

UPDATE ON DFCU GROUP-UGANDA
(Formerly Development Finance Company of Uganda)

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This case study has been compiled by Christine Butegwa and Charlotte Kangere of Associates for Change, from an interview in September 2002 with Jennifer Kulubya.

OVERVIEW

DFCU's principal concern is to increase indigenous employment and facilitate the capitalisation and modernisation of local industry. Its target group is small to medium sized enterprises, but it has indirectly helped micro enterprises by lending to micro-finance institutions for on-lending. DFCU charges commercial rates for its loans, but its attraction over the commercial banks is that DFCU will consider higher-risk enterprises with lower collateral levels, and allow longer terms of repayment.

Under three-year DFID project funding DFCU's portfolio expanded considerably to US\$ 25+million, particularly in the leasing and banking sectors, and the expatriate manager was successfully replaced by a Ugandan with the costs of his salary being fully met from DFCU earnings. DFCU Ltd currently also obtains funds from different lines of credit. These include the European Investment Bank (EIB), KFW, and Development Finance Funds (DFF) from Bank of Uganda. DFCU has also strengthened partnerships with other development agencies, including DFID, DIB, DEG USAID, FMO and KFW.

Since July 2001, DFCU has consolidated a leading role in financing development-related projects in Uganda. DFCU now provides commercial banking, loan, equity, lease finance and mortgage finance and lets out property for the development of business in Uganda. DFCU has expanded its operations in Uganda by opening three regional leasing offices in Lira, Mbarara and Mbale districts. In addition DFCU has carried out re-structuring of the organisation for expansion, which has included increased staffing through funds from the DFID's Financial Challenge Fund.

DFCU has recently undertaken socio-economic impact assessment such as monitoring use of funds for reduction of poverty in rural areas. DFCU has expanded to the fields of health, education, and housing with the aim of supporting development of the financial sector and reduction of poverty in rural areas. In the

education sector for example, DFCU is involved in funding schools to ensure that children are educated, thus building the human resource of the country and contributing to development.

BACKGROUND

DFCU was started thirty-five years ago with four shareholders: Government of Uganda, International Finance Corporation, Commonwealth Development Group (now C D Corporation, CDC) and DEG, the German Development Agency. The aim was to provide subsidised finance for the country's economic development. The role of DFCU and its shareholders has changed over time, and DFCU is now required to provide banking and leasing facilities on a commercial basis and at market rates. Its objective remains developmental, however, so it concentrates its investments in areas of little or no interest to commercial banks.

DFID commenced support of DFCU in February 1997 with technical co-operation funds to provide expatriate management and training over three years. The objective of the funding was to develop local capacity, and enable the sustainable provision of scarce medium and long-term finance to medium scale enterprises. The project provided for three Output-to-Purpose Reviews (OPRs) and Aclain Africa Ltd was contracted to undertake these. DFID's project funding ended in 2000.

SUMMARY OF ACTIVITIES UNDER DFID PROJECT FUNDING

DFCU group achieved remarkable progress during 2001. The acquisition of DFCU Leasing, Rwenzori Properties and the consolidation of Housing Finance Company of Uganda resulted in the transformation of DFCU Limited into DFCU Group. That is, DFCU leasing, DFCU Bank, and Housing Finance Company of Uganda (HFCU).

As a commercial bank DFCU has been required to produce a profit for its shareholders, whilst still supporting ethical business principles. To achieve the latter it adopted the Ethical Business Code of Practice promoted by the Commonwealth Development Corporations (CDC), a copy of which is available from CDC's Business Principle Unit in London, and its clients are expected to adhere to this (for example: in relation to minimum wage rates, health and safety, use of child labour, number of hours worked, also to minimise the environmental impact of the business activity).

Its principle concern is to increase indigenous employment and facilitate the capitalisation and modernisation of local industry. Its target group is small to medium sized enterprises, but it has indirectly helped micro enterprises by lending to micro-finance institutions for on-lending, DFCU charges commercial rates for its loans, but its attraction over the commercial banks is that DFCU will consider high-risk enterprises with lower collateral levels, and allow longer terms of payment.

Under the DFID project funding DFCU's portfolio expanded considerably to US\$25+million, particularly in the leasing and banking sectors, and the expatriate manager was successfully replaced by a Ugandan with the costs of his salary being fully met from DFCU earnings. The company itself also expanded considerably with acquisition of several complementary banking businesses, which led to formation of the DFCU Group comprising three associated companies - DFCU Ltd, DFCU leasing Co Ltd and DFCU Bank Ltd.

DFCU has now expanded its operations in Uganda by opening three regional leasing offices in Lira, Mbarara and Mbale districts. The policy of expansion was to enable the company to participate in the extensive development opportunities in the local areas, and address some of the constraints facing the Kampala operation, including:

- The large number of SMEs located in rural areas, and the relative high cost of supervision from Kampala in comparison to the size of individual leases;
- The need to build awareness of the lease product in rural areas;
- The lack of an efficient clearing system to assist in both releasing funds and the efficient collection of rentals to upcountry clients.

In addition DFCU has carried out re-structuring of the organisation for expansion, which has included increased staffing through funds from the DFID's Financial Challenge Fund.

Since 2001, DFCU has also expanded to the health and education sectors especially in rural areas. DFCU's aim is to support development of the financial sector and contribute to the reduction of poverty in rural areas. In the education sector for example, DFCU is involved in funding schools to ensure that children are educated, thus building the human resource of the country and contributing to development.

FUTURE PLANS

After incorporating the health, and education sectors in DFCU's activities, DFCU aims at promoting development through these sectors by funding the building of schools, and increasing affordability of housing to the poor through mortgaging to enable the rural poor to achieve some basic necessities, such as good health and shelter.

APPROACH TO IMPACT ASSESSEMENT

Donor agency shareholders largely drive the socio-economic assessment of DFCU's impact through its activities since its own principle concern is performance as measured by profitability. DFCU's impact assessment is also carried out according to the method used by a particular donor funding an activity and so there is no uniform format of impact assessment. However, on the whole, DFCU's approach to impact assessment is through monitoring, internal record keeping of projects carried out (staffing, etc), and through field visits to DFCU projects to assess their impact on the development of the community.

Some of the issues looked at are:

- Does the community benefit from DFCU leasing?
- What is the significance of improved access to housing in the cases where mortgaging is done?

- Does it benefit the local Ugandan to be able to afford housing at a minimum cost?

In addition, DFCU is required to report annually to its shareholders on the number of jobs it has facilitated with its lending activities, and the performance of the small micro enterprises it has supported. Borrowers are required to report to DFCU on their performance and jobs created, firstly by estimation when they submit a loan application, and subsequently on actual achievements if they apply for further finance, and in the course of follow-up visits by loan officers and representatives of donors.

Management Information Systems (MIS) have also been adopted by DFCU to improve impact assessment. DFID funding has enabled computerisation of all the bank's operations, which has enabled it to monitor its activities to the level of a modern commercial bank.

It is hoped that DFCU's expansion into the health and education sectors will increase the use of socio-economic impact assessment through monitoring the progressive levels of poverty reduction in rural areas by activities in those sectors.

DOCUMENTS AVAILABLE FROM DFID UGANDA OFFICE

- Output to Purpose Review, December 2000, by Aclaim Africa Ltd for DFID
- DFID's OPR Summary Report / Score Card, December 2000