Micro finance sector in uganda

Finance

Introduction

Aim:

The aim of the study is to examine the effect of the adaptation of International Financial Reporting Standards (IFRS) in the MicroFinancesector in Uganda and clarify the differences on the financial statements and reports.

Objective:

The major objective of the study is to gain an extensive understanding of the Micro Finance sector in Uganda and to identify the effects caused by the implementation of IFRS in the financial statements. While analyzing the implementation of IFRS, the focus of the study is also to identify the differences in the financial statements and reports and whether it complies with IFRS.

Background Context:

Microfinance has become a diverse and growing industry. There are over thousands of institutions in Uganda providing micro finance services (check website), ranging from grass roots self-help groups to commercial banks that provide financial services to millions of microenterprises and low-income households. These MFIs receive support and services not only from donor agencies, but also from investors, lenders, network organizations, rating firms, management consulting firms, and a host of other specialized businesses.

As with any major industry, microfinance needs accepted standards by which MFIs can be measured. Common standards allow for microfinance managers and board members to assess more accurately how their institution is performing. Institutions that apply industry standards are more transparent—it makes it harder to hide or obscure bad performance and easier to benchmark good performance. For MFIs, industry-wide standards can make reporting to donors, lenders, and investors easier to do if the recipients of the reports are also in agreement with the standards (pwc paper). Common standards provide the language that enables MFIs to communicate with other participants in the industry.

The history of microfinance is often associated with the rise of nongovernmental organizations (NGOs) providing microcredit services to the poor and the development of a handful of microfinance banks. In the early 1990s, standards began to emerge calling for stronger financial management of microcredit providers, particularly in their delinquency management and reporting. At the same time, credit unions and banks involved in micro lending developed stronger monitoring techniques for their microcredit portfolios.

Since 1990, MFIs have grown in size, type, number, and complexity (BoU report). At the same time, more emphasis has been placed on financialaccountability, management, and viability.

However, many financial terms and indicators considered “ standard” continue to differ in name and content among MFIs. This leads to confusion among practitioners and analysts and causes considerable distortions when comparing MFIs (SEEP report). The purpose of this study is to understand these distortions and confusions in the financial statements and reports and the effect of IFRS on it (rephrase it as a question).

Literature Review: (micro finance study…types of studies conducted)

Uganda at a Glance:

Uganda occupies an area of 236, 040 km2 in the heart of East Africa, with a total of over 25. 3 million people as per 2003 population census. Approximately 94 percent of the poor live in rural areas where about 75 percent of the population lives (CGAP, 2004) and depend on Agriculture, which contributes about 36. 1 percent of the Gross Domestic Product (GDP).

Uganda's economy is heavily dependent on agriculture, as about 80% of the work force is employed in this sector. Foodcrop production is the most important economic activity, accounting for over one quarter of the nation's GDP, compared with only 5% for cash crops[1]. Manufacturing output contributes a further 9%. Coffee, tea, cotton, tobacco, cassava, potatoes, corn, millet, pulses, beef, milk, poultry are the major agricultural products in Uganda. Sugar, brewing, tobacco, cotton, textiles and cement are the main industries. Coffee accounts for the bulk of export revenues and other export commodities of Uganda are fish and fish products, tea, gold, cotton, flowers and horticultural products. Capital equipments, vehicles, petroleum, medical supplies and cereals are the major imported items.

Overview of Micro Finance Industry in Uganda:

The Microfinance industry in Uganda is in its advanced stage of evolution. Since the 1990s, Uganda has created a success story by developing the market for microfinance services, which has been considered a role model for Africa and even other regions (Goodwin-Groen et al. 2004). Its growth and development will be a function of the support and effort of practitioners, donors and the Government working together to create an enablingenvironmentfor its development. It is readily apparent that the Government is committed to economic and financial reforms. In addition to the other reforms being implemented through its economic policy framework, the Government has shown its commitment to reforming the financial sector. Operationalization of the Microfinance Policy and the legal and regulatory framework indicates renewed efforts and commitment to improving the financial system. The Government is acutely aware of the limitation of the traditional banking sector's ability to mobilize savings from and extends credit to poor people in rural and urban areas. This population has a weak financial resource base and is in dire need of financial services that cater for its unique circumstances.

Regulatory Structure for Micro Finance in Uganda

The current financial sector policy in Uganda aims primarily at systemic safety and soundness as a supporting bedrock for orderly growth. The policy, drafted by the BoU and approved by Government following multiple bank failures of the late 1990s, was significantly informed by the bitter lessons learnt from these failures and by incidences of fraudulent organizations that fleece the public. The role of Bank of Uganda, the financial sector regulator, is to ensure systemic safety, soundness and stability of the whole financial sector, and protection of public deposits in the regulated financial institutions.

Bank of Uganda issued the policy statement in July 1999 that established a tiered regulatory framework for microfinance business within the broader financial sector. The policy established four categories of institutions that can do micro-financing business in Uganda:

Tier 1: Commercial banks. Banks are regulated under the Financial Institutions Act revised in 2004. Since these are already sufficiently capitalized and meet the requirements for taking deposits as provided for in this Act, they are allowed to go into the business of microfinance at their discretion.

Tier 2: Credit Institutions (CIs). These institutions are also regulated under the Financial Institutions Act 2004. A number of them offer both savings and loan products but they can neither operate cheque/ current accounts nor be part of the BoU Clearing House. Like banks, they are permitted to conduct microfinance business since they are already sufficiently capitalized and meet the requirements for taking deposits provided for in the Act.

