

Table of Contents

Summary of Assessment Rationale	2
Institutional Profile	3
SPA Factor and Sub-Factor Analysis	9
The Uganda Microfinance Market	23

Lead Analyst

SPAIN

Richard O. Wilson

CEO Inclusion [Africa] Ltd.

Analyst

SPAIN

Nicolas Wilson

Contact Information

+34 667 28 30 50
 rwilson@inclusionafrica.org

Head Office

Inclusion [Africa] Ltd.

Impact Hub
 Plaça Reial, 18
 08002 Barcelona
 Spain
www.inclusionafrica.org

This report provides an in-depth analysis of the social performance of Enterprise Support & Community Development Trust (ENCOT) and should be read in conjunction with Inclusion [Africa]'s Global Social Performance Rating Methodology. The methodology is also available at www.inclusionafrica.org.

This report is not a credit rating or other opinion on creditworthiness.

Social Performance Assessment: ENTERPRISE SUPPORT & COMMUNITY DEVELOPMENT TRUST (ENCOT)

UGANDA

Figure 1

SP Grade Snapshot

Final SP grade						
-	SP5	SP4	SP3	SP2	SP1	+
	0 - 29	30 - 49	50 — 64	65 - 77	78 - 100	

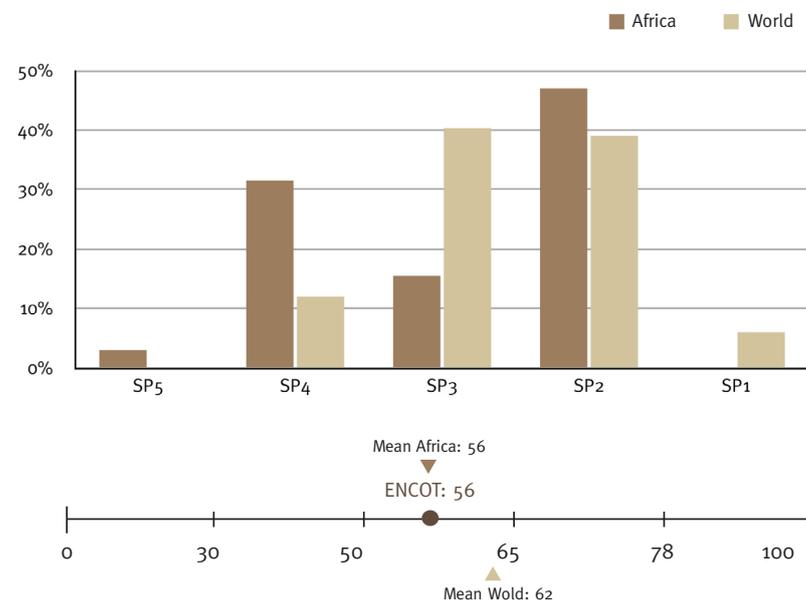
Scorecard-implied grade: **SP3/overall score: 56**

ENCOT Snapshot

Year established	2006
Entity type	NBFI
Gross loan portfolio (US\$000s)	1,330.5
Active borrowers	7,526
Average loan size (US\$)	176.8

