CLOSING STATEMENT BY GOVERNOR AT THE 2ND ANNUAL GENERAL MEETING OF THE AFRICAN MICROFINANCE NETWORK ON 19TH JULY 2002 AT THE NILE HOTEL

The Board and Members of the African Microfinance Network,
Representatives from Women's World Banking, GTZ, UNDP,
Donor Community and International Development Organizations,
The Managing Director, Association of Microfinance Institutions in Uganda,
Ladies and Gentlemen

I am happy to be here to close the second annual general meeting of the African Microfinance Network (AFMIN). Bank of Uganda commends the efforts made by the members and Board of Directors of AFMIN to organize a successful second annual general meeting in our country. The event has provided an invaluable opportunity for the Association of Microfinance Institutions in Uganda (AMFIU) to share experience with national networks of African microfinance from Benin, Ethiopia, Gambia, Ghana, Guinea, Ivory Cost, Kenya, Mali, Nigeria, South Africa and Togo.

I understand that during the discussions, members were able to take stock of achievements and challenges in building a strong and professional microfinance industry.

Participants have been actively involved in the discussions on international best practice microfinance business. The main objective of following the best practice is to strengthen performance and increase outreach of the Microfinance Institutions. (MFI's)

As you may have already been told, in Uganda there are over 500MFI's and they have mobilized savings amounting to over shs65billion and with a total credit portfolio of shs53billion. These MFI's among others include community based organizations and NGO's. Although the number of MFI's appears large especially in a small country like Uganda, there is still unmet demand for flexible, market responsive and sustainable financial services in the rural areas.

While Government of Uganda has divested itself from direct financing of borrowers, there is still need through the Ministry of Finance Planning and Economic Development and other stakeholders to develop an enabling environment for microfinance institutions including an appropriate regulatory framework for MFIs that shall take deposits from the public.

In July 1999 Government approved Bank of Uganda policy on Microfinance regulation. The structure of Microfinance business in Uganda was developed under a four tier system as follows:

Tier	1	-	Commercial Banks
Tier	2	-	Credit Institutions
Tier	3	-	Micro deposit taking institutions accessing public deposits and intermediating these deposits.
Tier	4	-	Member based Microfinance institutions, not taking deposits from the public.

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. While tiers 1 and 2 are governed under the Financial Institutions Statute 1993, tier 3 will be covered under a new law. The draft law titled the Micro Deposit taking Institutions Bill 2002 has been presented to parliament for consideration. Bank of Uganda extends its sincere appreciation to GTZ/Financial Sector Development Programme for the technical and financial support in the development of the MDI Bill.

Tier 4 institutions shall continue to do business as per registration under the NGO statute or other appropriate law in force.

I believe that there are two key challenges facing the microfinance industry in Uganda, namely Good corporate governance and expanding the outreach of micro-finance.

Good corporate governance builds confidence in the market and encourages stable and sustainable investment flows. Some MFIs mobilize savings from their members. However, savers in these MFIs have little opportunity to monitor the safety of their funds. Consequently to assure the savers that their money is safe there is need to have in place a mechanism that can engender the confidence of savers. The participants have already discussed the issue of corporate governance at length and the preconditions which have to be established for good corporate governance. Inspite of the above, it is noteworthy that an appropriate code of conduct should be established by MFI's or their associations to protect savers.

Bank of Uganda has instituted measures to strengthen corporate governance in licensed financial institutions by vetting all members of the Board of Directors and executive officers under the "fit and proper test" prior to assuming offices. In addition, if a board member or executive officer breaches any fiduciary responsibilities, BOU reserves the right to take corrective actions.

Consequently, there is a continuous burden of accountability and transparency that is placed on board members and executive officers throughout their term of office.

With regard to outreach, I have already mentioned that there is a large unmet demand for financial services in rural areas. When one looks at the branch network of banks and credit institutions in Uganda you will note that they are located mainly in urban areas.

MFI's have considerably contributed to outreach in rural areas. But microfinance alone may not be enough to close the gaps in rural financial markets that relate to the scarce provisions of medium and long term finance. To close this gap a comprehensive market based policy needs to be developed in liaison with all the stakeholders so that a solution to medium and long term finance provision is comprehensively met.

I would like to commend the AFMIN efforts in building a strong and professional Microfinance industry in Africa. I am sure that participants have shared cross country experiences and best practices which they will take to their home countries.

With the above concluding remarks, I therefore declare the AFMIN second annual general meeting closed.

KAMPALA
19 July 2002