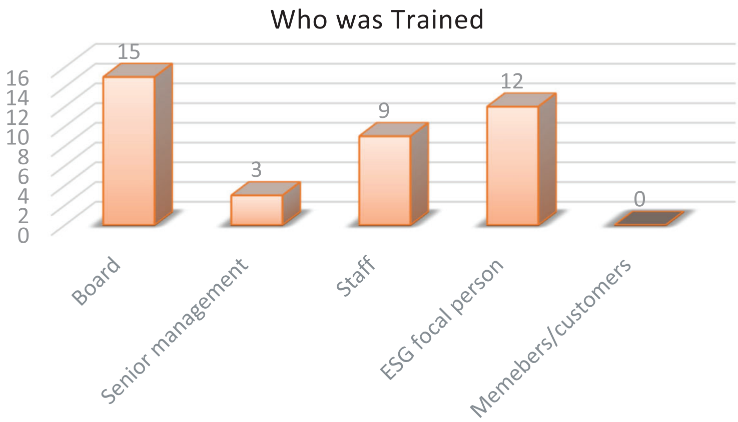
Training on Environment/Green Financing/Climate change

Training of board, management, staff and customers of any financial institution is vital in managing risks that arise out the challenge as the capacity to cope with or mitigate effects of the challenge is built. Based on the reports received, only (23%) of the institutions reported to have received any form of training and the majority had received this training from aBi Finance.



Who was Trained

Of the (23%) above who reported to have received some form of training, the majority trained were board members, followed by ESG focal persons and then staff as shown in the figure below. None of the institutions had trained their customers.



Green Performance Indicators as at September 2023

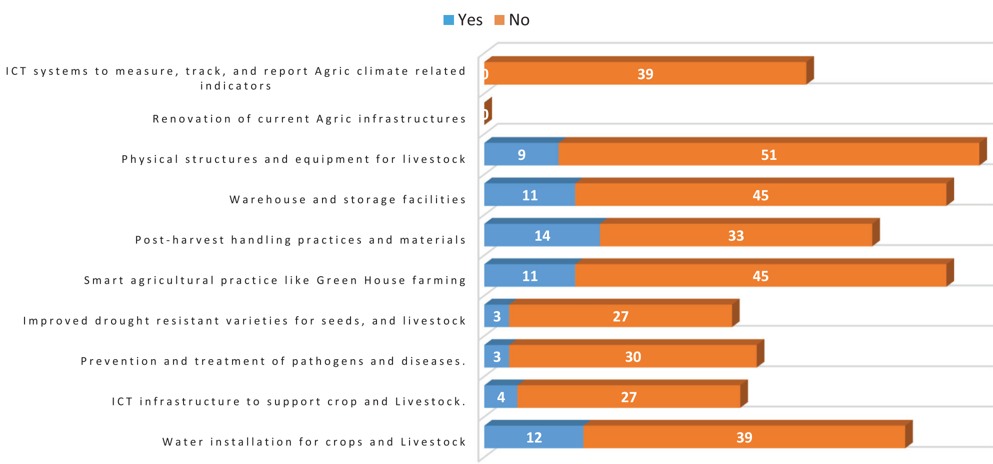
Impact reporting is now the globally accepted type of reporting. Therefore, environmental considerations in the financial services sector cannot be just a buzz word but are now a fundamental part of how business is done. Therefore, quantitative indicators must be a vital part of the environmental report. The table below shows the status of the green indicators from the reporting institutions:

No	Item	Indicator
1	Percentage of green loans	4.96%
2	Value of outstanding green loans (UGX)	14,143,512,830
3	Average loan size for green loans (UGX)	3,014,405
4	Average PAR (30 days) for green loans	1.47%
5	Average No. of loans rejected due to high environmental risk	5.5
6	Percentage of borrowers with an active micro-insurance policy for environmental disasters	1%
7	Average number of green loan products per FI	3

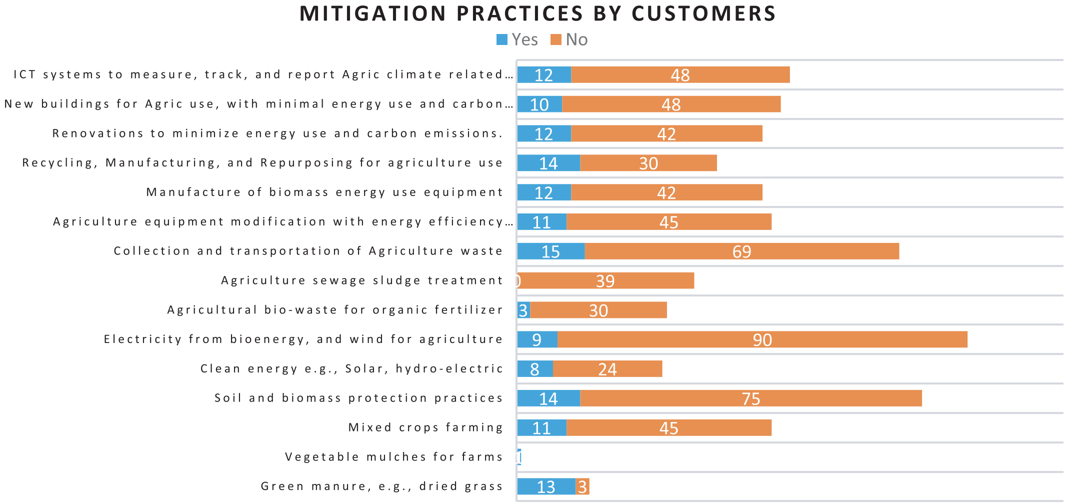
Responding to Environmental Risk

Responding to environmental risk can be through mitigation, adaptation or biodiversity conservation. Below are the findings from the reports on how the customers of MFIs/SACCOs are responding to environmental risk;

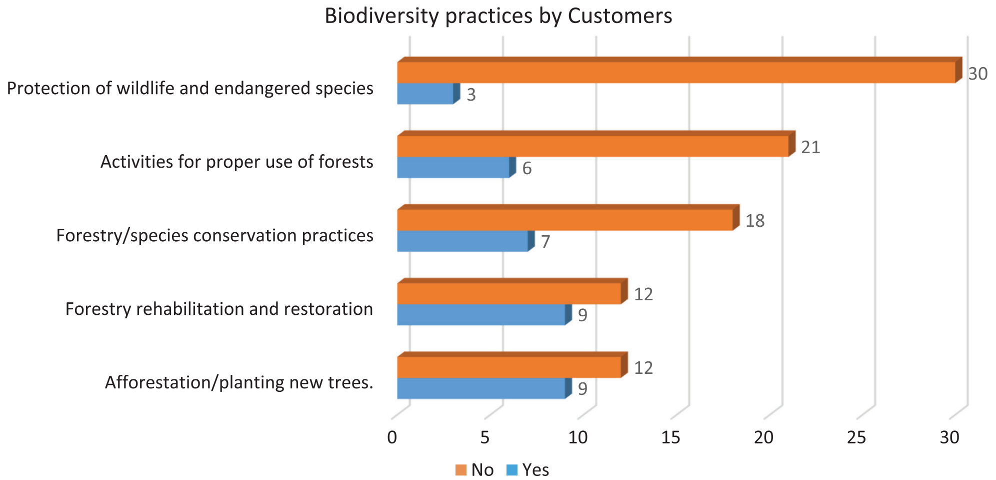
ADAPTATION PRACTICES BY CUSTOMERS



In terms of adaptation, the main measures have been; adapting to improved post-harvest handling practices and materials, water installations for crops and livestock, adopting smart agriculture practices like greenhouse farming and warehouse and storage facilities as shown above; while in terms of mitigation, the main practices include; collection and transportation of agriculture waste, recycling, manufacturing and repurposing for agriculture use and soil and biomass protection practices as shown in the figure below.



Biodiversity conservation is relatively a new phenomenon in the microfinance sector, with limited financial products on the market to support it. Nevertheless, the biodiversity practices by customers of MFIs/SACCOs are presented in the figure below which shows the major practices as afforestation and forestry rehabilitation/restoration.



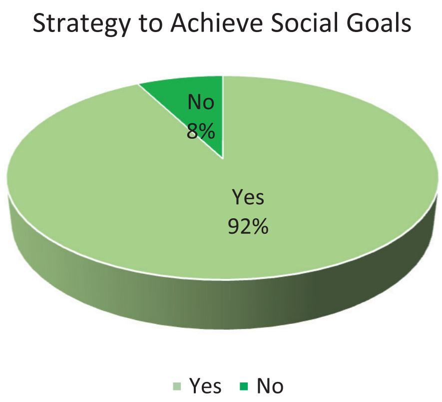
5.4.2 Social

The social pillar mainly delves into how a company interacts with its employees, customers, communities, and stakeholders. In the microfinance sector, this is mainly implemented through Social Performance Management (SPM) which is an institutionalized process of translating a microfinance institution's mission into practice. It involves setting clear social goals, monitoring progress towards these, and using this information to improve organisational performance. More concretely SPM enables an institution to incorporate social performance in its structure, policies and organizational processes.

