Pride Africa Uganda: Appraisal

RF-1998/215

Our reference:	Author(s):	Version No. / date:
762/844783	**Odd Einar Olsen**	**Vers. 1 / 16-09-98**
No. of pages:	Project Quality Assurance:	Distribution restriction:
60		**Open**
ISBN:	Client(s):	Open from (date):
82-490-0389-6	**Norad**	**16-09-03**
Research Program:	Project title:	
	Pride Africa Uganda: Appraisal of Performance and Business Plan	

Scope:

Scope of work has been to assess performance and the "Business Plan and Budget Sept 1998 to Aug 2000" of Pride Africa Uganda (PA/U). PA/U is a micro finance institution operating in Uganda since January 1996. It is an integrated part of Pride Africa, a NGO registered in USA and located in Nairobi, Kenya. PA/Us main objectives for the next two years is to become self sustainable (operating without any infusions of grants) and transform to a bank. Main conclusions are:

PA/U is a well performing organisation. Since inception, it has developed to be one of the biggest micro finance institutions in Uganda. The methodology in use, and the overall organisational performance is good. The benefits of being part of a the Pride network is acknowledged. It is still heavily dependent upon donor support (grants).

NORAD should continue to support the organisation based on regular assessment of overall economic and organisational performance. Future support should be closely co-ordinated with other donors. Donors should not dictate exact targets redirecting the management focus. Instead, donors should contribute to the development of overall strategies and targets reflecting sustainability.

The Business Plan projects a very optimistic route to self sustainability and transformation to a bank. The projection does not allow any slack in any factor influencing high future earnings and low costs. PA/U should work out an alternative plan for reaching self sustainability (extending the period from 2 to 3-4 years), preparing both itself and the donors for a prolonged period of external support. The plan should include measures to be taken in order to consolidate operations and organisational systems. Pride should make its legal status in Uganda clear, whether it becomes a bank or not. An alternative strategy should be worked out, if the transformation to a bank is delayed for some reason or another.

Key-words:

Micro finance institution, Uganda, Appraisal

Project Manager
Odd Einar Olsen

for RF - Environment and Industry
Kåre Netland

Our reference: **762/844783**	Author(s): **Odd Einar Olsen**	Version No. / date: **Vers. 1 / 16-09-98**
No. of pages: **60**		Distribution restriction: **Confidential**
ISBN:	Client(s): **Norad**	Open from (date): **16-09-03**
Research Program:	Project title: **Pride Africa Uganda: Appraisal of Performance and Business Plan**	

Scope:

Scope of work has been to assess performance and the "Business Plan and Budget Sept 1998 to Aug 2000" of Pride Africa Uganda (PA/U). PA/U is a micro finance institution operating in Uganda since January 1996. It is an integrated part of Pride Africa, a NGO registered in USA and located in Nairobi, Kenya. PA/Us main objectives for the next two years is to become self sustainable (operating without any infusions of grants) and transform to a bank. Main conclusions are:

PA/U is a well performing organisation. Since inception, it has developed to be one of the biggest micro finance institutions in Uganda. The methodology in use, and the overall organisational performance is good. The benefits of being part of a the Pride network is acknowledged. It is still heavily dependent upon donor support (grants).

NORAD should continue to support the organisation based on regular assessment of overall economic and organisational performance. Future support should be closely co-ordinated with other donors. Donors should not dictate exact targets redirecting the management focus. Instead, donors should contribute to the development of overall strategies and targets reflecting sustainability.

The Business Plan projects a very optimistic route to self sustainability and transformation to a bank. The projection does not allow any slack in any factor influencing high future earnings and low costs. PA/U should work out an alternative plan for reaching self sustainability (extending the period from 2 to 3-4 years), preparing both itself and the donors for a prolonged period of external support. The plan should include measures to be taken in order to consolidate operations and organisational systems. Pride should make its legal status in Uganda clear, whether it becomes a bank or not. An alternative strategy should be worked out, if the transformation to a bank is delayed for some reason or another.

Key-words:

Micro finance institution, Uganda, Appraisal

RF - Rogaland Research has a certified Quality System in compliance with the standard NS - EN ISO 9001

Project Manager
Odd Einar Olsen

for RF - Environment and Industry
Kåre Netland

Preface

This document reports findings and conclusions from a 2 week mission to Kenya and Uganda taking place between Aug 24. and Sept 4. 1998. The main purpose has been "to appraise the project document presented to NORAD based on a review of Pride Africa Uganda´s performance to date and future plans".

NORAD has financed the mission. During my stay in Nairobi and Uganda, Pride staff provided all information and help possible. In addition, key informants in the micro finance sector in Kenya and Uganda has provided a lot of useful information.

In Kampala, my main NORAD contact was Ms Britt Hilde Kjølås. Christian Fougner (NORAD Oslo) has done his best to direct attention towards the main issues. Erlend Sigvaldsen at NCG has tried to explain me some basic principles about micro finance. Thanks to everybody.

Due to the limited time available for this mission, it has not been possible to receive feed back on the draft from the people really knowing Pride operations from the inside.

The author has to be fully responsible for all misunderstandings and errors.

Stavanger

Sept 14. 1998

Table of Content:

Some abbreviations

ADB	African Development Bank
ARB	The Austrian Regional Bureau of Development Co-operation
BoU	Bank of Uganda
CGap	The consultative Group to Assist the Poorest (multi-donor World Bank program)
DFID	Department for International Development, UK
EDF	European Development Fund
EG	Enterprise group (part of the Pride lending methodology)
LIF	Loan Assurance Fund (part of the Pride lending methodology)
MEC	Market enterprise committee (part of the Pride lending methodology)
MF	micro finance
MFI	micro finance institution
MIS	management information system
P/K	Pride Kenya (Pride Ltd)
P/TZ	Pride Tanzania
PA	Pride Africa (in Nairobi)
PA/U	Pride Africa Uganda
PRESTO	Private Enterprise Support, Training and Organisational Development Project (a 5 years USAID project in Uganda)
shs	Uganda shillings
USaid, Norad, Danida, Sida,	Some (well known) bi-lateral donors mentioned in the report
USD	US dollars

Executive Summary

Key indicators of performance

	ACTUAL (USD)			PROJECTION (USD)		
ITEM	Des.96	Des.97	June 98	Des.99	Des.00	Des.01
Number of currently active loan clients	211	3 283	5 872	18 000	30 500	39 500
Total outstanding loan balance (US$)	23 914	326 587	761 710	2 700 000	5 681 000	8 935 300
Average loan balance per client (2/1)	113	99	130	150	186	226
LIF portfolio (balance of forced savings accounts in USD) total (T) and average per client (A)	T: 19,037 A: 58	199,714 A: 58	473,739 A: 78	1,513,677 A: 126	4,357,780 A: 127	7,845,565 A: 209
Number of voluntary savings clients	-	-	-	-	4 500	25 000
Total balance of voluntary savings accounts (US$)	-	-	-	-	450 000	3 125 000
Loan loss rate	n/a	0,0%	0,0%			
Delinquency rate (portfolio at risk basis > 30 days late)	0,0%	0,0%	0,0%			
Administrative efficiency	1770,0%	369,9%	211,6%*			
Operational self-sufficiency	4,8%	16,7%	30,8%			
Adjusted return on average assets	-157,7%	-75,7%	-71,4%*			
Commercial liabilities as % of loan portfolio	0,0%	0,0%	0,0%			
Average year free market (shs vs USD) exchange rate	1 045,25	1 083,00	1 148,07			
Per capita gross domestic product (US$)	294	298	297			

*): Annualized

Main Conclusions

The main conclusions are:

- The "PA/U project" is consistent with NORADs overall policy and strategy, and is also very much consistent with the CGap standards for micro lending (approved by NORAD). It is also consistent to the emerging overall agreement among the main donors in Uganda concerning approach and requirements towards the micro finance sector (except for PA/U´s legal status in Uganda).
- Most MFIs in Uganda are operating in a legal grey zone. Government, "serious players" in the micro finance sector (including PA/U) and the main donors share a strong will to regulate the sector. Bank of Uganda will (hopefully) finalise a draft "regulatory framework" by the end of this year. A very optimistic projection is that a law can be effective by the end of 1999. Both PA/U and NORAD should prepare for a delay, due to a limited capacity to process new laws and acquire supervision capacity in governmental bodies.
- Since inception in January 1996, Pride Africa Uganda (PA/U) has grown to be one of the biggest micro finance institutions (MFI) in Uganda. It is regarded to be one of the "top four", expected to be a leading institution in the years to come.
- PA/U is bearing an ambiguous reputation among donors and key players in the MFI sector in Uganda. It is acknowledged for its methodology, performance record and organisational structure. On the other hand, it is regarded as a less transparent organisation with a very diffuse legal status. The latter fuelling rumours concerning the real beneficiaries.
- The most important MFIs in Uganda are all growing very fast, and a competition about clients and qualified staff (with an experience in micro finance) could emerge in some areas. Almost all MFIs in Uganda target the urban areas (where 20 percent of all micro finance institutions are located). PA/U´s main competitors in this "market niche" are Finca and CoopBank.
- In the process of expansion and consolidation, PA/U´s urban area focus is the best strategy in order to ensure low costs and efficiency, security and regular operations. Basically, it should be PA/U´s business to decide upon location. Currently, there are no credit schemes for micro finance in Uganda appropriate to the agriculture sector.
- According to former plans, results and own observations, PA/U is a well performing institution. It has reached its plans concerning the number of branches and (almost) number of clients, and repayment rates. It has not reached its targets concerning loan size due to slow graduation and high drop-out rates among clients. Performance vary among branches partly because of external factors (market, cultural resistance towards group formation etc.), and partly because of internal factors (quality of staff).

- In general, PA/U has shown a very rapid improvement in performance. Still it has a long way to go before reaching self-sustainability. A comparison between Pride/Tanzania after 2,5 years in operation (Des 1996) and PA/U (June 1998) shows that:

    * Both organisations have a very similar development in performance indicators like number of currently active clients, operational self sufficiency (30 %), adjusted return on average assets (both negative). Administrative efficiency was slightly better in P/TZ (both above 100%).

    * PA/U has grown faster than P/TZ in terms of staff members and branches, and has a somewhat higher average loan balance per client and average LIF balance per client.

- PA/U is still heavily dependent upon donor support. For the time being, only 4 branches can cover own costs, 2 branches can cover their head office cost share, and no branches can cover a 18% "indirect cost" to head quarter in Nairobi. Based on performance to date, it will no doubt reach self sustainability in the years to come (if nothing exceptional happens). It is, however, very doubtful if it can reach its target of being self sustained within 2 years. Reasons are:

    * Some very optimistic assumptions concerning growth rates (in active clients, but especially in average loan sizes, LIF balance and client graduation), and capacity utilisation both in head office and branches.

    * A very optimistic schedule projected for the transformation to a PrideBank (which should be the ultimate goal) and the growth in voluntary savings and individual loans.

    * The organisation will most probably experience some unexpected problems due to the growth already undertaken (capacity limitations in systems, work overload, logistic problems, a less consolidated staff).

    * In general, the projection does not allow any slack in any factor influencing high future earnings and low costs.

- Strengths observed are the lending methodology, overall performance except for donor dependence, a motivated staff, and overall organisational systems.

- Weaknesses observed are donor dependence, an unclear and doubtful legal status in Uganda, some shortcomings in organisational systems, limited capacity to operate the planning systems locally, a lack of transparency due to the integration with Pride Africa in Nairobi (PA), lack of training opportunities for ordinary staff after employment, an increasing drop-out rate and a rigidity in modalities. The latter being both a strength and a weakness.

- Staff is apparently very committed to the organisation and has a good knowledge about the Pride methodology. Another recent study observed that some branch staff members lack an overall commitment to the organisation, and only feel as being agents for the management. Management at the head office has a background as professional bankers, and appears to be strong and familiar with PA/U operations.

- PA/U seemingly needs to consolidate operations in existing branches, rather than opening new branches.

- PA/U is a very centralised organisation, generating a lot of extra work load. Except for a plan to decentralise computerisation in branches (which is very much required), PA/U has rather diffuse ideas about decentralisation, incentives and product development in the years to come.

- An overall strategy based on stepwise incremental changes, as expressed by PA/U, is the best strategy in order to consolidate operations. The problem is, however, that the steps remain unclear.

- Salaries in PA/U are compatible. Credit officers and branch managers reflects more and less an average among the biggest MFIs in Uganda, whereas management salaries appear to be above the average.

- The impact of operations among clients is not yet known. PA/U targets poor (but not the poorest) people, by whom 62% are women. It also remains unclear whether all clients know the legal consequences of signing the loan guarantee agreement, and if these agreements are truly legal binding documents. Management is aware of the problems and has decided to "get our attorneys involved in these issues".