Tier 3: Micro Finance Deposit Taking Institutions (MDIs). This is the category of financial institutions that was created following the enactment of the MDI Act. Originally doing business as NGOs and companies limited by guarantee, these institutions transformed into shareholding companies, changed their ownership and transformed/ graduated into prudentially regulated financial intermediaries. They are licensed under the MDI Act and are subjected to MDI Regulations by BoU. Like Tier I and II institutions (banks and CIs), the

MDIs are required to adhere to prescribed limits and benchmarks on core capital, liquidity ratios, ongoing capital adequacy ratios (in relation to risk weighted assets), asset quality and to strict, regular reporting requirements.

Tier 4: All other financial services providers outside BoU oversight. This category has SACCOs and all microfinance institutions that are not regulated – such as credit-only NGOs, microfinance companies and community-based organizations in the business of microfinance. These institutions have a special role in deepening geographical andpovertyoutreach, and in other ways extending the frontiers of financial services to poorer, remote rural people.

Tier 4 institutions operate under various laws, none of which regulates them as financial institutions. The SACCOs are registered and in principle supervised under the Cooperative Societies Statute 1991by the Ministry of Trade, Tourism and Industry. The other governing laws for Tier 4 include the Companies Act (1969), theMoneyLenders Act (1952)and the NGO Registration Act (1989). Supervision of these institutions is currently so weak that their regulation is of minimal effect because it is generic, all encompassing for all activities and not focused on financial oversight.

Overview of Accounting System in Uganda:

The Institute of Certified Public Accountants of Uganda (ICPAU) is the only statutory licensing body of professional accountants in Uganda. It was established by the Accountants Statute, 1992, but did not commence operations until 1995. The ICPAU is empowered by the statute to establish accounting standards and to act as a self-regulatory organization for professional accountants, which includes requirements for practicing as a professional accountant in Uganda.

The functions of the Institute, as prescribed by the Act, are:

To regulate and maintain the standard of accountancy in Uganda;
To prescribe or regulate the conduct of accountants in Uganda.

The objectives, of the institute included the regulation of accounting practice and the provision of guidance on standards to be used in the preparation of financial statements. As with most developing countries, and in cognizance with developments in the area of accounting at a global level, the ICPAU in 1999 adopted International Accounting Standards (IAS) without any amendments (Dumontier and Raffournier, 1998).

Prior to the adoption of IAS, there had been a proliferation of approaches to the preparation and presentation of financial statements in Uganda. One of the more obvious approaches to the presentation of financial statements was based on references to Generally Accepted Accounting Standards (GAAS) and firm law (Samuel Sejjaak, 2003).

International Financial Reporting Standards

Since 1998, the Council of ICPAU has adopted International Financial Reporting Standards (IFRSs, IASs, SIC and IFRIC Interpretations) as issued by the International Accounting Standards Board (IASB), without amendment, for application in Uganda (IFRS for SMEs).

International Financial Reporting Standards set out recognition, measurement, presentation and disclosure requirements dealing with transactions and other events and conditions that are important in general purpose financial statements.

Methodology: (description of the data…source…compare with other methods)

Into the frames of this proposal, the research will be conducted in an attempt to analyse the index and the quality of the accounting statements of the micro finance industry. Due to this reason the target of this study is the collection of empirical observations concerned to the effect of the adaptation of International Accounting Standards to the quality and quantity of the accounting information that are published.

The work of this study will be based on desk research only. A desk-based research was contacted to make the essential link between theoretical frameworks and empiricalobservation. Mainly the study will focus on the comparative examination of the annual Financial Statements of Micro Finance Institutions in Uganda registered by the Bank of Uganda (BoU).

To examine and analyse the content of those Financial Statements so as to meet the objectives of the project and derive conclusions, the Content Analysis will be used.

Content analysis has been defined as a systematic, replicable technique for compressing many words of text into fewer content categories based on explicit rules of coding (Berelson, 1952; GAO, 1996; Krippendorff, 1980; and Weber, 1990). Content analysis enables researchers to sift through large volumes of data with relative ease in a systematic fashion (GAO, 1996). It can be a useful technique for allowing us to discover and describe the focus of individual, group, institutional, or social attention (Weber, 1990).

There are two general categories of content analysis: conceptual analysis and relational analysis. Conceptual analysis can be thought of as establishing the existence and frequency of concepts – most often represented by words of phrases – in a text. In contrast, relational analysis goes one step further by examining the relationships among concepts in a text.

Content analysis offers several advantages to researchers who consider using it. In particular, content analysis:

–Looks directly atcommunicationvia texts or transcripts, and hence gets at the central aspect of social interaction

–Can allow for both quantitative and qualitative operations

– Can provides valuable historical/cultural insights over time through analysis of texts

– Allows a closeness to text which can alternate between specific categories and relationships and also statistically analyzes the coded form of the text

– Can be used to interpret texts for purposes such as the development of expert systems (since knowledge and rules can both be coded in terms of explicit statements about the relationships among concepts)

– Is an unobtrusive means of analyzing interactions

–Provides insight into complex models of human thought and language use

Content analysis suffers from several disadvantages, both theoretical and procedural. In particular, content analysis:

– Can be extremely time consuming

– Is subject to increased error, particularly when relational analysis is used to attain a higher level of interpretation

–Is often devoid of theoretical base, or attempts too liberally to draw meaningful inferences about the relationships and impacts implied in a study

– Is inherently reductive, particularly when dealing with complex texts

–Tends too often to simply consist of word counts

–Often disregards the context that produced the text, as well as the state of things after the text is produced

– Can be difficult to automate or computerize

(Writing Guides, http://writing. colostate. edu/guides/research/content/com2d3. cfm)

The content analysis will be used for the determination of the study. Although there are some limitations it is thought as the most appropriate method/tool for the purpose of the study.

Conclusion:

References: