

FREQUENTLY ASKED QUESTIONS (FAQS) ABOUT THE TIER 4 MICROFINANCE AND MONEYLENDERS ACT, 2016 PROJECT FOR FINANCIAL INCLUSION IN RURAL AREAS



1. What's the main Government's objective of putting in place the Tier 4 Microfinance Institutions and Moneylenders Act, 2016?

The government's main objective of putting forward the Tier 4 legislation is to establish a sound, consistent financial development framework for promotion of financial inclusion through well-regulated Tier 4 Microfinance Institutions and Moneylenders offering different types of services to a wide range of the population.

Its an Act to establish the Uganda Microfinance Regulatory Authority; 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.

2. What major key roles will the Uganda Microfinance Regulatory Authority (UMRA) play in the development of the sectors prescribed in the Act?

The Act provides for the establishment of UMRA whose key roles will be to provide a framework for licensing, regulation and supervision of the Tier 4 Microfinance Institutions (MFIs) and Moneylenders.

3. Will the authority be fully independent?

The Authority shall be fully independent in the performance of its functions and shall not be subject to the direction, instruction or control of any person or authority.

4. Will the authority have a Board and how is its composition?

The Authority shall have a Board which shall be the governing body of the Authority, and shall comprise of seven members appointed by the Minister.

5. Composition of the Board. The members of the Board are :

- (a) A representative of the Bank of Uganda;
- (b) A representative of the ministry responsible for finance;
- (c) A representative of the ministry responsible for cooperatives;
- (d) Three persons with experience in microfinance; and
- (e) The Executive Director of the Authority, who shall be an ex officio member.

6. Who will be the Board Chairperson?

The Minister shall appoint a Chairperson from among the members of the Board.

7. When will the act be commenced?.

This Act shall come into force on a date appointed by the Minister by statutory instrument.

8. To whom does the act apply?

This Act applies to;

- (a) tier 4 microfinance institutions classified into; SACCOs, Non deposit taking microfinance institutions, self help groups (popularly known as Community ased microfinance institutions) and
- (b) money lenders..

9. What is the main Purpose of the Act?

The purpose of this Act is to regulate tier 4 microfinance institutions and money lenders by;

- (a) facilitating the industry of microfinance and moneylenders to promote social and economic development;
- (b) promoting legitimacy and building the confidence of members, customers and investors in the microfinance and moneylenders business;
- (c) establishing prudential standards for in order to safeguard the deposits of members, prevent financial system instability of the funds of depositors and ensure stability of the financial system;
- (d) applying non-prudential standards to tier 4 microfinance institutions by;
 - (i) establishing default and client protection mechanisms;
 - (ii) enforcing compliance with generally accepted accounting practices; and
 - (iii) instituting mechanisms for the prevention of fraud and financial crimes; and
- (i) providing a framework for the management and control of money lending business.

LICENSING

10. Will the authority licence all Tier 4 Microfinance institutions and Moneylenders?

All institutions prescribed in the act shall apply to the authority for a licence for operations. All licensed Tier 4 Microfinance Institutions and Moneylenders shall be required to apply for renewal of a licence at least ninety (90) days before the expiry of its operating license in respect of its head office and any other place of business. The expiry date for all licence will be 31st December.

11. Having been granted a license mid –year (e.g 2017), can a Tier 4 Microfinance Institution and Moneylender continue using that license in the following year (e.g 2018)?

No. A licence issued by the authority shall unless revoked be valid up to the 31st December, of the year in which it is issued and may on expiry be renewed.

12. What happens to a Tier 4 Microfinance Institution and Moneylender that applies and does not meet licensing requirements?

Upon application for a licence, Tier 4 Microfinance Institutions and Moneylenders are advised accordingly on a case by case basis on the areas of non compliance and are expected to provide details on how they intend to comply.

13. Will the Authority (UMRA) give a transition period to Tier 4 Microfinance Institution and Moneylenders that have applied for a licence for them to fully comply?

Yes. The transition period of 12 months shall be given to all Tier 4 Microfinance Institution and Moneylendersto prepare themselves for full regulatory compliance.

FINANCIAL PERFORMANCE REPORTING

14. Will the Tier 4 Microfinance Institution and Moneylenders be required to submit Formal Financial Statements to the authority and how often?

The returns requested are not different from the regular management reports required by the Sacco for the month to month performance monitoring. However, its a prequite that all institutions shall submit mandatory reports that will be prescribed by the authority.

15. Is there an approved system or list of software vendors by the Authority (UMRA)?

No. Maintaining or approving the list of software vendors is outside the mandate of the Authority (UMRA) as per the law and the above is entirely a management issue for the Tier 4 Microfinance Institution and Moneylenders. In sourcing

for the software, the Tier 4 Microfinance Institution and Moneylenders should consider the minimum requirement as prescribed by the authority.

16. When or how soon can a Tier 4 Microfinance Institution and Moneylenders start submitting the regulatory returns after licensing?

By the 15th day of the month after the month of licensing or as may be required by the authority.

GOVERNANCE- SACCOs

17. How should a Sacco constitute the Board committees given the skills requirement for compliance?

The Board of directors shall establish such number of board committees as may be necessary to effectively discharge its function, it is imperative that such committees are aligned to the key functional units in the Sacco. Board committees are established to provide expertise attention and oversight to the respective operational units. This provides an effective link between the Board of directors and the management team. Thus the committee constituted should be cost effective and efficient without overlap.

18. Why should the chairman of a Sacco not be a member of the Audit committee as prescribed by the model by-laws?

The Audit committee shall consist of not more than three members appointed from the board, one of whom shall be conversant with financial and accounting matters; Provided that the chairman of the Board of directors shall not be eligible to be appointed as a member of the Audit committee.

The responsibilities of the audit committee stipulated in the Regulations and require a high degree of independence and therefore this degree of independence and impartiality should be maintained by ensuring that as the Audit committee presents its findings to the board, the deliberations thereof are unbiased and neutral to the Audit committees findings. The Chairman can only remain neutral when s/he did not participate at the Committee stage.

19. How many times in a year should the supervisory and other committees meet?

The committees and Supervisory committee meetings, depends entirely on the activities and budget of the SACCO and are to be convened or done on a need basis.

FREQUENTLY ASKED QUESTIONS ABOUT SACCOs

PROJECT FOR FINANCIAL INCLUSION IN RURAL AREAS



Today SACCOs serve more than 1 Million Ugandans around the country. Even if you're already a SACCO member, you may not understand how SACCOs differ from financial institutions like banks. This "frequently asked question" series can help answer your questions.

What is a SACCO?

A Savings and Credit Cooperative Society (SACCO) is a cooperative financial institution, owned and controlled by its members. SACCOs typically serve groups of people who have something in common—where they live, work, or attend church, for example. Becoming a member of a SACCO carries power because SACCOs are not-for-profit, and exist to provide members with a place to save money and get loans at reasonable rates.

Why form/Join SACCOs?

The SACCO movement grew out of an idea that people could work together to create solutions to meet their financial needs. SACCOs are created to enable people to pool their financial resources to help themselves and each other.

What is the SACCO Philosophy?

The Philosophy of SACCOs is that, they are "not for profit, not for charity, but for service," SACCOs must always continue to look out for their members' interests and provide a level of service that generally is not available at other financial institutions. Whether it's providing a loan to help a member cover unexpected medical bills, giving financial counseling to a member whose employer closed its doors, or simply offering a better deal on a used-car loan or mortgage, SACCOs make a difference for their members and the communities they serve. In 1984, the World Council of Credit Unions approved the nine International Credit Union Operating Principles that remain the cornerstone of the SACCO movement. They are:

- Open and voluntary membership
- Democratic control
- Nondiscrimination
- Service to members
- Distribution to members
- Building financial stability
- Ongoing education
- Cooperation among cooperatives
- Social responsibility

These principles are founded in the philosophy of cooperation and its central values of equality, equity, and mutual self-help. They express, around the world, the principles of human development and the brotherhood of man through people working together to achieve a better life for themselves and their communities.

What makes a SACCO different from a bank?

Like banks, SACCOs accept deposits and make loans—but unlike banks, SACCOs are not in business to make a profit. Banks exist to make money for their stockholders, not for their depositors. SACCOs exist solely to serve their member-owners, and benefits are returned in lower loan rates and higher deposit rates. SACCOs are the only democratically controlled financial institutions. Members elect a volunteer board of qualified individuals to oversee the SACCO and the Manager reports to this board. SACCOs are focused on people, not profits. Active members who use many SACCO services often see even greater benefits.

What Is The Difference Between A SACCO And A Community Savings And Credit Group?

SACCO is a formal institution required to register before commencement of business. A group on the other hand is an informal institution which can operate with or without registration as long as it has a constitution to follow.

How is the SACCO Registered?

SACCOs according to the Cooperative Act cap 112 are registered by the Registrar of Cooperatives in the Ministry of Trade Industry and Cooperatives at Farmers House, Parliamentary Avenue in Kampala. At the district level, the registrar is represented by the District Commercial Officer you can work with to register your SACCO.

What Do I Require To Register A SACCO?

The statutory minimum number of members required to register a SACCO is 30 people. However, the more the members, the better for the viability of the SACCO

All the 30 members must be fully paid up at the time of Registration and the application to the Registrar of Cooperatives must attach copies of their National Identity Cards.

On the application include, schedules for entrance fees paid, Shares, Savings and Loans depending on the category of the group to be registered.

Provide a set of four model cooperative bye-laws duly filled by the society officials and duly signed by at least 30 fully paid up members of the group intending to register as a cooperative.

Obtain the following set of four bye laws:

- Savings and Credit Society's bye laws
- Multipurpose bye laws
- A recommendation letter from the District Commercial Officer of your area of operation, for purposes of registration and compile financial statements of the society.
- Buy a copy of the Cooperative societies act, cap 112 and the Cooperative Regulations 1992 for reference in management of the registered Cooperative society.
- Provide passport photographs of the respective leaders to handle society's bank accounts and transactions.
- Pay the required registration fee.

Why should I join a SACCO?

1. SACCOs are focused on people/members, not just profits. SACCOs operate by a "people helping people" philosophy that is hard to find at other financial institutions.
2. Financial education is available to all members. SACCOs assist members in becoming better-educated consumers of financial services.
3. SACCOs are available in places where banks typically aren't, such as Rural Sub-Counties and Parishes in very Remote Areas.
4. As a member of a SACCO, no matter how much money you have on deposit, you have an equal voice in how your SACCO is run.
5. Your SACCO can support your economic activity with a loan. And some SACCOs have established relationship with Small Business Suppliers, Agro Processors and other Partners for purposes of increasing member access to: - input supplies; markets and market information; and knowledge acquisition through Capacity Building.

How can I join a SACCO?

Interested in becoming a SACCO member? The first step is finding the right one. To join a SACCO you can live or work in a "charter area," or belong to one of its select employee groups. These tips will help you find a SACCO you can join:

- Check with your District Commercial Officer or for employees, check with your employer. Often, you'll find that you're Sub-county and or Organization has access to a SACCO.
- Ask your family and your neighbors – You will be surprised how many SACCOs are operational within your community/locality and are open to serve all those that live within that geographic area.

How does PROFIRA Support SACCOs?

PROFIRA provides Capacity Building Support to SACCOs in form of: (i) Training; (ii) Technical Assistance; and (iii) Management Information Systems (MIS). The Support is geared towards: - Members, Management and Board. PROFIRA mainly seeks to serve SACCOs that have a potential to become sustainable. In order to benefit from PROFIRA Grant Support, the SACCO must fulfill the following criteria: -

1. Be fully Registered
2. Have a functional Business Premises
3. Have an Open Bond i.e. Open to all willing members within the community
4. Should have held an Annual General Meeting (AGM) within the last One Year
5. Have a Duly Elected Board, Supervisory Committee and Staff in Place
6. Have a Minimum of at least 150 Fully Paid Up Members
7. Have a minimum Operational Self Sufficiency Ratio of 50%

How Can a SACCOs Access PROFIRA Support?

PROFIRA Support is delivered through Contracted service providers. If your SACCO meets the criteria Stipulated above, please contact your District Commercial officer (DCO) for more details regarding how to access and benefit from PROFIRA Support.

Does PROFIRA offer Loans to SACCOs?

No. As explained earlier, PROFIRA support is limited to capacity building services not offering credit. Loans and other credit services are offered by the Microfinance Support Centre