- The benefits of being part of a tight network as the Pride organisations is acknowledged in terms of trade mark benefits, knowledge and experience transfer, provision of lending methodology, and cost sharing in product development, overall strategy development and expertise. *Hence, the PA involvement, and the tight links within the Pride network, should be regarded as a strength for PA/U and a positive contribution to the overall development of operations in Uganda.* Pride has developed a model for R&D and management cost sharing, and channels for knowledge and experience transfer which is badly needed in most MFIs. There is, however, an urgent need to clarify PA/U's legal status in Uganda and transform it to an "indigenous entity". The most important reasons are:

    * A clarification of responsibility towards clients and their compulsory savings.

    * Increased transparency in operations between Uganda and Nairobi.

    * The best strategy to increase PA/U's standing within Government and the donor community in Uganda.

- Transactions and indirect payments to PA in Nairobi should be sorted out. Today, NORAD grants cover 18 percent of head office costs (plus 10 percent labelled "Annual contingency on all line items" in the Business Plan and Budget). The 18 % overhead was set "by random" and does not necessarily reflects PA's costs for serving PA/U. ARB grants cover all extra costs linked to special services. An example: NORAD grants could cover development of MIS in Nairobi. ARG grants cover costs for instalment etc. of new software in Uganda.

- One way to create clear and more transparent transactions, could emerge if PA worked out their own budgets, showing exact costs for general services provided (presented as a fixed sum to be paid by PA/U). In addition, PA could charge for special services based on actual costs.
- As mentioned already, the Business Plan and Budget have some weaknesses. The most important are a very optimistic projection in growth (both in branches, clients, average loan size, LIF portfolio, capacity utilisation), the very short transformation period to a bank and a very high growth in voluntary savings and individual loans (which is important for future development), and a lack of back-up plans (a B plan) if assumptions not occur. Projections are to some extent confused by some bugs in the projection model, and a currency mixture confusing exact calculations, It also appears as a shortcoming that the planning process is highly centralised to HQ in Nairobi. and also that the main in-house projection expert currently lives in India. Today, nobody in PA/U can operate the projection model.
- It has not been able to run some sensitivity analysis testing out the assumptions underlying the projected development patterns. Hopefully, it can be done in when PA´s in-house expert is present in Nairobi. A sensitivity analysis should focus on consequences if a PrideBank is delayed (including skipping the voluntary savings and individual loans), and a less rapid expansion based on former experience (skipping the 5 new branches, and downsizing the number of active clients, average loan and LIF per client).

Recommendations

Based on the previous, the recommendations concerning future NORAD engagement are:

- NORAD should continue to support PA/U due to the overall performance to date. PA/U is in the middle of its development process, and a termination of the NORAD grant will mot probably lead to a collapse.
- NORADs engagement should be co-ordinated with other donors (mainly ARB and EDF, but also SIDA). ARB and EDF have expressed their will to continue the support. In order to increase transparency, all donor grants should be dropped in one pot, requiring a total income statement and balance sheet presented to all donors.
- To the extent possible, grants should be dedicated to cover operational costs, whereas credit lines dedicated to loans should be provided as soft loans to PA/U (EDF approach).
- PA/U should make its legal status clear, whether it becomes a bank or not. Taking into account its projected size and impact, it should convert to an Ugandan entity with a clear responsibility for clients and their (compulsory) savings. Today, the Board of Directors has no responsibility, and most issues are tabled for information rather than decision. The Board has only one director from Uganda.

- Donors should be very cautious in dictating exact targets redirecting management focus. They have had a tendency to redirect the focus from quality to quantity (number of branches) and geographical locations. Instead, donors should contribute to the development of overall strategies and realistic targets reflecting sustainability.
- PA/U should work out a more realistic projection for self sustainability including sensitivity analysis, also taking into account the bugs revealed in the projection and budget model (e.g. extend the time required to break even from 2 to 3-4 years). This will prepare both donors and PA/U for a prolonged period of donor support. As a consequence, the plan to transform to a bank should be put on a back burner and an alternative plan developed just in case the transformation process is delayed by some reason or another. Currently, PA is working out a new organisational structure, but according to this plan the consequences for PA/U´s legal status will not change before it is transformed to a bank.
- PA/U should focus on consolidation rather than expansion. This implies a focus on growth in existing branches, the graduation of clients, reduction of drop-out rates, decentralisation, product development and adoption, systems development and adoption. A narrow focus on the number of branches and clients is probably not enough to ensure a healthy growth. Today, about 70 percent of branch costs are fixed.
- The currency mess should be sorted out. For the time being, the mixture between the Ugandan, Norwegian, Austrian, official USD and the Pride dollar currency produces a lot of inaccurate calculations and confusion. Today, PA has its own conversion rate between shs and USD due to historical reasons and problems estimating the average (or end year) rate in advance (labelled the Pride dollar). In the Business Plan and Budget, the conversion rate between shs and USD is 1000:1. By September 1998, the official rate is 1230:1 (proxy). If all basic calculations are done in shs, this miscalculation alone reduces the planned budget in current USD with about 23 %. PA/U should work out their budgets in shs and the budget converted to one only currency agreed upon.

1 Introduction

PRIDE Africa Uganda (PA/U) is a branch of Pride Africa, which is a non-profit organisation registered in the United States and based in Nairobi, Kenya. Pride Africa is a microlending organisation which has adopted the key elements of the Grameen Bank group solidarity concept to the African environment. Pride Africa started its operations in Kenya in 1988. Pride Kenya, however, decided to run its own business in 1994 and disengaged their co-operation with PA. Pride has also launched microlending programs in Guinea (1991), Tanzania (1993) and Uganda (1995). There has also been inquiries about starting Pride programs in Mozambique, South Africa, Zambia and Zimbabwe. Whereas Pride/Tanzania and Pride/Guinea are formally independent organisations with their own Board of Directors, the PA/U is still operating as a branch managed by Pride Africa.

1.1 Pride Uganda and Donor Support

PA/U started its operations in Mbarara in January 1996.

Since 1996, PA/U has been supported by NORAD with a total grant of USD 1,500,000 (1,330,970 disbursed by May 1998) through the Ugandan Government (Ministry of Gender and Community Development). The agreement terminates at the end of August 1998. In addition, the Austrian Regional Bureau (ARB) has supported PA/U with a total grant of US dollar 700,000 terminating in Des 1998 (552,227 disbursed by May 1998). The European Development Fund (EDF) has provided a USD 220,000 line of credit to fund lending activities as a soft loan.[1]

By August 6. 1998, the Government of Uganda formally requested NORAD to assist PA/U for another 2 years period (September 1998 to August 2000) with a total grant of USD 1,531,153 equivalent. In addition, EDF is requested to assist PA/U with a credit line (soft loan) of USD 313,982. Up to date, PA/U has not requested ARB for an extension of their suppoort.

The grant/credit line requests are based on a "*Business Plan and Budget (Sept 1998 - Aug 2000)*" submitted to NORAD on May 29, 1998.

The grant/credit line will, according to Pride Africa, enable the organisation to meet its targets indicated in the Business Plan and Budget. Pride Africa projects the programme to be fully sustainable (able to operate without any infusions of grants) within two years.

1 According to PA/U's own figures (see section 4.1).

1.2 Terms of Reference

Terms of reference for the study, as received from the Norwegian Embassy in Kampala August the 18. 1998 states that:

- The main purpose of the mission is to appraise the project document presented to NORAD based on a review of PRIDE's performance to date and future plans.
- The appraisal shall include recommendations regarding future NORAD engagements and if necessary propose strategic adjustments based on the findings.
- The report shall present information on other donors' support to MFIs and the Government's policy and strategy towards the increased number of MFIs operating in Uganda
- The report shall be presented in the format recommended in NORAD's Programme and Project Cycle Management

The fieldwork (and reporting) took place in the period August 24. to September 4. During the field work, representatives from Pride Africa, PA/U, governmental officials, and other relevant institutions were interviewed in Nairobi/Kenya and Uganda (see appendix 1). The study, however, had not been able to work out without the information provided through the management information system (MIS) operational in PA/U.[2] In addition, the study benefits from several other recent studies concerning the Pride network in Kenya, Tanzania and Uganda.

2 Some inaccuracies in the financial statements can occur, due to different (or several) conversion rates used between USD and shs. For this purpose (appraisal), they do not influence on any conclusions.

2 Assessment of Relevance: Governmental policy, markets and the MFI sector in Uganda

PA/U´s main objective is "to create a sustainable financial and information services network for small scale entrepreneurs to increase incomes and employment and stimulate business growth". It has the ambition to be fully self sustained within year 2000 based on a large number of clients and an efficient organisation.

The overall objectives for PA/U is consistent with NORAD´s objectives and strategies. PA/U attempts to target poor people (although not the poorest of the poor) and micro entrepreneurs in the informal sector. As a partner, PA/U plays an active role and runs its operations independently. It works out its own plans, and is able to provide most information needed in the planning process. NORAD has also committed itself to continue support and engagement in CGap[3]. PA/U´s commercial approach and organisational arrangements are very much consistent to the standards and principles worked out by Cgap.

2.1 Governmental policies and measures

The Government of Uganda has recognised the importance of the informal sector and small/micro enterprises. The sector is regarded as "crucial to the future development of the economy". The Government´s *Rehabilitation and Development Plan (1993-96)* identifies lack of capital and access to reasonable priced credit as a major constraint facing the sector. Other studies also identify access to credit, but also the need for local savings mobilisation, as a key to economic development.

Even so, all indicators are that very few micro and small enterprises have received loans from commercial or development banks. In the last years, commercial banks have tended to concentrate and only deal with the big affluent customers. This refocusing has created a further gap in support provided by banks to the small and micro enterprise sector. Hence, the Government (Bank of Uganda) recognises the role of MFIs as the only viable avenue of filling the gap by providing services to micro enterprises.

The Government supports several micro credit projects, such as PAP and Entandikwa,[4] and has established the *Small and Micro Enterprise Policy Unit* in the Ministry of Planning.

---

3 The Consultative Group to Assist the Poorest is a multi-donor supported programme within the World Bank aiming to disseminate information about "best practice" in the MFI sector and develop standards and tools to operate and assess MFIs.

4 Entandikwa is, in terms of branches and clients, the largest project in Uganda. The overall performance, however, has not been impressing. It was scheduled to end this year, but it is still a political question. PAP has been supported by ADB, setting up their own and inappropriate conditions for the project.

Most important, however, is the process undertaken by the Bank of Uganda (BoU) in order to establish a regulatory framework for the sector. Since 1996/97, BoU has endeavoured to learn about the MFI sector through regular consultations with MFIs, and through an extensive dialogue with some "case" MFIs. BoU is now working out a MFI rating system (based on two surveys and extensive discussions with stakeholders within the sector) as part of the preparation of the regulatory and supervision framework. A very first draft of the latter has been submitted to several institutions and MFIs.

At the end of this year, BoU plans to finalise its proposal. By Autumn 1999, BoU hopes it will pass Parliament and become effective as a law. After that, MFIs will be supervised by BoU or other bodies. As it all stands, requirements and performance indicators proposed in the forthcoming regulatory and supervision framework, are more and less consistent to the Cgap standards. BoU also claims to have the capacity to supervise the large MFIs (they will probably be divided into several classes according to their size and impact).

There is, however, a considerable doubt concerning the planned schedule. First, there is still a need for both the Government and the sector to extend the mutual learning process in order to design a well functioning framework. Second and more important, the capacity to process new laws in Uganda is limited. Hence, the process could easily be delayed on its way from BoU to the Parliament.

Before the regulatory framework is effective, it will not be possible for PA/U to transform from a NGO to a bank (or Micro Finance Institution depending on capital requirements stated in the act). PA/U plans to convert to a bank in September 2000.[5] As will be shown later, one of PA/U's major assumptions for being self sustained is the transformation to a commercial bank with the possibility to collect voluntary savings.

Today, the NORAD grant is distributed by the Ministry of Gender and Community Development. The Ministry has no formal instruments or capacity to engage in the project. Apparently, the Ministry serves as a brief case for the disbursement. On the other hand, this has not created any problems, and is after all maybe the best solution.

5 Another opportunity would for instance be to register under the Company's act limited by guarantee.

2.2 Markets for microlending in Uganda

It has not been possible to work out an independent survey of markets and needs during the mission. The National Baseline study, estimates that micro and small enterprises provide 90 % of non-farm employment in both rural and urban areas.

Table 2.1 Some key indicators describing the micro sector[6]

Annual growth in non-farming informal sector work force	100,000
Employment in micro enterprises: Percentage of total work force	20 %
Number of micro/small scale enterprises	846,570
Employment in micro/small scale enterprises (0-10 empl)	2,575,177
Micro/small enterprises located in urban areas (population over 4000)	160,800
Female owned (and multi-owned in brackets)	46 % (14%)

According to the National Baseline Survey, only 23 % of the micro entrepreneurs have ever had access to credit, among these only 10 % have had access to formal credit.

As should be obvious, the total market for micro lending is beyond the capacity of the MFI sector in Uganda today. The problem is, however, that most of the "serious players" target the urban areas, which account for less than 20 % of the population of micro enterprises.[7] PA/U also targets the urban areas (with at least 3000 active micro enterprises).