Traditional evaluation has focused on end results and impact. However, impact is just one element of social performance. Social performance looks at the entire process by which impact is created. It therefore includes analysis of the declared objectives of institutions, the effectiveness of their systems and services in meeting these objectives, related outputs (for example, reaching larger numbers of very poor households) and success in effecting positive changes in the lives of customers. SPM requires a system that is built on an institution's social mission and is based on clear objectives. It needs to be implemented with defined methods for collecting and analyzing data and for communicating and using the results. An SPM systems helps to inform the staff of the organization how the customers are interacting with the organization and identifies how to improve that relationship.

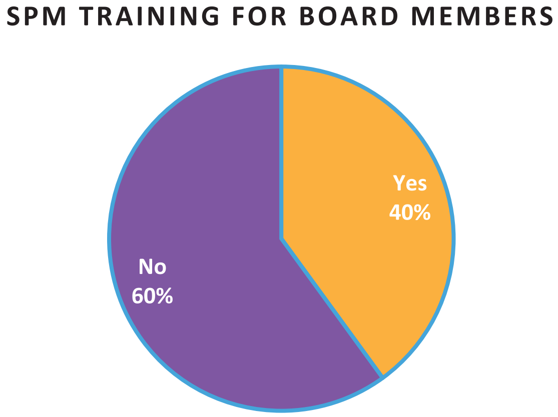
Strategy to achieve social goals

The entry point for the implementation of SPM is clearly defined social mission, goals and objectives. Based on the reports collected from the members, majority of the members (92%) said they had a strategy to achieve social goals as shown below;



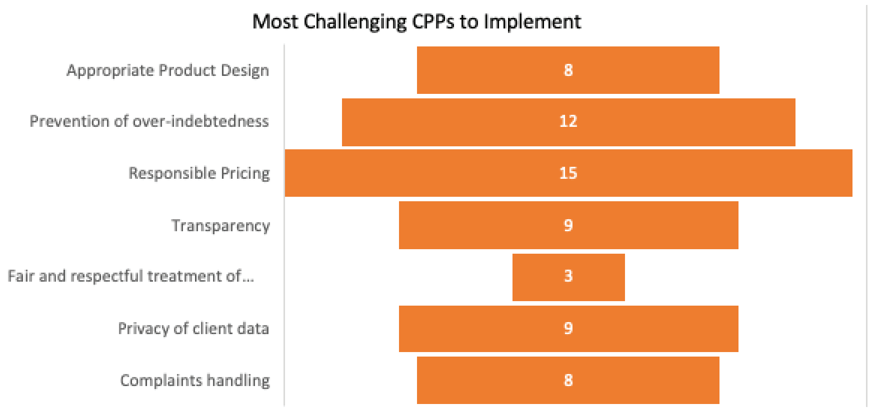
SPM training

In order to ensure implementation of the social performance strategy, there's need for capacity building of both board and management. Feedback from the reports shows that only (40%) of the board members have received training in SPM and the other (60%) have not received any training in this area as shown below;



Consumer Protection

Consumer protection is the basic indicator for social performance as it enhances responsible finance and ensures that the customers are not harmed. On which consumer protection principles, the institutions find challenging to implement, the majority said it was responsible pricing because of challenges in technical know how to calculate precise interest rates and fees and prevention of over-indebtedness with the major reason being absence of an effective credit reference system and appropriate appraisal processes.



Performance Indicators for Vulnerable Groups as at September 2023

Outreach to vulnerable groups is a key goal for majority of the microfinance institutions. Outreach and portfolio indicators for women and people living with disabilities were reported on by the members as shown below:

No	Item	Indicator
1	No. of Persons with disabilities reached	11,096
2	Outstanding portfolio to people living with disabilities (UGX)	1,692,218,805
3	No. of women reached	576,181
4	Outstanding portfolio to women (UGX)	1,230,845,912,161

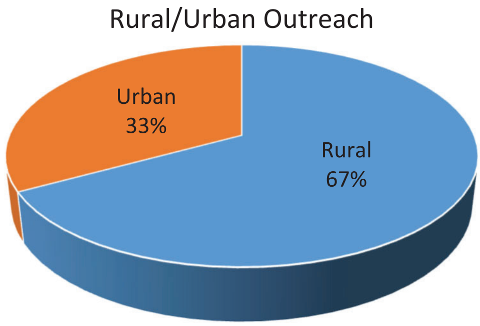
Social Products

Feedback from the majority of the institutions indicates that apart from providing financial products, they also offer non-financial products like training in financial literacy, business skills, customer care, agriculture extension services and digital literacy training. In terms of the social products offered as credit, these included incremental housing loans, agriculture loans, WASH loans and renewable energy loans. Data was only obtained for the WASH, agriculture and renewable energy loans as shown below;

No	Item	Indicator
1	No. of customers receiving WASH loans	4256
2	Outstanding portfolio – WASH (UGX)	10,188,293,969
3	No. of customers receiving agriculture loans	108,120
4	Outstanding portfolio – agriculture (UGX)	45,538,101,696
5	No. of customers receiving renewable energy loans	7,560
7	Outstanding portfolio – renewable energy (UGX)	11,865,656,583

Rural Outreach

Outreach to the most challenging areas to reach is a common social goal for most microfinance institutions as they seek to remove access barriers due to location. As shown below, majority of the institutions (67%) majorly operate in the rural areas. This is mainly attributed to the SACCOs whose major concentration is in rural areas and the branches of MDIs and non-deposit taking microfinance institutions located in rural areas.

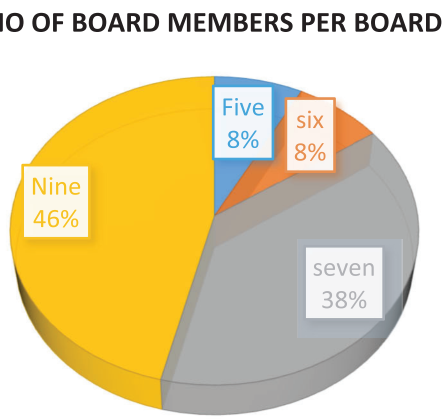


5.4.3 *Governance*

Governance as a term has progressed from obscurity to widespread usage. The need for governance exists anytime a group of people called stakeholders come together to accomplish an end result. A board of directors is established to provide oversight and give direction to the managers of an institution. Fundamental to effective governance is the ability of individual directors to work together to accomplish a balance between strategic and operational responsibilities.

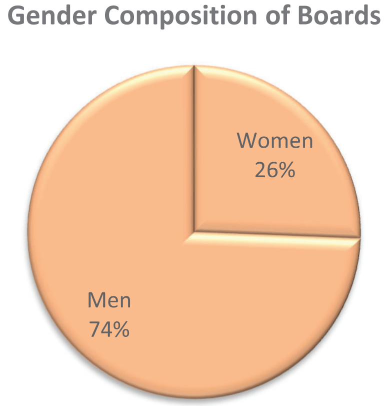
In recent times, it encompasses elements such as board composition, executive compensation, transparency, and overall management quality. Effective governance ensures that a company operates ethically, mitigates conflicts of interest, and maintains accountability to its stakeholders.

An effective Board is a requirement for an professional organization and based on the data obtained from the reporting institutions, all of them (100%) had a Board of Directors in place, board manuals to guide the board operations and relevant board committees to ensure smooth functioning of the boards. The only difference was in the number of Board members, with majority have nine (9) board members (mainly SACCOs), followed by seven (7) board members as shown below;



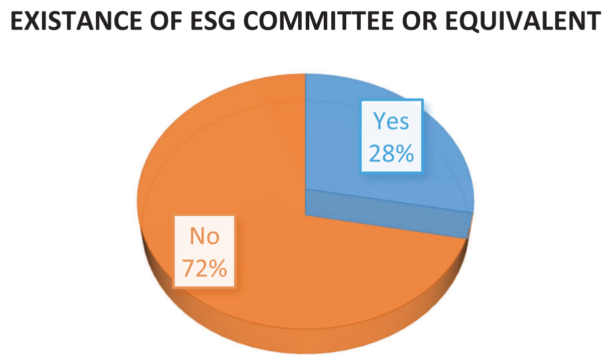
Gender Composition of the Boards

With inclusivity and diversity being a vital ingredient in board composition in recent times, the reporting institutions were still below the average acceptable rate of at least 30% women according to the constitution of Uganda as shown below.



