

# MINISTRY OF FINANCE, PLANNING AND ECONOMIC DEVELOPMENT

# LAUNCHING OF THE UGANDA MICROFINANCE REGULATORY AUTHORITY (UMRA)

**M**icrofinance is often defined as financial services for poor and low-income clients offered by different types of service providers. The term is often used more narrowly to refer to loans and other services from providers that identify themselves as “microfinance institutions” (MFIs). These institutions commonly tend to use new methods developed over the last 30 years to deliver very small loans to unsalaried borrowers, taking little or no collateral. These methods include group lending and liability, pre-loan savings requirements, gradually increasing loan sizes, and an implicit guarantee of ready access to future loans if present loans are repaid fully and promptly.

From a global perspective, microfinance organizations envision a world in which low-income households have permanent access to a range of high quality and affordable financial services offered by a range of retail providers to finance income-producing activities, build assets, stabilize consumption, and protect against risks. The regulation and supervision of microfinance business by Bank of Uganda covers Tiers 1,2,3. The tiered approach gives room for smaller MFIs to continue to deliver their services with professionalism and grow while it enables strong MFIs to expand their services and offer diversified financial products. An overview of the overall national economic performance, financial sector dynamics and the regulatory environment provide a vital context for understanding the state and performance of the microfinance industry.

Barriers mainly relate to difficulty in accessing service points, illiteracy, extreme poverty (causing self exclusion), high costs, unsuitability of some product features and lack of financial awareness. Within about 20 years, Uganda’s microfinance industry has grown from an insignificant sideline to a key sub sector in the economy.

Adaptation of international sound practices and stakeholder cohesion have mutually reinforced each other to accelerate industry growth. This has been championed by AMFIU and other industry stakeholders. Microfinance retailers in Uganda currently range from commercial banks.

The Association of Microfinance Institutions of Uganda (AMFIU) is an umbrella organisation of microfinance institutions (MFIs) in Uganda. AMFIU was founded in November 1996, through the collaboration of several organisations with interest in microfinance. The main reasons for its establishment were the felt need for MFIs to have a common voice; to lobby government for favourable policies; to share information and experiences; and to link up and network with both local and international actors.

AMFIU is a member-founded and member-owned institution. Membership as of December 2016 stands at 117 members. This includes 92 ordinary members (MFIs) and 25 associate members (Other institutions and individuals supporting micro finance activities). While the challenge of modest outreach, limited product variety and high pricing/ costs remain, the microfinance industry continues to facilitate access to financial services for the low income people in a significant way. The MDI Act, the first law enacted specifically for microfinance, is now facing a critical test as MDIs aspire to upgrade to commercial banks and the mature Tier 4 institutions display profound reluctance to apply for an MDI license – mainly due to the perception that while MDIs are not much riskier but MDIs are over regulated and unduly restricted from some gainful businesses streams.

The outcomes of these aspects will in a few years inform microfinance regulation internationally. Government, recognizing microfinance as a suitable engine of growth through provision of financial services to the poor, has in the past come up with different initiatives which have had varying degrees of failure. The success of the latest Government MF initiative, the redesigned RFSP (based on one government aided SACCO per sub county), still remains to be seen as the program is only just rolling out. Which ever way this will turn out, it may to some extent negatively affect MFI operations but the industry is sufficiently mature and dynamic to withstand any undesirable side effects.

Among the positive impacts of microfinance have been positive influence of government policy, improvements in household income, family access to better healthcare and insurance, promotion of social cohesion in the communities, contribution to improved literacy, access to financial services for the economically active poor and promotion of gender equity through women empowerment. Among the challenges are low rural outreach, high product costing, low financial literacy among the poor, limited product range, modest management information systems, inadequate supply of technical skills, imprudent behaviour by non-regulated Tier 4 institutions and Government’s recent moves towards directed credit delivery through SACCOs in sub counties.

### BRIEF ON THE TIER 4 MICRO FINANCE INSTITUTIONS AND MONEY LENDERS ACT, 2016 AND THE ESTABLISHMENT OF UGANDA MICROFINANCE REGULATORY AUTHORITY, UMRA.

The Tier 4 Microfinance Institutions and Moneylenders Act, 2016 is now effective. The Act which establishes the Uganda Microfinance Regulatory Authority (UMRA) also provides for the licensing/registration and regulation of all Tier 4 micro finance institutions (MFIs) including Savings and Credit Cooperative Societies (SACCOs), Non Deposit-Taking MFIs, Financial NGOs, and Self Help Groups (SHGs); the licensing, management and control of money lending business. The Act also repeals the Money Lenders Act, Cap. 273.

A Roadmap for implementation of the Act was subsequently approved and some of the key preparatory activities identified to operationalize the Act have been done and include; Drafting of the Tier 4 Regulations; setting up UMRA (Board and Interim management); and Conducting sensitization activities.

You may recall that the Microfinance and Money lending Business in Uganda has been operating without a clear legal and regulatory framework. The moneylenders would get their licenses from court under the money lenders Act Cap. 273. The absence of the legal and regulatory framework left the micro finance business to self-regulation, a system that is highly abused by the selfish lenders and borrowers. The recent events in the micro finance and money lending business left the borrowers in a vulnerable situation due to the ignorance of borrowers of their rights and the highest level exploitation by the lenders.

A particular concern of the Government of Uganda has been to address the issue of regulation and supervision of the Tier 4 Microfinance institutions MFIs and SACCOs, which mobilize savings from their members. To this effect, the Government has put in place an effective legal framework that holistically governs the different forms of institutions providing microfinance services within the Tier 4 microfinance sector and Moneylending business in order to protect the savings of the public and ensure stability of the financial sector.

A further key provision of the Act is the establishment of the Uganda Microfinance Regulatory Authority (UMRA), a semi-autonomous body with the mandate to license, regulate and supervise Tier 4 MFIs and Moneylenders. UMRA will form a critical component of the new institutional framework for the Tier 4 Microfinance Institutions and Moneylenders operations in the Uganda, including a consistent approach to licensing, supervision and regulation. The government’s objective in putting forward the new legislation is to establish a sound, consistent financial development framework for promotion of financial inclusion through well-regulated financial institutions offering different types of services to a wide range of the population.

### Objectives of the Act

The Act in particular ; to provide for the licensing and management of tier 4 microfinance institutions; to provide for management and control of money lending business; to establish the SACCO Stabilization Fund; to establish a SACCO Savings Protection Scheme; to provide for a Central Financing Facility; to provide for licensing of money lenders; to provide for self-help groups and commodity microfinance; to provide for receivership and liquidation of a tier 4 microfinance institution; to repeal the Money Lenders Act, Cap. 273 and for related matters.

### The purpose of this Act is to regulate Tier 4 Microfinance institutions and money lenders by;

- Facilitating the microfinance industry to promote social and economic development;
- Promoting legitimacy and building the confidence of members, customers and investors in the microfinance business;
- Establishing prudential standards for microfinance institutions in order to safeguard the deposits of members, prevent financial system instability of the funds of depositors and ensure stability of the financial system;
- Applying non-prudential standards to tier 4 microfinance institutions
- Providing a framework for the management and control of Money lending business.
- Progress made in the implementation of the Act

The implementation of the Act is making a steady progress

- The law became effective on July 1, 2017.
- The Board of UMRA was appointed and today we witness the inauguration.
- The office of UMRA established to provide a home for the Tier 4 Institutions.
- The Regulation will soon be gazette to guide the operationalization and implementation of the Act
- Dissemination and sensitization of the Act and regulations to the public are ongoing and will cover the entire country.
- A number of stakeholders have made contribution to this development. The Ministry of Finance Planning and Economic Development appreciates the effort of all the partners who have made the contributed to the development of the Microfinance industry in this country. This sector is very dynamic in nature and its success requires a multi-sectoral all inclusive approach.
- This therefore , calls on all the stakeholders to work together for the smooth implementation of the Tier 4 legislation with emphasis on deepening financial inclusion in the country.



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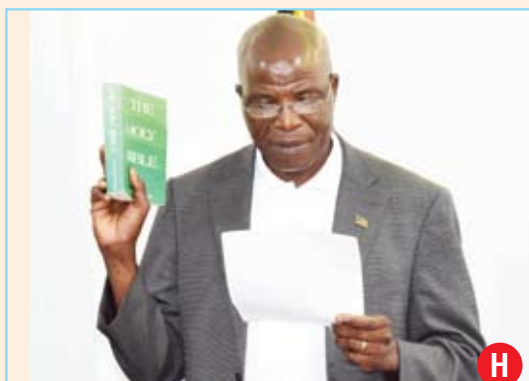
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- B** Board members sitted inside the board room just before the commencement of function
- C** Mrs. Jackline Mbabazi the chairperson of the Board of UMRA take official oath during the board inauguration
- D** Mrs Okello Joyce Board member Representing Bank of Uganda takes oath
- E** Mr Bob bariyo Barigye Board member Representing Ministry of Trade and Cooperatives on UMRA board takes official oath
- F** Mr. Olenyi Charles board member representing The Public on UMRA board takes official oath
- G** Mrs . Kibaaju Naome Board member respresentation The Public on UMRA Board takes official oath
- H** Mr. Avu Elly Biliku The Interim Executive Director Takes official Oath

**A** Minister of State for Finance Planning and Economic Development Hon Haruna Kasolo Kyeyune with the group photo with all the invited guest during the inauguration of the Board and launch of Uganda Microfinanxce Regulatory Authority UMRA offices at rwenzori Towers Block A Ground floor





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**I** Honorable Minister with the Board members of UMRA shortly after the Inauguration and launch of Office at Rwenzori Towers

**J** Honorable minister shares moments with the group of development partners and other stakeholders immediately after the inauguration

**K** Honorable Minister with the interim staff of UMRA and commissioner Financial services department

**L** Honorable Minister expressing government position during inauguration of Board of UMRA while Commissioner John Byaruhanga and Board members Mr Charles Olenyi look on

**M** Photo of UMRA Board left to Right Avu Ely Biliku Interim Executive Director, Mrs Joyce Okello, Mr Charles Olenyi, Mr Ndyababo Richard Kirungi, Mr Bob Barigye Bariyo, Mrs Jackline Mbabazi Chairperson of The UMRA Board, Mrs Naome Kibaaju

**N** Minister shares moments with the Country Director IFAD while the Mrs Matanda Dorothy from World Bank looks on after the function

**O** Minister with the senior staff interim staff of UMRA L-R Mr Mutatina Nelson, John Byaruhanga -Commissioner Financial Services, Hon minister Haruna Kasolo Kyeyune, Mr Nyakoojo James manager Licencing, Mr Avu Ely Biliku Interim Executive Director

**P** Minister shares light moments with other guests shortly after the function