Competition may occur as a new challenge in two ways for the professional MFIs. First, a competition to reach clients. This should be to the benefit of the target groups, and force the MFIs to develop new and better products. On the other hand, the markets are very diversified, depending on location and loan products offered. Today, FINCA and Coop Bank seems to be the most serious competitors to PA/U. Although this competition has been limited up to date, it has already emerged as a "problem" in some places (e.g. Mukono).

6 Sources: National Baseline Survey: Micro and small scale enterprises in Uganda. Impact Associates, UDAID, Kampala 1995.

Leavens et.al: Feasibility Study & Business Plan: PrideBank: A Micro finance institution in Uganda. USAID March 1997.

PA/U: Business Plan and Budget Sept 1998-Aug 2000. Kampala May 1998.

7 In Mukono, at least 5 different MFIs are located in the same area.

Second, a competition to hire qualified personnel. There are very few educated people in Uganda *with an experience* in micro finance. Hence, qualified staff could emerge as a constraint for the most expansive MFIs. On the other hand, there is a new generation of fresh and well qualified undergraduates on their way out of the universities, currently providing plenty of opportunities to recruit officers with basic skills in financial operations.

Even though most MFIs target urban areas, the urban approach should be regarded as the best strategy in order to achieve experience and self sustainability. Operations in rural areas are difficult, risky and very costly compared to urban operations. Centenary Bank is the only one among the big which is trying to develop appropriate schemes for rural areas.

Before being self-sustained, PA/U should not be encouraged or forced by any donor (or local political interests) to establish risky branches in remote areas. Basically, the location of services should be PA/U´s business, based on judgements about market potentials (including considerations about competition among MFIs) and efficient operations. PA/U conducts a local market survey before establishing a new product. On the contrary, Norad should emphasise PA/U´s independence in such issues, and thereby (maybe) enable PA/U to resist pressure from local political interests.

2.3 The micro finance (MF) sector in Uganda: Organisations and donor support

2.3.1 The MF sector

The "new crusade of micro finance lending" has also reached Uganda. PRESTO identified about 60 MFIs (including organisations with lending as a sideline activity) when they started operations.[8] Presto estimates the number of "serious players" as about 30, few of them specialised into micro finance alone. All together, it is anticipated to be more than hundred organisations providing loans to the poor. The majority operates at a very low level, most often as a sideline activity when credit is available. Most MFIs are internationally or nationally based NGOs and charity organisations. There are only some few projects organised by the Government and donors, either as independent entities or as separate operations in existing banks. Currently, two commercial banks operate their own micro and small credit schemes (Coop Bank and Centenary Bank). The "top four" MFIs according to size and professionalism is regarded to be Centenary Bank (targeting small rather than micro entrepreneurs), Coop Bank, Finca and PA/U (in alphabetic order). They have all shown a remarkable growth during the past years, and they all regard size as crucial in order to become self sustained.

8 PRESTO (Private Enterprise Support, Training and Organisational Development Project) is a USAID supported USD 15 mill and 5 year program aiming to increase employment and productivity in the micro enterprise sector.

A survey worked out by BoU in 1997/98 among 30 randomly selected MFIs estimates the number of clients in these organisations to be about 55,000. Except for the governmental Entandikwa program, FINCA and PA/U have the largest number of clients. Some conclusions drawn from the survey:

- MFIs have short credit cycles and high repayment rates.
- MFIs target the able poor, and mainly women.
- There is seemingly cost-efficiency, coupled with reasonable staff levels.
- Funding is mainly from foreign agencies, and the membership contribution is pretty minimal.
- There is no tangible security for the loans, apart from peer pressure and compulsory savings. A majority employs group lending in some way or another.
- Interest rates are relatively higher than those in commercial banks.
- Very few MFIs accept deposits from their customers.
- The clients are first mobilised, trained and sensitised before funding.
- Very few MFIs own extensive branches, and most of them are operating locally.
- Most MFIs have poor documentation and book-keeping.

2.3.2 Donor support

Micro lending is a trendy activity among donors. Most donors, both bilateral and multi-lateral, regard micro finance operations to be consistent with their overall policy and a useful mechanism for poverty alleviation and economic growth. During the last years, it has seemingly been possible to reach a higher level of co-ordinated approach to the sector, at least among the most important players. In general, donors support the idea of micro lending as a commercial activity, and they are more aware of "best practices", high performance and self sustained operations. They demand a professional organisation in micro lending, and accept the introduction of rather tough methods in order to ensure discipline both in the MFIs and among clients. International donors have organised a "private sector sub-group meeting" where micro finance issues are discussed on a regular basis.

Still, some donors, mostly private (e.g. charity organisations), have a more soft approach to the sector.

Donor involvement in the MF sector includes grant or soft-loans to one or several projects (individual MFIs), training opportunities for MFI staff, development of appropriate management information systems (MIS), support to the development of a regulatory framework, etc. During the last year(s), a mutual learning process between BoU and the MF sector due to the preparation of a regulatory framework has been a high priority task.

The most important donors actively supporting the MF sector in Uganda, are ARB, DFID, EDF, UNDP and USAID. These donors have a long lasting and diversified involvement in the sector, and employ their own expertise locally. A "second order" of donors supporting one or a few projects, but not employing their own expertise locally include (among others) NORAD, DANIDA, DUTCH (NAME), and some international NGOs and societies.

It has not been able to collect accurate data about donor involvement in the MF sector during the mission.

After all, the conditions for a co-ordinated approach to the MF sector among donors, and co-ordinated measures in order to improve performance, outreach and institutional building, are seemingly promising

2.4 Project relevance: Conclusions

- The project is very much consistent with NORADs overall policy and strategy, and it also applies to NORADs commitment to the CGap standards for micro finance lending. PA/U and NORAD agree upon the overall project goals and achievements, although there could be a disparity between NORAD and PA/U concerning the operational strategy to reach the expected output (will be elaborated later).
- Development of a micro finance sector is also consistent with the overall policy of the Government of Uganda. The Government (BoU) has taken measures in order to establish a regulatory and supervision framework for the sector supposed to be effective by the end of 1999, which is a very optimistic schedule. PA/U depends upon the forthcoming act if the organisation should be able to reach and maintain self sustainability from year 2000. Accordingly, PA/U needs to work out an alternative strategy (a plan B) enabling the organisation to cope with expected delays in law perocessing.
- The market for micro lending is beyond the current capacity of the MF sector. Although PA/U targets urban areas where only 20 percent of micro enterprises are located, this is obviously the best strategy if PA/U should reach self sustainability. Basically, the location of services should be PA/U´s business, based on judgements about market potentials (including considerations about competition among MFIs) and efficient operations. Norad should emphasise PA/U´s independence in such issues.
- The MF sector in Uganda is growing, and some few "best practice" organisations (such as PA/U) will most probably set new standards for operations and outreach. The number of MFIs in Uganda is not known, but PRESTO anticipates that there are about 30 "serious players" at a maximum. Most MFIs in Uganda operate on a low level, often with a credit line as a minor activity. PA/U is regarded as being one of "the top four".

- Micro lending is trendy among donors. Seemingly, they have reached a more co-ordinated approach towards the MF sector. In general, most donors agree upon some basic principles for micro lending activities. The conditions for a co-ordinated approach to the MF sector among donors, and co-ordinated measures in order to improve performance, outreach and institutional building are seemingly promising. The most important donors engaged in the sector are ARB, DFID, EDF, UNDP and USAID (in alphabetic order).

3 PA/U: Development and Performance

Pride/U has adopted the key elements of the Grameen Bank group solidarity concept and adopted them to the African environment. The Pride MFIs are designed according to franchising principles developed since 1988. The model which has evolved over the years follows a few basic principles: simple, easy and fast transaction procedures, character reference for loan eligibility, short maturity and high frequency of repayment, and market rates of interest. The Pride methodology should be well known, and will not be repeated in this report.

3.1 Institutional factors

3.1.1 Legal structure

PA/U does not exist as a separate entity, and the legal structure appears to be very unclear. PA/U started its operations in January 1996 and is formally a part of Pride Africa (PA), an NGO registered in the United States and located in Nairobi. PA/U is a professional micro lending institution, currently offering one standardised loan product to their clients. PA/U is, as most MFIs in Uganda, living in a regulatory grey zone.

PA/U is not permitted to mobilise savings from the general public. It is, however, permitted to capture and reinvest compulsory savings of its member clients through a loan guarantee mechanism called the Loan Assurance Fund (LIF). To reach self sustainability, PA/U needs to mobilise a huge number of clients. As long as it cannot mobilise voluntary savings, profit from own operations will evolve very slowly. PA/U has estimated a 5-years period from inception to break even, including a transformation to a bank in year 2000. Meanwhile, PA/U depends heavily upon donor support.

Table 3.1 Details of donor support to August 1998

Source	Date	Amount (US$)	Terms	Currency	Status
EDF	1996	20000	loan: 2 years 7,7%	Ug Shs	fully disbursed
EDF	1997	29412	loan: 2 years 7,7%	Ug Shs	fully disbursed
EDF	1997	147059	loan: 2 years 13,25%	Ug Shs	fully disbursed
EDF	1998	17544	loan: 2 years 13,25%	Ug Shs	fully disbursed
ARB	1996	63783	grant	USD	fully disbursed
ARB	1997	353663	grant	USD	fully disbursed
ARB	1998	134781	grant	USD	fully disbursed
NORAD	1996	257245	grant	USD	fully disbursed
NORAD	1997	384497	grant	USD	fully disbursed
NORAD	1998	509362	grant	USD	fully disbursed
NORAD	1998	179866	grant	USD	deferred*
ECOTEC	1998	26509	grant	Ug Shs	fully disbursed

*): It is deferred because the grant is supposed to cover the period July and August 1998. All financial statements refers to June 30, and the grant will not appear in these statements.

PA is also contracted by DFID to manage a Village Bank project in Uganda. The management of this savings and credit project, which has been budgeted at USD 465,000, is located at the head office of PA/U, but is regarded as a separate project. It will not be accounted for in this appraisal.[9]

Development and performance indicators for PA/U operations will be presented in later sections.

9 It should be pointed out, however, that diversification into new projects is a very common behaviour among organisations depending upon aid. In many cases, it will exhaust the management capacity and redirect focus away from core operations. The management in PA and PA/U claim that this is not the case in the Village Bank project (separate management), but it will always appear as a threat.

3.1.2 Ownership and Board of Directors

Both the question of ownership and the relations between PA/U, PA and its Board of Directors is unclear. The factual owner of PA/U could be regarded as the Government of Uganda, based on the grants received from NORAD and the Austrian Regional Bureau (ARB). As long as the PRIDE trade mark is not regularised, the Ugandan Government could in theory intervene in operations based on their "owner rights".

The "real owner" is PA and its founder, even though NGOs do not have any shareholders.

The relations between PA and PA/U appears to be unclear. In daily operations, PA/U management runs its own show. When it comes to strategic issues, future plans and budgets, product and methodology development etc., final decisions are made by PA in Nairobi. PA and its leader play an important role and PA/U is not able to make any local adoptions without the permission of PA. Grant transfers and operations are officially recorded in the accounts of PA as PA/U is run within the PA legal entity. PA/U is in the process of establishing its own internal accounts. For this mission, separate accounts (not certified) have been available. Still, there is a lack of transparency which make it difficult to understand how the indirect costs, payment for extra services etc. actually flows. It must be added that PA/U is not the only MFI in Uganda with a rather diffuse legal status.

Due to its size and expected impact in the sector, it should be an urgent task to elucidate the legal status and "go native" in Uganda, whether it becomes a bank or not.[10]

The Board of Directors of PA is also the Board of PA/U.

10 An example of minor importance: Today, PA/U does not qualify for grants from Presto, due to its legal status.

Table 3.2 Board of Directors PA (and PA/U)

Name	**Position in Pride**	**Current occupation**
Mr Jonathan Campaigne	Chairman/Executive Director	Nairobi-Kenya
Ms Evelyn Mungai	Secretary	Publisher (Presence Magazine), Nairobi-Kenya
Mr Amin Gwaderi	Treasurer	Director (House of Manji Foundation), Nairobi-Kenya
Mr Iddi Simba	Director	Member of Parliament and Director of Internfinas, Dar-es-Salaam, TZ
Mr Warren Weinstein	Director	International Finance Corporation, Washington D.C- USA
Mr John B. Mpyisi	Director	County Director, Kampala-Uganda

The PA Board exercises little control and guidance over PA/U. Operational issues like plans and budgets are more tabled for information than real decisions. All decisions are actually made by the Executive Director in a co-operation with local management. The real influence of PA/U management upon strategic decisions remain unclear and is not stated in any written form.

The operational costs of PA in Nairobi have so far been almost entirely financed directly or indirectly through grants provided by donor organisations, by which NORAD is one of the major contributors through the support to PA/U and Pride/Tanzania (P/TZ). PA also receives grants from other donors, dedicated to specific tasks (e.g. a proposed USAID grant to cover MIS development costs).

PA receives an 18% overhead (entitled "indirect costs") of head office costs in PA/U. In the Business Plan and Budget, a 10 percent "contingency on all line items" is added to the 18 percent. The "indirect costs" are supposed to cover a franchising fee, and a cost share related to management and administrative support, development of MIS, new products etc. The 18% rate was set "by random" and is not reflecting PA´s costs of serving PA/U. It is not covering costs directly linked to operational support. Instead, PA has charged ARB for these costs. An example: When NORAD grants could cover costs related to the development of the MIS software as such, ARB has been charged for costs related to the instalment of a new software in Uganda.

One way to create clear and more transparent transactions, could emerge if PA worked out their own budgets, showing exact costs for general services provided (presented as a fixed sum to be paid by PA/U). In addition, PA could charge for special services based on real costs.

The tight links between PA and PA/U is partly based on the experiences with Pride Kenya (PK). PK, as an independent NGO with its own Board of Directors, decided to run its own show in 1994. Since then, there has been a never ending conflict between PK and PA (the Executive Director) concerning influence and the use of the Pride trade mark and methodology. After the split, PK has shown a decreasing performance. By July 1998, PK had debts of USD 170,000 (all past due), all LIF reserves was spent on operations and new loans, a rapidly deteriorating loan portfolio with 26% of outstanding loan portfolio in arrears, delinquent loans accounting for 100,000 USD, and no funds were available to pay the staff. Most probably, the organisation will collapse within a few months and the 5,860 clients will have no money to collect in the LIF. Some main reasons identified by a consultant in 1997, was a poor performing management and Board off Directors, combined with an expansion in activities above the organisational capacity.[11]

It is easy to understand that PA will avoid a similar development in other Pride organisations, and therefore ensures a tight control over all operations.

The benefits of being part of a tight network as the Pride organisations is also acknowledged in terms of trade mark benefits, knowledge and experience transfer, provision of lending methodology, and cost sharing in product development, overall strategy development and expertise. *Hence, the PA involvement, and the tight links within the Pride network, should be regarded as a strength for PA/U and a positive contribution to the overall development of operations in Uganda.* Pride has developed a model for R&D and management cost sharing, and channels for knowledge and experience transfer which is badly needed in most MFIs.

There is, however, an urgent need to clarify PA/U's legal status in Uganda and transform it to an "indigenous entity". The most important reasons are:

- A clarification of responsibility towards clients and their compulsory savings.
- Increased transparency in operations between Uganda and Nairobi.
- The best strategy to increase PA/U's standing within Government and the donor community in Uganda.

PA is in a process of developing a new organisational structure, built on separate departments, profit centres and companies, and a more clear cut division of labour in the organisation (the proposed organisational set-up is enclosed in appendix 2). According to this plan, PA will be the holding company (probably with a "golden share" concerning decisions about mission and future activities). This plan, however, assumes that PA/U will become a bank very soon (in year 2000). If not, there is no alternative plan for organising PA/U as an Ugandan entity.

---

11 Deloitte & Touche Management Consultants Ltd: Operational Assessment report and Strategic Business Plan 1997-2002. Sponsored by ODA (DFID).

3.1.3 Alliances

Except for the Pride network, PA/U participates in the consultations between MFIs and the BoU regarding the legal framework. In daily operations, PA/U co-operates with the CoopBank (for deposits and client bank accounts) and in some few places with UCB. For donor transactions, PA/U co-operates with Stanbick Bank (Norad) and Standard Chartered (ARB).

3.1.4 Leadership

As PA/U is an integrated part of PA, the overall leader of the organisation is Jonathan Campaigne, the Executive Director of PA, and also the founder of the Pride network. He has a tremendous impact on the Pride activities and is the main carrier of Pride´s visions and goals.

The General Manager of PA/U is Paul K. Musoke, who has been in charge since Des. 1 1997. He is the second *General manager* in PA/U. Before Musoke, Mr. Dirk van Hook (a Dutch micro finance expert) headed the organisation. Musoke is a well educated economist (degrees from Uganda and USA). He has been working in different commercial banks in USA for about 13 years (8 years in different management positions), When returning to Uganda in 1996, he worked as a consultant before joining PA/U. His knowledge about Pride was very limited before joining the organisation. He submitted his application based on an official advertisement He gives the impression of being a strong and well articulated leader. During our discussions, he was very willing to discuss all aspects of the Pride model and current situation. He showed a good understanding of the Pride methodology. He appears to be a professional economist and banker.

In addition, the management team in Uganda has a finance manager (Mr Gerald Kikambi) and a supervision manager (Mr Paul Mayanja). They have both a background as economists, and about 8 years of work experience (also in banking) before joining PA/U. The positions as internal auditor, MIS manager and personnel & admin. manager are currently vacant. One explanation is that PA/U has purposely left the vacant positions unfilled until PA/U the planned transformation into a PrideBank.

3.1.5 Location

By August 1998, PA/U had 20 branches operating all over Uganda, with a concentration to the Kampala/Entebbe corridor.[12]

Table 3.3 Regional distribution of branches by August 1998

	Des 1996	Des 1997	June 98
Branch offices	1	10	15
Average no. of employees per branch	5,0	2,2	4,0
Average no. of loan officers per branch	4,0	2,1	3,3

According the Business Plan and Budget, PA/U plans to open 5 new branches in March 1999.

A fully staffed "model" branch has a manager, 3 loan officers (dealing with 500 clients or 10 MECs each), 1-2 guards and one administrative assistant. Each such branch is expected to have a minimum of 1500 clients.[13] By now, only one branch has reached the level of 1500 active clients (Jinja).

PA/U intends to locate in larger towns, where there is at a minimum 3000 micro enterprises in a radius of 5 km. Before opening a branch, PA/U conducts a simple market survey in the area. Some of the branches has been located in accordance with donor (or political?) expectations (although the donors would like to deny it). PA/U claims that if not for the donors, they would have been given a lower priority. Ishaka is mentioned as a borderline case. And that is, in accordance with PA/U, the reason why these branches do not show the performance planned for. Donors involved contest this statement.

---

12 Five new branches were opened in July 1998. These branches are not included in most statistical presentations in the report (data only covers June 1998). The staff operating the branches, was recruited by June. Thus, figures concerning staffing and staff related performance indicators could be somewhat misleading compared to a situation where all branches are operational.

13 Some minor discrepancies appears between "the model branch" set up (37,500clients/25 branches = 1500 clients) and the "country network break even analysis" (42,500 clients/25 branches = 1700 clients) due to a plan to offer individual loan products from the year 2000.

3.1.6 Human Resources Structures

Table 3.4 Statistical summary of human resources structures

	Des.96	Des.97	June 1998
Number of total staff, end of period	8	36	82
Number of staff hired during period	2	30	51
Number of staff who left during period	0	4	1
Turnover rate (staff who left over avg. staff)	0 %	18 %	2 %
Number of loan officers, end of period	4	21	50
Percent loan officers of total staff	50 %	58 %	61 %
Average annual loan officer salary (Shs)	4 200 000	5 183 400	5 288 184
Avg. loan officer salary as multiple of per capita GDP	13,0	15,2	15,5
Amount spent on formal training (Shs)	23 943 000	71 374 000	88 705 000
% of annual administrative budget spent on formal training	4 %	11 %	.13 %

(a) Structure

Human resources are administered by the General Manager. At present, the position as a personnel & admin. manager is vacant in PA/U (the organisational chart is enclosed in appendix 2).

The head office in Kampala has a staff of 22 persons (27% of total). Most future staff growth is expected in the branches.

(b) Priority

PA/U is well aware of the importance of its human resources, although a practical plan to enhance competence and commitment still has to be worked out.. The organisation offers high salaries, and PA/U also makes it a practice to promote employees through the ranks. Most branch officers are former credit officers.

(c) Formal training

All PA/U staff are trained by REDI in Arusha, which is also an integrated part of PA. The induction training program, lasting for 5 weeks, is standardised for all Pride organisations. During the training period, prospective employees are tested out, and there is a final examination upon completing the training program. About 99 % of the trainees who complete the training are employed, and is placed on probation for a 3 month period. When opening a new branch, there will be a mixture of fresh employees and experienced officers coming from other branches. There is no compulsory training periods after employment. PA/U has to date spent a larger amount of administrative costs on training, compared to P/TZ.

(d) Staff turnover

Mr. Musoke is the second general manager in PA/U after start up in 1996. Before the first general manager (mr van Hook), two other persons were "in charge" of the PA/U-project in an early phase. Apart from top management turnover, staff turnover in other positions has virtually been very low. A majority of the staff, however, has been recruited in 1998.

(e) Profile

PA/U currently employs 50 credit officers. Most credit officers are young (about 25 years of age) and fresh candidates from an university expected to have a degree (in any field), and an ability to deal with ordinary people. It is also expected that the officers should have an interest in the organisation. A future career in the organisation is also emphasised, including possibilities (or the menace) to be transferred to other places.

(f) Salaries and incentives

Table 3.5 Salaries are good. In the Business Plan and Budget, it is calculated with the following monthly rates (in USD eqv.)

General manager	5200	Other managers	1500
Finance/supervision managers	2900	Branch managers	500
MIS co-ordinator	2000	Credit officers	450

Today, the average salary for credit officers is about 400 USD/month. Both for credit officers and branch managers, PA/U pay a higher cash salary than for instance Finca, but lower than Centenary Bank (included in Centenary´s package is a monthly performance based bonus). At the management level, salaries are good in PA/U compared to other micro finance institutions.

The benefit package includes health insurance and a leave pay (equivalent to one month salary).

Employees are evaluated annually based on a form discussed by the employer and his/her superior. Employers are eligible for a 10% raise per annum. Outstanding performance can qualify for 20 %.

There are no incentive systems in Pride based on individual performance or innovations and no systems or channels whereby new ideas or experience which could lead to smart "short-cutting" innovations could be communicated to the top management. According to a recent PA/U (and Finca) study[14], the quality of credit officers vary. Some are less motivated and less aware of Pride´s mission. According to another source, most officers are "overloaded, over-educated and overpaid" which could be a vulnerable situation for the organisation. The combination of overload and "over education" in a rigid system will most probably lead to mis (or dis)trust and a weak commitment to the organisation. Dichter observed some short cuttings in the procedures during his stay in spring 1998.[15]

In a system like PA/U, with an extensive MIS in operation, it is crucial that all staff members do their part of the work. If not, the whole MIS could end up as a mess and open the organisation for poor performance and fraud. If people also are overpaid, they will rarely leave the organisation.

Due to backlogs, people in the Finance dept have worked 12 hrs a day for months. Branch officers spend approximately 60 % of their day filling in forms and meet the expectations from the system. There is very little time left talking to clients and potential clients, and Dichter claims that "*credit officers view themselves as simply agents for the Head Office, where all decisions are made and from which directives and targets are handed over*". To some extend, the management agree with this statement, but for the time being there is no convincing strategy in place to improve the situation.

In a rapid growing organisation, such problems will most probably occur. This mission, however, was impressed by the credit officer quality and commitment (only three branches visited).

For the time being, PA/U is geared towards the internal systems and focused on quantitative targets, with a less attention to qualitative aspects of operations and organisational development. Due to rapid growth, there is less time left to keep new clients going after the induction period and first disbursals of loans. Hence, PA/U has a great potential to improve its market approach and become more market driven rather than internal systems driven.

---

14 Dichter, T.: Evaluation of Finca/Uganda and Pride Africa Uganda. The Austrian Regional Bureau for Development Co-operation. April 1998.

15 It must be added that the management noticed his criticisms and has promised to introduce necessary measures in order to improve routines.

(g) Recruitment

PA/U recruits through open advertisements and have received about 400 applications at an average. PA/U staff cull applications, make a short list of candidates and hold an interview with each candidate. They are tested, and when selected, they undertake the 5 weeks induction training. The procedure is more and less the same as in Tanzania. .

(h) Dependence on outside consultants

PA/U regularly uses the services of PA for technical assistance in MIS and accounting systems, management support and planning. A weakness observed is the limited ability in the organisation to use the IT-planning tools in order to specify future plans and work out sensitivity analysis. The person doing the more sophisticated analysis, is currently living in India and very few other personnel is able to replace her.

PA/U does not depend on external consultants on a regular basis. If needed, external consultants are contracted by PA in Nairobi.

(i) Organisational structure

An organisational chart for PA/U and PA is enclosed in appendix 2. By June 1998, PA/U had a total staff of 82, with 60 located in the branches and 22 at the head office.[16] There were 15 operating branches (i.e. those with active borrowers). Five new branches were opened in July 1998.

The branch network is managed on a day-to-day basis by branch managers. There were 50 credit officers assigned to the branches.

A "model branch" in PA/U, as used in business plan document, is supposed to have one branch manager, and one credit officer per 500 clients. In addition, the Head Office will have one supervisor and one auditor covering 7 branches each, one financial officer per 10,000 clients and one MIS operator per 15,000 clients..

The organisational structure is basically the Pride model, and there are very few local adoptions to the local environment in Uganda. Branch managers are responsible for all aspects of the day-to-day transactions with the clients. They approve the meeting schedule, monitor attendance, cash disbursal and collection process, take care of forms, reporting and to some extend supervise the credit officers.

The branches are managed by the head office in Kampala. Head office is responsible for cash management, and decisions concerning policy, strategy, targets and any changes (if any) in the routines in a close co-operation with head quarter in Nairobi (making the final decisions). All branch information is computerised and all operations in the branches monitored.

---

16 Most figures reported here relates to June 1998, but they include personnel hired to staff the 5 branches which was opened by July 1998. Hence, the figures could be some misleading looking at ratios etc. compared to the situation when the 5 branches are operational.

The organisation is very centralised, which is also recognised by PA and PA/U management.

Plans for decentralisation is under way. The impression is, however, that the attempts to decentralise are focusing on decentralisation of routine tasks (computerisation) to ease work load pressure both in the branches and in head office, more than a decentralisation of planning and decision making. PA and PA/U management are targeting the overload, not the challenges linked to "over-education" and "over-payment". Efficiency and not flexibility is focused. It must be added, that the incremental approach towards organisational changes appears to be the best strategy in a new and fast growing organisation operating in Uganda.

3.1.7 Management information systems (MIS)

(a) Systems and staff

PA/U has a good MIS (PrideStar developed by PA) obtaining operational data on a weekly basis. The MIS is also in use in Tanzania.[17] The PrideStar system is able to generate a wide variety of reports, and data can be sorted in many different ways. The most common reports are (on a weekly basis):

- Loan disbursements to date and last week
- Client population (total, new clients/MECs, exits)
- Portfolio and portfolio at risk (direct and indirect)
- Quantitative and qualitative repayment rates
- Loans in arrears
- LIF transactions and balance

The reports are distributed to management in Kampala, and to the branches where they are controlled by branch officers. Basically, the reporting follows the same routines and procedures as in Tanzania, without any local adoptions.

Irregularities are checked for, and measures taken by management in head office.

The quality of the reports, however, depends on the quality of the input provided by the branches. At the branch level, all operations are manual. PA/U regards the computerisation of the branches as an urgent problem necessary to solve within a short period of time, due to the very time consuming procedures currently in use. As observed by Dichter, the quality of the reports could vary in quality. To what extent this influence on the accuracy in the reports, has not been possible to test. During the mission, the MIS was in full operation after an initial period of operational problems.

17 See the Pre-award Appraisal of Pride Tanzania (USAID) for a more detailed description.

(b) Security and limitations

The vulnerability of the system has not been checked out in a systematic way. It is reasonable to anticipate that PA/U will be in trouble if a serious break down in the systems occur. Regular back-ups protects from data losses, but break downs can delay the computerisation of new entries. Break downs seemingly occur from time to time. Three other teams visiting either PA/U or PTZ during the last months, have reported problems in getting data due to technical problems.

For accounting, PA/U uses the Salmon system. This is not linked to PrideStar. Apart from P/TZ, PA/U has not reached the capacity limitations in the software. The major constraint for keeping up with data processing, is currently manpower. Only three persons can work on the system at any time.

A problem observed relates to currency and conversion rates. In the Salmon system, conversion rates are estimated in advance, and will not reflect the current value of Shs vs. USD, whereas the MIS operates with a conversion rate set as an annual average. The problem could create a lot of inaccurate calculations when converting actual transactions in Shs to USD.[18]

PA is now developing a new system (Sun Link), which will make it possible to integrate reports produced by the branches and the accounting system. UDAID and PA are discussing a possible USAID grant in order to support the upgrade of MIS and accounting systems within the Pride network.

3.1.8 Internal control systems, audit, supervision

(a) Internal control

All of PA/U´s operations are centralised to head office in Kampala. The MIS database is set up to catch data input errors as they occur. This permits head office to balance all accounts on a weekly basis, and if unbalanced, to identify where the error(s) occur. The major problem is linked to the high rate of growth and the wide distribution of branches. Currently, all branches batch their weekly reports and dispatch a mail bag to head office each Friday afternoon and Saturday morning. All data is then processed at head office, and returned to the branches with the MEC status report, and in some instances, with loan disbursement checks. For branches in remote areas, these procedures expose transactions between head office and branches for high risks.

For this reason (and also to increase efficiency), PA/U as P/TZ, plans to install desktop computers in (at least) high volume branches, train the loan officers and slowly permit each branch to manage all of its operations on-site. Then they can send a diskette to head office on a weekly basis, or if the telephone lines permit, send the data via modem. This will most probably require a development of internal control and audit systems.

---

18 This is mainly a problem in the donor - Pride relations.

Today, the internal control is built into the system. All client related transactions are checked along a chain: First link is the customer herself, followed by the EG (the 5 person enterprise group collectively responsible for loans), the MEC chairman, the loan officer responsible for the MEC, the branch manager, and then the supervision department at head office. After computerisation, the report follows more and less the same track back again (ending at the branch manager level if no errors occur). The system appears to be very safe, but creates a lot of doubled work. If data entries to the MIS are done locally, some checkpoints can be lost.

(b) External audit

Ernst & Young has served as PA/U´s auditing firm since it began operations (actually it is PA using them whereas PA/U is an integrated part of PA). Copies of the annual audits for 1996 and 1997 were provided. Management letters were issued and the financial statements certified by the external auditor. In the income and expenditure statement, donor grants are posted as an operational income. This practice only hide the real economic viability in the organisation, and it is also against standards introduced by CGap and the standards proposed by BoU. The tri-partite agreement between NORAD, PA and the Government of Uganda is also audited on a 6 month period.

(c) Internal audit

PA/U has currently no internal auditor (the position is vacant). A detailed 78 pages accounting manual has been prepared by Samvir Management Services Ltd (March 1998). PA/U has three supervisors and a supervision manager at head office. The supervisors are Kenyans with a long experience in Pride operations. The supervisors do their visits to the branches on a regular basis, and also if some irregularities occur. These visits are designed to audit branch compliance with the methodology, making certain that all procedures are followed, documentation is signed, and files are maintained correctly. The procedures followed are standard Pride routines.

(d) Fraud control

To date, there has been one example of fraud (the person was expelled immediately). Loan disbursements are made in two ways: Funds are disbursed to each individual client´s savings account, or checks are written at head office and sent to the branches using the mail bag system.

The only time that PA/U employees touch cash is during the MEC meetings when principal, interest and LIF contributions are made. At this point, no one is left alone with the cash, and after a public counting, it is placed in a bag and deposited into PA/U´s bank account on the same afternoon. Or, if banks are closed, placed in a safe at the branch until the following morning.

Overall, PA/U appears to be controlling the fraud as best as possible.

(e) *Strategic financial planning*

PA/U uses a sophisticated software developed in PA to project operations. The Business Plan and Budget is based on this model. Some shortcomings have been revealed during the mission (to Tanzania). These are:

- The balance sheet does not add the annual outstanding portfolio correctly.
- Drop outs are not reflected in the LIF positions.
- When clients have taken a full six loans, they vanish.
- The loan loss provision is deducted in the calculation of cash requirement, which is not correct (it is not a cash outlay).
- The funding requirements calculation does not take account of already existing, available funds.
- The individual loans and voluntary savings do "strange things" to the costs and incomes.
- Because of the basic model structure, it is not possible to put in exact numbers for the current situation as the starting point. By varying the age of the branch, it is possible to get a reasonable estimate of current situation as the starting point. Correct calculations then assumes that the model branch is a true reflection of the actual average situation in the branches.

Pride has agreed to correct these bugs, although the last one will require some basic re-modelling (this is also the most serious bug). Another shortcoming is the very limited capacity in PA to operate the model. The expert is currently living in India, and no staff member in PA/U is able to operate it.

After all, the model should have a great potential as a tool for future in-house planning in Pride. For the time being, this potential is not utilised, and the model appears to be a tool for donor satisfaction rather than real planning and sensitivity analysis in Pride.

3.1.9 Other donors experiences

PA/U and it founder is well known in the donor community engaged in micro finance, whereas the new general manager is less known person. PA/U is bearing an ambiguous reputation among the core donors (who stay in regular touch). On the positive side, PA/U is regarded to have a very good methodology (although some are critical to the rigidity, especially in the LIF), a professional and well-performing organisation, and the potential to become one of the most prominent MFIs in Uganda.

On the other hand, PA/U has got a reputation for being a less transparent organisation with an aggressive acquisition policy towards donors. Whether true or not, a reputation for not being transparent, easily leads to rumours. Due to its unclear legal status, it becomes unclear who is really benefiting from the activities.

Accordingly, PA/U has a great challenge in improving its confidence within the donor community.

The two donors actually granting PA/U, has a positive attitude towards continued support. EDF, which is providing loans, is also interested in a continued co-operation. It is reasonable to anticipate that a pre-condition for further grant support is an improved transparency. A first step would be to co-ordinate future grants, put it all in one pot based on a joint agreement between NORAD, ARB, the Government of Uganda and PA/U. As a consequence, all parties will have to receive total statements concerning all activities in PA/U.

3.2 Services/clientele/market

3.2.1 Financial services

PA/U is currently offering one standardised loan product. The group lending methodology, which is adapted from Grameen Bank, will not be repeated here. After the 8 weeks induction training period of the groups (5 person groups called EG form a MEC consisting of 10 EG), the first loans are disbursed to the first two members of the EG.

The first instalment of principal and interest on a loan becomes due one week after disbursement, and PA/U (as the Pride network) charge a flat interest rate of 30% on all loans. Clients are supposed to climb the loan-ladder. When the members of the MEC have successfully repaid the previous loan and complied with all other requirements (the weekly LIF contribution and attendance at the weekly meetings), they can enter the next loan cycle.

Table 3.6 Loan cycles in PA/U (1000 shillings)

	1. cycle	2. cycle	3. cycle	4. cycle	5. cycle	6. cycle
Max. amount	150,000	300,000	500,000	800,000	1,100,000	1,500,000
Max. term weeks	25	30	40	50	50	50
Percentage of all loans disbursed (total 12209 per July 1998)	70,2	24,9	4,2	0,7	0 (8 loans)	0 (1 loan)

The value on each cycle is a little bit higher than in Tanzania. Not surprisingly, very few clients have reached the 3. cycle. This is partly because PA/U began growing only one year ago. But it also appears that the slow graduation is caused by structural factors and the methodology itself. Some explanations could be:

- Most PA/U clients operates their business at a very low level, and few can afford the higher cycle loans. They are still most appropriate as working capital (due to size and terms), and very few micro enterprises need to keep stocks exceeding 500,000 shs.
- The EG members willingness to guarantee loans at cycle 4 - 6 is also contested.

- When the members reach the 3. or 4. cycle, their LIF balance often exceed the value of the loan, and members choose to exit from the program and thereby getting access to their savings.

The effective annual interest rate is about 60 percent, which is very much similar to Finca (58-62 percent depending on product). Prime rate paid by blue-chip commercial bank borrowers is about 21 percent. The interest rate has not yet created any problems.

PA and PA/U currently discuss these issues in order to change products and conditions (especially making it possible for clients to access their LIF without leaving the program). A shorter repayment rate for the first loans has already been introduced.

In the Business Plan and Budget, it is assumed that 20 percent of all clients will reach cycle 6, and 20 percent will reach level 5. Compared to former experience both in Pride and other MFIs, this assumption appears to be very optimistic.

3.2.2 Outreach

Table 3.7 Outreach summary

PRIDE LOAN PRODUCT	Des.96	Des.97	June 98
Number of active borrowers at end of period	211	3283	5872
Cumulative number of clients	325	5662	9803
Current percent women	58	63	61
Average current balance per client USD	113	100	130
Average current balance/per capita GDP	0,37	0,32	0,43

PA/U is still growing, and by August 1998, more than 12,000 loans had been disbursed. In most aspects, PA/U shows a development pattern similar to P/TZ (which has been in operation since 1994). The only difference is that PA/U has not yet experienced a decline in average current balance per client. Most probably, this will occur when the growth rate is flattening off.

3.2.3 Clientele and market

(a) Profile

PA/U describes its typical client as expected to be 36 years old with a primary or secondary school education and have 5-7 dependents. Potential clients have been operating their micro enterprises for 3 to 13 years, have 0-2 employees and hold business assets of less than USD 1,400 (based on market surveys prior to branch location).

Table 3.8 Accumulated distribution of loans by June 1998 (9291 loans):

	Male	Female	Percent of total
Manufacturing	508	738	13,4 %
Services	700	855	16,7 %
Commerce	2357	4133	69,9 %
Percent of total	38,4 %	61,6 %	

A recent study made by Dichter[19] separates three groups of clients:

- The "survivalist": Hawkers and vendors who have limited conceptions of business. They are not clear about profit and loss, do not separate business from household expenses etc.
- The "diversifier": People using the loans to try something new in addition to other businesses. They operate at a slightly more formalised level compared to the survivalist, but the business remains at a very low level.
- The "entrepreneur": People with real business skills, using the loans to deepen the activities and develop their core business.

Dichter indicates that not all clients know the legal consequences of signing the loan guarantee agreements. The accompanying issue regarding whether or not such agreements are truly legal binding documents, is not quite clear either. The management in PA/U realises the problem, and has decided to "get our attorneys involved in these issues". Apparently, there is a need for further training of clients after the induction period.

What is less known, however, is the impact of PA/U´s activity on clients and their standard of living.

(b) Feedback and changes in services

The standard loan product does not permit any adoption to individual needs, except that loan repayment terms can be reduced (prepayments accounts for some 2-4 percent of total outstanding portfolio). Most loans are dedicated to working capital (to increase stock). Due to its size and terms of repayment, they can hardly be used for investments. Dichter indicates that the rigidity in the loan product offered, and very few adoptions made to local needs, can lead to a less compatible development (ref section 4.2.1).

One indicator could be the drop-out rate (exits from PA/U).

---

19 Dichter, T.: Evaluation of Finca/Uganda and Pride Africa Uganda. The Austrian Regional Bureau for Development Co-operation. Kampala April 1998.

Table 3.9 Exit rates registered in PA/U

Drop outs	1996	1997	1998 (Jan-June)
Real number in period	105	858	2181
Drop-outs as a percentage of total clients end of period	32,3 %	15,2 %	22,2 %
Drop-outs as a percentage of active clients end of period	49,8 %	26,1 %	37,1 %

All micro finance projects reaching a certain level of outreach, experience a high drop out rate. What is somewhat alarming, is that the rate is increasing (1996 is hardly representative due to low numbers and only one branch in operation). In addition to explanations already discussed (the actual need for big loans, the willingness to guarantee for big loans, the rigidity in the LIF system and loan products offered), the high drop out rate could also be explained as a consequence of rapid growth. Because of rapid expansion and the work load (partly) caused by the system, branch officers have no time left to take care of new clients. After the first weeks of induction training, MEC meetings are used to collect money and disburse loans. Still some clients need more training and a close follow-up by the officers. In addition, the mobility among clients appear to influence drop-out rates. When people move to another place, they have to leave the programme.

Anyway, the high drop out rate hampers efficient operations. First, PA/U has to recruit a lot of new clients and train them for 8 weeks. Second, too few clients graduate to higher loan cycles. Hence, it should be a very important goal to reduce drop out rates in the years to come.

3.3 Financial performance

3.3.1 Income statement and balance sheet

Income statement, balance sheet, shadow prices and adjustments, and averages are enclosed in appendix 3. Up to now, PA/U´s accounts has been an integrated part of the PA income statement and balance sheet. For 1997 and Jan-June 1998, most data were easily accessible. Some problems identifying exact figures for 1996 emerged, but did not create any serious problems.

3.3.2 Profitability

Table 3.10 Profitability, end year 1996 and 1997, June 1998

	Des.96	Des.97	June 98
Adjusted Return on Avg. Assets*	-157,7%	-75,7%	-71,4%
Adjusted Return on Avg. Equity*	-1320,4%	-495,7%	-298,6%
Operational Self-Sufficiency (excl. cost of funds)	4,8%	17,2%	32,3%
Operational Self-Sufficiency (incl. cost of funds)	4,8%	16,7%	30,8%
Financial Self-Sufficiency	4,8%	16,2%	27,6%

*): 1998 figures: Annualised

After 2,5 years in operation, PA/U (by June 1998) and P/TZ (by Des 1996) shows very similar results on these performance indicators. Even though the indicators show rapid improvement, PA/U has still a long way to go before reaching break even.

3.3.3 Efficiency

Table 3.11 Efficiency indicators for PA/U, end year 1996 and 1997, June 1998

	Des.96	Des.97	June 98
Administrative Efficiency (administrative costs excl. financial costs as % of avg. net portfolio)*	1770,0%	369,9%	211,6%
Operational Efficiency (total operational costs as % of avg. net portfolio)*	1789,7%	379,3%	222,2%
Personnel costs as % of total costs	40 %	54 %	54 %
Number of active loan clients per staff member (end of period)	30	91	72
Number of active loan clients per loan officer (end of period)	53	156	120
Outstanding portfolio per loan officer ($, end of period)	5 979	15 552	15 545
Number of clients per branch office (end of period)	325	566	654

*): 1998 figures: Annualised

PA/U has reached a better administrative and operational efficiency compared to P/TZ after 2,5 years in operation. Staff related indicators, however, were better in P/TZ. This is mainly because the staff members operating the branches opened in July 1998, are included. The indicators reveal the costs related to rapid growth.

3.3.4 Loan portfolio analysis

Table 3.12 Loan portfolio analysis, end year 1996 and 1997, June 1998

	Des.96	Des.97	June 98
Total principal balance outstanding, end of period	23 914	326 587	761 710
Number of active loans at end of period	211	3 283	5 872
Average loan balance (a/b)	113	99	130
Number of loans disbursed during the period	361	4 351	6 096
Average principal balance outstanding over the period	16 134	141 965	572 027
Loan losses written off over the period			
Loan loss rate (f) as a % of (e)	0 %	0 %	0 %
Percentage of total outstanding balance associated with loans that are:			
On time (and never refinanced)	100 %	100 %	99.92%
On time (but have been refinanced)	0 %	0 %	0 %
Late (at least 1 payment) 1 - 30 days	0 %	0 %	0.08%

PA/U does not have any delinquency due to the co-guarantee mechanism used within the EGs and the MECs. If an EG member fails to pay his/her weekly instalment of principal and interest, the other EG members are required to make the payment. They are also required to make the LIF contribution of the defaulting member. If the EG fails to pay, the MEC has to make the payment. This is termed "indirect payment". The "indirect payment" should be regarded as portfolio at risk, but is currently not visible in PA/U´s financial statements (they are registered). On the other hand, this proves that the Pride model is working.

3.3.5 Other indicators

Table 3.13 Other indicators, end year 1996 and 1997, June 1998

	Des 1996	Des 1997	June 1998
Actual yield on portfolio	70,8 %	55,4 %	34,3 %
(Interest and fee expenses)/(average funding liabilities)*	12 %	5 %	4 %
Total assets/total equity	8,4	6,3	3,4

*): 1998 figures: Annualised

4 Strategic objectives: Assessment of the Business Plan and Budget (Sept 1998-Aug 2000)

In this section, the Business plan and Budget will be used as the basic document for analysis (with reference to ToR).

4.1 Mission/objectives

PA/U has a logical hierarchy of goals and means. As observed in many organisations, the most operational goals serving as means for higher level goals, have a tendency to overshadow the ultimate objective.

Pride/U´s mission is "to create a sustainable financial and information services network for small scale entrepreneurs to increase incomes and employment and stimulate business growth".

PA/U management is committed to provide financial services to the poor, but it does not view its services through social lenses. To reach the ultimate goal, the mean is self sustainability. According to the Business plan, PA/U aims to reach self sustainability (covering own costs and support operating cost at HQ in PA) within 2 years. This ambitious goal relies on several assumptions (which will be discussed later), whereby the most important are the transformation to a bank scheduled to September 2000, and a huge growth both in clients and loans disbursed.

Presently, it is the latter which is the real driving force within the organisation. All efforts are focused on growth. As mentioned in section 4.1, the targeted growth figures apparently constitute the only vision for some officers in the branches, and the organisation seems to be under a great pressure (e.g. backlogs, and overwhelming paperwork to keep up with all transactions, work overload, the tendency to meet systems demand and not market demands etc.). The management is fully aware of the situation, but is still very committed to the expansion plans. And it has to be admitted that the growth has been impressing (see next section).

4.2 Near to mid-term objectives

4.2.1 General direction and near to mid-term objectives

The Business Plan and Budget focuses on self sustainability and measures to reach this goal within 2 years. The most important assumptions (operational targets) to reach this overall goal are:

Table 4.1 Operational targets from Business Plan and Budget, Sept 98 - Aug 2000

Operational targets	When
Growth:	
Provide credit and savings to 42,500 borrowers and 92,500 depositors (including a 230 percent growth per year for the next two years)	year 2003
Increase outstanding micro loan portfolio with an average of 190 percent per year	In the next 4 years to come
Increase average loan size from 130 USD to 226 USD	Within 3 years (year 2001)
Increase the average LIF balance per client from 78 USD to 127 (in year 2000) and 209 (in the year 2001)	2001
Economic performance: Become self sustained within 2 years	Autumn year 2000
Organisational structure:	
Open 5 new branches	March 1999
Transform to a bank (PrideBank) within 2 years and be able to receive voluntary deposits	Autumn year 2000
Specific targets concerning decentralisation of operations, MIS development, product development (individual loans and voluntary savings. BabyBanks), staff quality development etc.	continuous

The most important goals in order to achieve self sustainability are:

- The expansion both in branches, clients, average LIF portfolio and average outstanding loan balance.
- The transformation to a bank, allowing voluntary deposits.

Assumptions about growth and the transformation process is discussed in the next sections.

4.2.2 Key scale and outreach indicators

Table 4.2 Key scale indicators past performance and planned expansion (USD)

	Recorded performance			Projections		
	Des.96	**Des.97**	**June 1998**	**Des.99**	**Des.00**	**Des.01**
Total outstanding loan balance in US$	23 914	326 587	761 710	2 700 000	5 681 000	8 935 300
Number of currently active loan clients	211	3 283	5 872	18 000	30 500	39 500
Average loan balance per client (1/2) in US$	113	99	130	150	186	226
LIF portfolio (balance of forced savings accounts in USD) total (T) and average per client (A)	T: 19,037 A: 58	199,714 A: 58	473,739 A: 78	1,513,677 A: 126	4,357,780 A: 127	7,845,565 A: 209
Total balance of voluntary savings (US$)	0	0	0	0	450000	3125000
Number of voluntary savings clients	0	0	0	0	4500	25000
Average current voluntary savings balance	0	0	0	0	100	125
Number of staff	7	36	82	142	182	217
Number of branch offices	1	10	15	25	25	25

4.2.3 Expected key changes

The planned key change within the next two years, is the transformation to a bank. This will imply a) to register as a Uganda finance institution with its own Board of Directors, b) mobilisation of voluntary savings expected to exceed the LIF portfolio in year 2003, c) introduction of individual loans (not necessarily linked to the bank transformation) expected to account for 23 percent of loan portfolio in year 2003, d) incremental changes in micro loan products and methodology and e) organisational decentralisation and increased efficiency.

PA plans to mobilise private and development banks, and donors as shareholders in addition to a PA contribution. A precondition for mobilising shareholders, however, is that PA/U has reached operational self sustainability.

4.2.4 Challenges: Achieving sustainable operations

Is it likely that PA/U can reach its growth targets necessary to be operational self sustained?

Looking back, development in PA/U has been impressing. It is reasonable to anticipate that results are very much linked to the Pride model itself. A comparison to development in P/TZ illustrates the point.[20]

20 P/TZ started operations in May 1994. Recorded performance in P/TZ in 1994 (year one), 1995 (year 2) and 1996 (year 3) is compared with the performance in PA/U in 1996, 1997 and 1998. By June 1998, PA/U had been in operation for 30 months, and by Des. 1996, P/TZ had been in operation for about 32 months.

Table 4.3 Comparison in performance PA/U and P/TZ in the three first years in operation, recorded performance in P/TZ in year 4 and projected performance in PA/U (year 4).

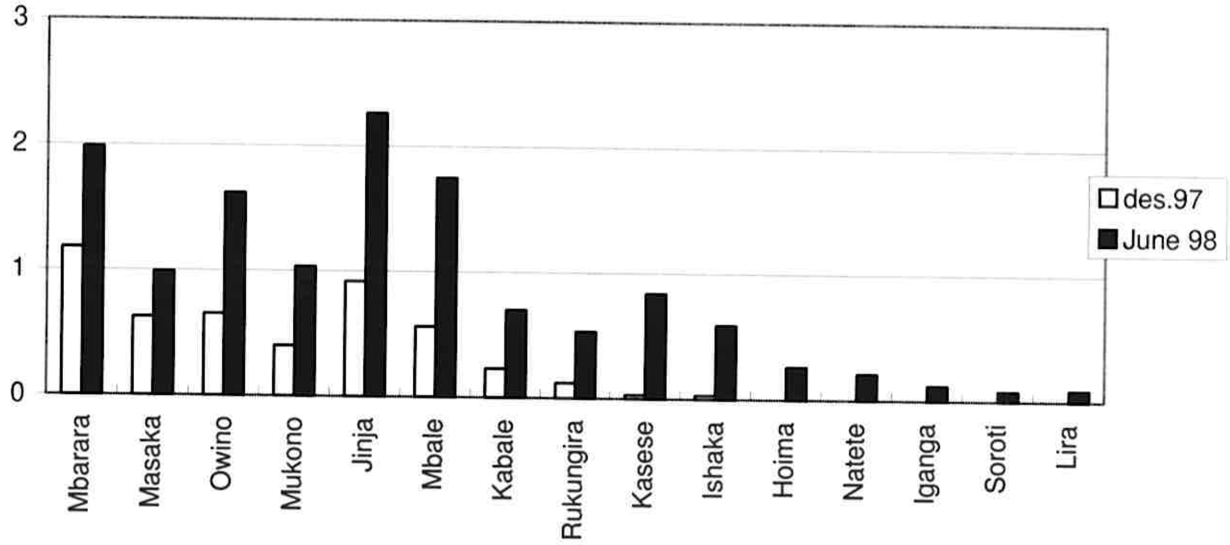
	Actual			**Actual in P/TZ and projected in PA/U**
	Year 1	**Year 2**	**Year 3**	**Year 4**
Number of currently active clients	TZ: 972 UG: 211	TZ: 1,270 UG: 3,283	TZ: 5,514 UG: 5,872	TZ: 13,408 UG: 18,000
Average loan balance per client (USD)	TZ: 69 UG: 113	TZ: 159 UG: 99	TZ: 112 UG: 130	TZ: 111 UG: 150
Average current balance/per capita GDP	TZ: 75 % UG: 37 %	TZ: 195 % UG: 32 %	TZ: 136 % UG: 43 %	
Average LIF balance per client (USD)	TZ: 38 UG: 58	TZ: 58 UG: 58	TZ: 56 UG: 78	TZ: 60 UG: 126
Administrative efficiency	TZ: 444 % UG: 1770 %	TZ: 272 % UG: 370 %	TZ: 164 % UG: 212 %*	TZ: 98 %
Operational self-sufficiency	TZ: 10,1 % UG: 4,8 %	TZ: 16,4 % UG: 16,7 %	TZ: 29,8 % UG: 30,8 %	TZ: 49,1 %
Adjusted return on average assets	TZ: -71 % UG: -158 %	TZ: -80 % UG: -76 %	TZ: -73 % UG: -72 %*	TZ: -48 %
Total number of staff (and number of branches in brackets)	TZ:9 (1) UG: 8 (1)	TZ: 27 (4) UG: 36 (10)	TZ: 61 (8) UG: 82 (15)	TZ: 102 (15) UG: 142 (25)

*): Annualised

After a "slow" start, PA/U shows a more rapid development (it is only in year 3 data reflects an equivalent historical development. At that time, both organisations had been in operation for about 2,5 years). After 2,5 years in operation, P/TZ and PA/U are surprisingly equal in most performance indicators. The main difference appears in "the future". PA/U estimates a very fast growth rate for the next year(s) to come, compared to recorded in P/TZ in its forth year of operation.

The basic unit in PA/U is the branch. Overall economic development in the branches could offer an indicator for expected growth rates in the future.

Figure 4.1 PA/U branches: Coverage of own costs, head office costs and indirect costs to head quarter in Nairobi.



Established: Jan 1996: Mbarara

Feb 1997: Masaka, Owino, Mukono, Jinja, Mbala

Sept 1997: Kabale, Rukungira, Kasese, Ishaka

Feb 1998: Hoima, Natete, Iganga, Soroti, Lira.

The figure indicates to what extent branches established until February 1998, have been able to reach different levels of profit.[21] Level 1 (on the y-axis) is the level whereby branches cover own costs. Level 2 is the level whereby the branch is able to cover their share of head office costs in Kampala (5 percent covered by each of the 20 branches). When reaching level 3, branches are also able to cover the 18 percent "indirect costs" charged by the PA head quarter in Nairobi. Three main aspects should be noticed:

- The time needed to cover own costs: Only branches which has been in operation for at least 16 months have been able to cover own costs, and only two branches (Mbarara and Jinja) were able to cover their share of head office costs (Kampala) by June 1998. Still, all branches have a long way to go before covering "indirect costs" to head quarter in Nairobi.
- All branches have shown a remarkable improvement in cost recovery between Des. 1997 and June 1998.

21 Calculations are made as a percentage at each level. A branch covering own costs, is automatically set to 100% at level 1. The remaining margin is then calculated as a percentage of its share to cover head office costs in Kampala (level 2) etc.

- Cost recovery varies very much between branches, independent upon their age. Most probably, some branches will never reach the profit level 3.

It is also worth mentioning that fixed costs account for 70 percent of all costs in the branches (in average), not changing very much between Des 97 and June 98.

Taking into account the problems now experienced by P/TZ due to the rapid growth rate (software limitations, logistic problems, a decline in average loan balance per client, high drop-out rates etc.), it appears that PA/U has projected a very optimistic growth rate for the next two years.[22]

4.2.5 Growth in clients

Although PA/U plan a very rapid growth in clients, this seems to be the most realistic assumption looking at past performance. The major constraint hampering the client growth, will most probably be the capacity embedded in present organisational systems (and to some extent the number of branches).

4.2.6 Growth in branches

Since February 1997 to July 1998 PA/U has opened 19 new branches. The staff has increased with 230 percent since December 1997 (from 36 to 82 persons). PA/U plans to open 5 new branches in March 1999, and increase the total number of staff to 142 in December 1999. The expansion is costly, but must also be regarded as risky. For example, fixed costs accounts for 70 percent of all costs in the 15 branches in operation (an average of Des 1997 and June 1998). It is risky because the pressure on the organisational systems could go beyond its capacity (with reference to the Pride Kenya experience). Hence, PA/U should seek to delay the planned opening of the 5 new branches, and focus on consolidation and development in existing branches.

4.2.7 Growth in average outstanding portfolio micro loans

This assumption appears as doubtful for the following reasons:

- The Pride loan product and methodology itself can reduce client graduation into higher loan cycles (section 4.2)
- The drop out rate among clients before they reach higher loan cycles.
- The average loan sizes observed in PA/U and the development patterns observed in P/TZ.

22 A main conclusion in the Deloitte & Touche "Operational Assessment" of Pride Kenya (Pride Limited) in 1997 was: "It is clear with the benefit of hindsight that Pride Limited expanded their branch network, head office staffing and number of borrowers beyond their capacity to fund and to some extent manage". Pride Ltd was not a member of the Pride network in 1997.

4.2.8 Growth in average LIF portfolio

This assumption appears to be very optimistic due to the reasons mentioned above.

4.2.9 Assumptions about voluntary savings and individual loans

This assumption is partly linked to the transformation to a bank (at least the voluntary savings). As discussed in section 3, the planned time schedule appears to be very optimistic and it offers no slack in progression.

Three main reasons for working out a plan B preparing for a delayed transformation are:

- Delay in the establishment of a regulatory framework
- A possible extension of the period needed to become self sustainable due to reasons discussed above. It will be very difficult to identify potential investors before PA/U reaches break even.
- The time needed to organise the transformation and mobilise share holders.

Even though the transformation is made in year 2000, the assumptions about growth in voluntary savings and individual loans appears to be very optimistic. After all, PA/U has to introduce a new product requiring extensive in-house training, systems development and extension of the organisational capacity in logistics, internal control, supervision and auditing. In addition, PA/U has already experienced a very rapid growth, and the need for consolidation both in staff performance and organisational systems is badly needed.

4.2.10 Sensitivity analysis

It has not been possible to run any sensitivity analysis within the very limited period of time available for this study. PA/U should make such analysis in order to test out the vulnerability embedded in assumptions and projections. Some assumptions could be:

Alternative 1 (based on past experience in the 6 branches in operation since February 1997. Assumptions per branch:

a. Active clients at any time (after 18 month in operation):	830
b. Maximum total number of clients (after 18 month in oper)	1300
c. Average size of new loans (after 18 month)	185 USD
d. Average outstanding balance per loan (after 18 months)	132 USD
e. Maximum MEC size	46 members
f. All other assumptions fixed	

Alternative 2 (delay in PrideBank for 2 years)

a. Delay in all voluntary savings for 2 years

b. Delay all individual loans for 2 years

c. Delay all other assumptions directly linked to PrideBank for 2 years

d. All other assumptions fixed

Alternative 3 (less rapid expansion):

a. Skip the 5 new branches (maximum no. of branches = 20)

b. All other assumptions fixed

Alternative 4: Assumptions made in alternative 1 (one) plus alternative 2 (two)

Alternative 5: Assumptions made in alternative 1 (one) plus alternative 2 (two)

Alternative 6 (worst case)**:** Assumptions made in alt 1 (one) plus alt 2 (two) and alt 3 (three).

Alternatives should test for:

- In which year will PA/U reach break even, including overhead payment to PA in Nairobi (starting point: Sept 1998).
- If reaching break even at planned schedule: How much is the cost reductions needed in percent of expected costs projected.
- If reaching break even at planned schedule: What is the increased interest rate needed from borrowers.

4.3 Some conclusions

The planned growth in order to reach self sustainability appears to be too optimistic and projections do not allow any slack in any factor influencing future earnings and costs. The most doubtful assumptions seems to be the projected growth in the graduation of clients (average outstanding loan portfolio per client, and the average LIF balance per client). The projected transformation to a bank does not allow any slack either.

Based on performance to present, and the comparison with development in P/TZ, PA/U will no doubt reach self sustainability within a short period of time (compared to other MFIs) if nothing exceptional happens.

Most probably, it will take 3-4 years rather than 2 years. Accordingly, PA/U should work out an alternative plan preparing donors for a longer period needed to reach self sustainability.

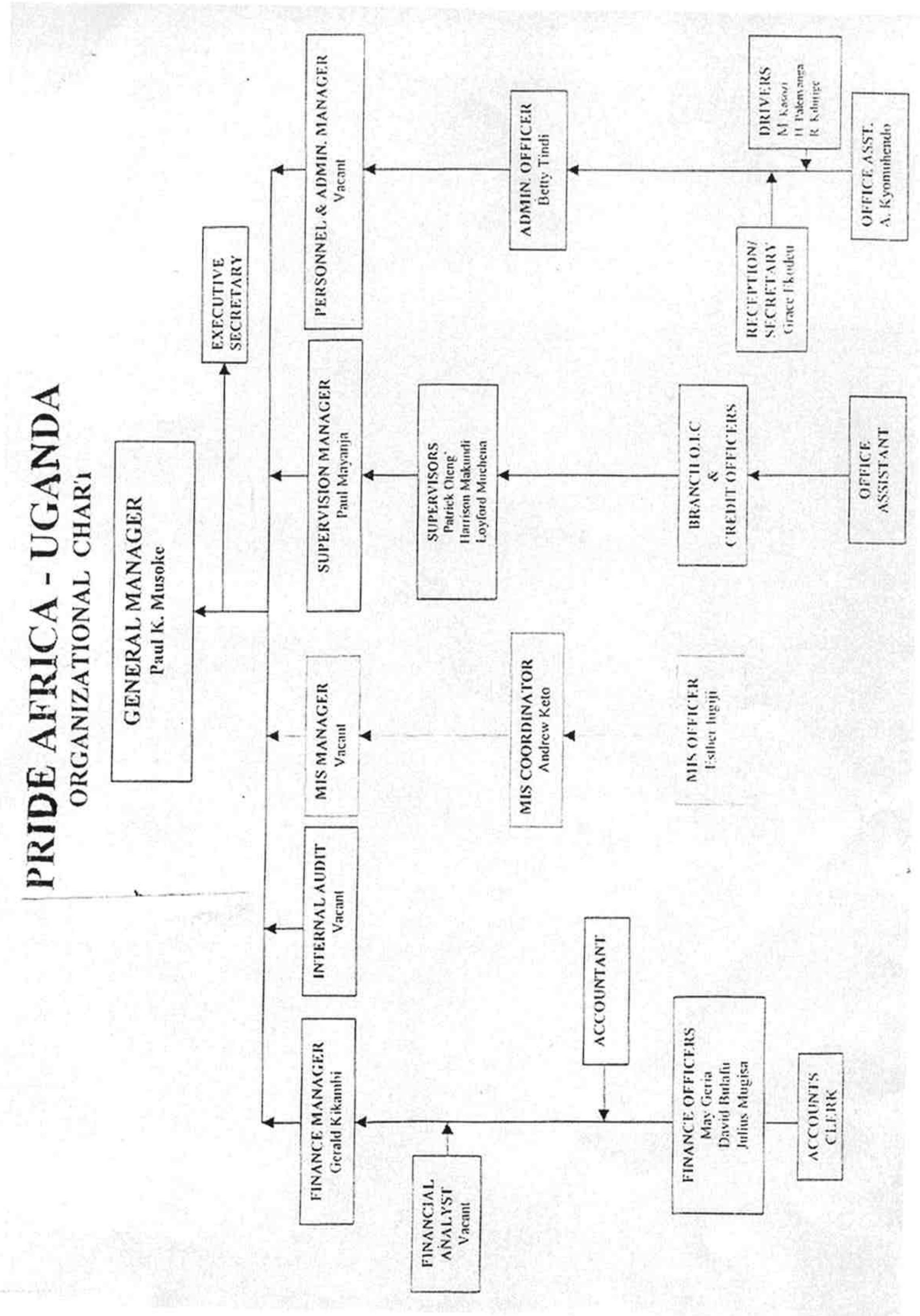
Appendix 1: List of persons and institutions met