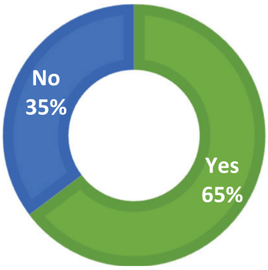
Existence of ESG Board Committee

On whether the organisations had a separate board committee to handle ESG matters, majority of the institutions did not have such a committee in place as shown below. This implies that ESG activities may not be monitored at board level which can lead to management ignoring them.



However, on whether the board was assessing management performance with regards to environmental and social performance initiatives, the feedback obtained shows that these were part of the performance assessments by the board as shown below.

SENIOR MANAGERS ASSESSED ON SOCIAL AND ENVIRONMENTAL TARGETS



In essence, ESG encompasses a more holistic perspective on evaluating organisational practices, highlighting the importance of responsible and ethical operations in today's interconnected world. As ESG considerations continue to shape the landscape of responsible organisational practices, institutions that prioritize these pillars are better positioned to thrive in an evolving global economy.

5.4.4 ***Challenges of Implementing ESG***

i. ESG reporting is about telling the impact organisations are making. However, reporting challenges begin with lack of appropriate tools to collect data suited to the level of sophistication of the organisation. This makes tracking information on issues like carbon footprints, customer livelihood indicators, complex, expensive and time consuming.

ii. Lack of awareness: Most financial institutions and customers are still not aware of the impact environmental changes have on their operations. Therefore, investing in it is not a priority.

iii. Global standards on ESG that have created unrealistic targets, leading to green washing with institutions trying to cope with set standards.

iv. Lack of resources (human and financial) to support ESG reporting. The quantification of metrics especially on environment is still complicated and it is therefore difficult to quantify where an organisation has reached in compliance with ESG.

v. Green product development, appraisal of projects for environmental risk and capacity building of board, management and staff are still a glaring gap that the sector needs to cover if we are to reach milestones in ESG

APPENDIX: 1 LIST OF REPORTING INSTITUTIONS

Adjumani town council
Advance Smart Microfinance
ASA Microfinance
Bagezza SACCO
BRAC Uganda
Bugadde SACCO
Bunyaruguru SACCO
Burere SACCO
Busiu SACCO
Butuuro SACCO
Celebrate SACCO
Centenary Bank
Community Development Microfinance
Community fund
Destiny microfinance
Development microfinance
Ebo SACCO
Eclof
EFC
Eleglance Microfinance
Encot Microfinance
Glory Sacco
Hakashenyi SACCO
Heritage microfinance
Hima Community SACCO
Hofokam
Igara Buhweju Tea Farmers SACCO
Iryaruvumba SACCO
ISSIA SACCO Ltd
Jennis Microfinance
Justa Microfinance
Karibu microfinance
Kasaana SACCO

Kashongi SACCO
Kati youth ventures
Kiboga Farmers SACCO
Kigarama farmers SACCO
Kigarama peoples SACCO
Kihanga mparo SACCO
Kijura SACCO
Kishenyi SACCO
Kitgum SACCO
Koboko United SACCO
KobokoTrinity SACCO
Kolping Microfinance
Kyamuhunga SACCO
Letshego microfinance
Lokitela Ebu SACCO
Loro oyam SACCO
Lwengo microfinance
Lyamujungu SACCO
Mamidekot microfinance
Maranatha financial services
Mateete SACCO
MCDT SACCO
Mitooma SACCO
Moyo SACCO
Mt Otce Metu SACCO
Muhame financial services
Mushanga SACCO
Mwizi SACCO
Nazigo SACCO
Ngora SACCO
Nile microfinance
Nyakayojo SACCO
Nyaravur SACCO
Nzuri Trust

Offaka SACCO
Offaka SACCO
Oleba SACCO
Oleba SACCO
Omipa SACCO
Opportunity Bank
Palma Microfinance
Premier Credit
Pride microfinance Ltd (MDI)
Real People
Rubabo Peoples SACCO
RUFI microfinance
Ruhiira millenium SACCO
Rukiga SACCO
RUSCA
Rushere SACCO
Rwanyamahembe SACCO
Sao zirobwe SACCO
Shuuku SACCO
Talanta microfinance
Tujijenge
Ugafode Microfinance
Uganda Microcredit Foundation
Umoja Microfinance
UNIFI LOANS SMC Ltd
Usalaama SACCO
VisionFund Uganda Ltd
Wakiso Self Help SACCO
Yudwesco

AMFIU

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