Mr. Aleke Dondo, General Manager	K-REP, Nairobi
Mr Muli Musinga, Manager Consultancy Services	K-REP, Nairobi
Mr Huge Scott, Enterprise Development Co-ordinator, East Africa	DFID, Nairobi
Mr Jonathan Campaigne, Executive Director	Pride Africa, Nairobi
Ms Jenny Panow, Director of Finance Dept	Pride Africa, Nairobi
Mr Eldad John Basaza-Mpyisi, Director and member of the Board of directors	Pride Africa Uganda, Kampala
Mr Paul K. Musoke, General Manager	Pride Africa Uganda, Kampala
Mr Paul Mayanja Nviiri, Supervision Manager	Pride Africa Uganda, Kampala
Mr Gerald Kikambi, Finance Manager	Pride Africa Uganda, Kampala
Mr Patrick L.P. Oteng, Senior Supervisor	Pride Africa Uganda, Kampala
Mr Wiebe van Rij, advisor, The Micro & Small Enterprises Development Policy Unit	Ministry of Planning and Economic Development, Kampala
Mrs M.C. Muduudi, PS/Secretary to the Treasury	Ministry of Planning and Economic Development, Kampala
Ms Clare Wavamunno, Supervision Function	Bank of Uganda, Kampala
Mr Cyprian O. Mwa, Director Commercial Banking	Bank of Uganda, Kampala
Mr. J.M. Opolot, Permanent Secretary	Ministry of Gender and Community Development, Kampala
Mr A. Ojja-Andira	Ministry of Gender and Community Development, Kampala
Ms Anne Ritchie, Director Center for Micrenterprise Finance	Presto, Kampala

Mr Michale Wong, Senior Economist	Austrian Regional Bureau of Development Co-operation (ARB), Kampala
Mr Nikita Stampa, Technical Advisor in Charge of Projects Management and Cost	EU/EDF Microprojects Programme, Kampala
Dr Willibrord Okecho, Chief Manager, Supervision Division	Centenary Rural Development Bank Ltd (CERUDEB), Kampala
Mr Peter Okaulo, Co-ordinator	Finca, Kampala
Mr Robert J. Ekongot, Programme Co-ordinator, Governance Advocacy & Poverty Elimination	Deniva (Development Network of Indigenous Voluntary Associations), Kampala

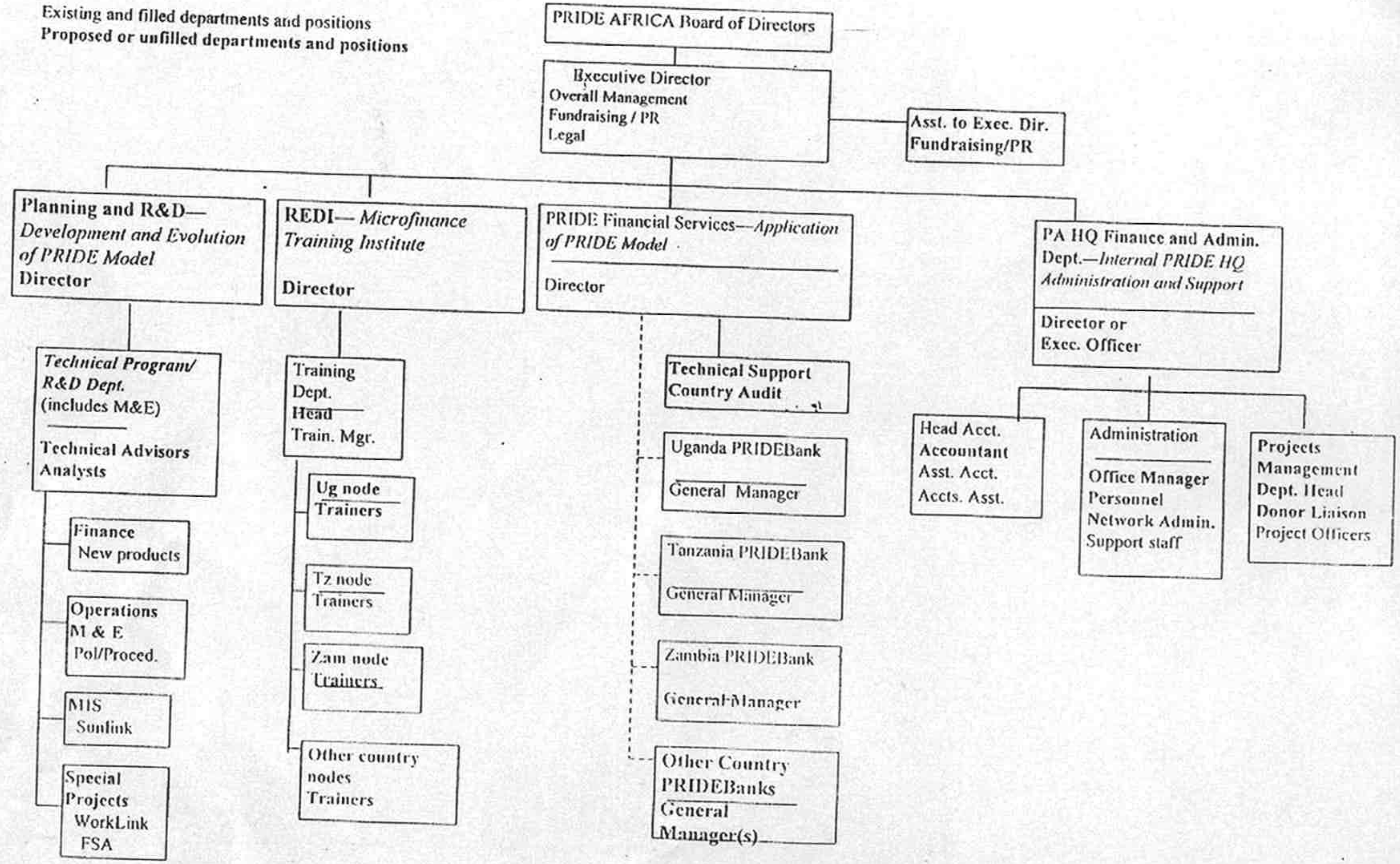
In addition, the PA/U branches in Jinja, Mukono and Natete was visited. Discussions were held with branch mangers/credit officers /assistant and some clients.

Appendix 2: Organisational chart PA and PA/U



3.3 *PRIDE AFRICA Evolution Organizational Chart*

Existing and filled departments and positions
Proposed or unfilled departments and positions



Appendix 3: Income statement and balance sheet (1996-98), shadow prices and adjustments

Income statement (1996-1998):[1]

	Des.96	Des.97	June 1998
OPERATING INCOME			
1. Interest and fee income from loans	8 465 000	99 191 000	206 444 000
2. Income from other finance-related services			
3. Income from investments	1 703 000	16 502 000	3 259 000
4. Total Operating Income	10 168 000	115 693 000	209 703 000
OPERATING EXPENSES			
5. Interest and fee expense	2 353 000	10 412 000	14 093 000
a. commercial loans		-	-
6. Loan loss provision expense		6 720 000	18 558 000
7. Personnel expense	86 351 000	370 479 000	370 058 000
8. Other administrative expenses	125 289 000	303 774 000	279 219 000
a. rent	12 228 000	47 723 000	52 787 000
b. office materials and supplies	8471000	29 827 000	22 585 000
c. transportation and travel	36 566 000	59 014 000	32 938 000
d. utilities	16 485 000	4 410 000	19 770 000
e. postage and delivery	2 180 000	19 021 000	2 211 000
f. staff training	23 949 000	71 374 000	88 705 000
g. repairs and maintenance	10 551 000	17 797 000	12 554 000

1 Income statement and balance sheet in nominal Uganda shillings. Due to the consultant´s lack of brain capacity, statements were presented in "Pride dollars" (based on PA/U´s own conversion rate). For 1996 And 1998, figures were able to convert directly to shillings. For 1997, an average year dollar value was used, whereas PA/U used a monthly conversion rate. This has most probably created some inaccuracies.

	Des.96	Des.97	June 1998
h. fees	1 500 000	20 698 000	8 763 000
i. depreciation	11 776 000	24 163 000	25 569 000
j. vehicle running expence	1 583 000	9 747 000	13 337 000
9. Total Operating Expenses	213 993 000	691 385 000	681 928 000
10. NET OPERATING PROFIT (LOSS)	(203 825 000)	(575 692 000)	(472 225 000)
NON-OPERATIONAL INCOME			
11. Cash donations	321 028 000	754 769 000	764 543 000
12. Other non-operational income			
13. Total Non-Operational Income	321 028 000	754 769 000	764 543 000
14. Total Non-Operational Expenses			
15. *TOTAL CONSOLIDATED PROFIT/LOSS*	117 203 000	179 077 000	292 318 000

Balance sheet (1996-1998):

	Des.96	Des.97	June 98
ASSETS			
15. Cash and due from banks	170 596 000	595 773 000	374 368 000
16. Reserves in central bank			
17. Short-term investments in market instruments			
18. Total loan portfolio	23 914 000	333 935 000	868 349 000
19. (Loan loss reserve)		6 720 000	18 558 000
20. Other short-term assets	15 409 000	269 749 000	317 701 000
21. Long-term investments			
22. Fixed assets	47 436 000	115 572 000	187 359 000
23. TOTAL ASSETS	257 355 000	1 321 749 000	1 766 335 000

	Des.96	Des.97	June 98
LIABILITIES			
24. Savings Accounts: forced	19 037 000	204 208 000	540 063 000
25. Savings Accounts: voluntary			
26. Time deposits			
27. Loans: commercial banks			
28. Loans: Central Bank			
29. Loans: subsidized	20 000 000	200 892 000	243 977 000
30. Other short-term liabilities	187 573 000	706 135 000	455 268 000
31. Other long-term liabilities			
32. TOTAL LIABILITIES	226 610 000	1 111 235 000	1 239 308 000
EQUITY			
33. Paid-in equity from shareholders			
34. Donated equity -- prior years, cummulative		328 251 000	1 207 474 000
35. Donated equity -- current year	321 028 000	754 769 000	764 543 000
36. Prior year's retained earnings/losses	(86 458 000)	(296 814 000)	(972 768 000)
37. Current year retained earnings/loss	(203 825 000)	(575 692 000)	(472 222 000)
38. Other capital accounts			
39. TOTAL EQUITY	30 745 000	210 514 000	527 027 000
40. TOTAL LIABILITIES AND EQUITY	257 355 000	1 321 749 000	1 766 335 000

Shadow prices:

	Des.96	Des.97	June 98
Inflation rate	7,6%	8,2%	6,3%
GDP deflator	n.a.	n.a.	n.a.
90-day Certificate of Deposit rate*	7,60 %	8,20 %	6,30 %
Prime rate paid by blue-chip commercial bank borrowers	20,80 %	21,40 %	21,30 %
Marginal rate to institution**	8 %	13 %	13 %
Exchange rate	1 045,25	1 083,00	1 148,07
Per capita GDP in local currency[2]	307 209	322 994	341 344

*): Inflation rate is used due to lack of alternative data

**): EDF interest on PA/U loans

Averages (in shs)

	Des.96	Des.97	June 98
Outstanding Portfolio	11 957 000,00	178 924 500	601 142 000
Outstanding Net Portfolio	11 957 000,00	182 284 500	613 781 000
Fixed Assets	23 718 000	81 504 000	151 465 500
Total Assets	128 677 500	789 552 000	1 544 042 000
Total Earning Assets	104 959 500	708 048 000	1 392 576 500
Subsidized Loans	10 000 000	110 446 000	222 434 500
Funding Liabilities	19 518 500	222 068 500	594 570 000
Equity	15 372 500	120 629 500	368 770 500
Fixed assets and equity are straight year over year averages			
Adjustment factor	1,000	1,000	1

Adjustments:

	Des.96	Des.97	June 98
1. Unadjusted Operating Expenses	213 993 000	691 385 000	681 928 000
2. Inflation Adjustment			
a. Average Equity	15 372 500	120 629 500	368 770 500
b. Average Fixed Assets	23 718 000	81 504 000	151 465 500
c. inflation*(avg. equity - avg. fixed assets)	-	3 208 291	13 690 215
3. Subsidised Cost of Funds Adjustment			
Method A (note a)			
a. average funding liabilities	19 518 500	222 068 500	594 570 000
b. opp. cost of funds*avg funding liabilities	1 502 925	29 424 076	78 780 525
c. b. - actual cost of funds	(850 076)	19 012 076	64 687 525
Method B			
a. average subsidised loans*opp. cost of funds	770 000	14 634 095	29 472 571
b. a. - actual cost of funds on subs. loans			
4. In-kind Donation Adjustment			
a. personnel			
b. other			
5. Adjusted Operating Expenses	213 142 925	713 605 367	760 305 740
6. Adjusted Operating Profit (Loss)	(202 974 925)	(597 912 367)	(550 602 740)