Figure 2

Global Benchmarking



Sources: 2009 and 2010 MIX data and Inclusion [Africa] EPS Scorecard



Summary of Assessment Rationale

- » Enterprise Support & Community Development Trust (ENCOT) has broken down its mission into specific goals and objectives with measurable social performance indicators. Basic social performance data is captured in its management information system (MIS) and is systematically tracked and reported.
- » Board members have expertise in diverse fields, such as banking, microfinance, development finance, social investment and the public service. The Board is composed of 7 members, 6 of which are independent non executive Directors, with one female member. Until recently, social performance topics were not discussed as agenda items during board meetings.
- » Product prices are communicated to customers both verbally and in writing. Interest rates are quoted on a flat monthly basis and do not include fees, insurance or security deposits. The effective interest rate is not disclosed. Customers' awareness of product terms and conditions is moderate.
- » There is a lack of consistent documentation provided to clients, with the absence of passbooks and/or compulsory savings accounts, otherwise known as "Life Insurance Funds" or "LIF", documentation noted. Cases of incomplete disbursement documentation were also noted.
- » Debt-collection practices on the ground are monitored and audited, but are not always in compliance with its own internal policies, which prohibits the confiscation of essential household items or direct setoff against compulsory savings (LIF).
- » ENCOT has dedicated, trained staff to handle customer complaints. Complaint data is not monitored to track timeliness of resolutions or to improve products and services.
- » There is a credit bureau and shared credit registry available for some, but not all, non-deposit-taking microfinance institutions (MFIs) in Uganda. Customer debt levels are also assessed via house visits and, for repeat customers, by checking ENCOTS's internal database.
- » ENCOT's portfolio of financial products includes; Group Loans, based on group guarantees and a peer lending approach; Agricultural Loans, which focus its lending and penetration initiatives to farmers and farmer communities; and Flexi Individual Loans, intended to take care of the individual commercial, production and consumption needs of clients who outgrow the group methodology. There are no non financial products offered at this time, although Business Development Services are being introduced in 2016.
- » At approximately 66.3%, ENCOTS's customer retention rate is moderately low. Customer satisfaction interviews are not conducted.
- » Information for the Progress out of Poverty Index (PPI) is collected only from new customers. Some social outcome data is communicated via ENCOT's website and other public communications.
- » Staff training covers a range of social performance topics, including the MFI's social mission, the prevention of over-indebtedness, transparency around pricing, proper repayment-collection practices, the collection of customer data and the need to keep customer information private.
- » ENCOT has no specific or separately documented code of ethics. No code of conduct review is included in the entrance exam for staff, or in staff training.
- » Promotion and incentives are based mainly on financial and operational indicators rather than social performance parameters.
- » ENCOT offers a "Green Loan" product aimed at financing ecologically sustainable agricultural practices and has written policies which seek to support environmentally friendly practices on the part of customers and which screen out enterprises that may harm the environment, but these policies were found to be only partially implemented.



Institutional Profile

Mission Statement

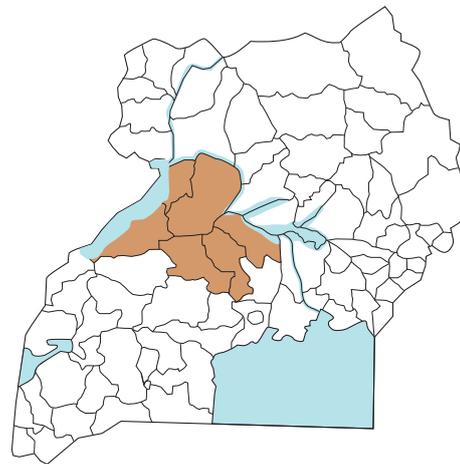
“To provide financial and enterprise development services to the low income earning people of Uganda so that they can create their own jobs, increase their household income and improve their livelihoods.”

Key Data (June 30, 2015)	
Gross loan portfolio (US\$ 000s)	1,330.5
Average loan size (US\$)	176.8
Products:	Micro Enterprise Group Loan, Agricultural Micro Loans, Individual Small and Medium Enterprise (SMEs) Loans, Energy loans, Housing loans and mobile money transfer services.
Number of borrowers	7,526
Number of staff	58
Customers per loan officer	260
Number of branches	3
Country of operation	Uganda
Areas of operation	Masindi, Nakasongola, Kiryandongo, Buliisa, Kyankwanzi and Hoima
Urban/Rural	Rural
Legal status	Private Company Limited by Guarantee
Regulator	Not regulated - licensed under Money Lender's Act

* Exchange rate: US\$ 1 to UGX 3,302

Figure 3

Geographic Footprint





SOCIAL INDICATORS	2013	2014	2015*
% of rural customers	100	83.6	95.9
% of female customers	53	68.3	59
% of female active savers	47	48	NA
% customers below \$1.25 per day	NA	NA	NA
% customers below \$2.50 per day	NA	NA	NA
% customers below poverty line	NA	NA	NA
% customers with no formal education	NA	NA	NA
% Customer Retention rate	NA	65	66.3
% female employees	35	30	31

* a/o 30/06/2015

FINANCIAL INDICATORS	2013	2014	2015*
Portfolio yield (%)	36	66	64
Operating expense ratio (%)	40	51	55
Financial expense ratio (%)	1.1	1.7	2.3
Provision and write-offs (%)	2	5.6	6
Operational self-sufficiency (%)	115	140	120
Capital/Asset ratio (%)	67	44	45
Debt to equity ratio (x)	0.5	1.25	1.33
Return on assets (%)	25.7	13	8
Return on equity (%)	38.5	26	17

* a/o 30/06/2015

ENCOT is an indigenous rural community development micro-credit and rural-enterprise development NGO founded in 2006 by a group of indigenous community development practitioners in Masindi (Uganda). The Organization was developed as a response to the challenges of poverty and suffering faced by the rural communities in Masindi, most especially the farmers. ENCOT started as an academic research project with an objective of investigating the impact of microfinance on agriculture in Masindi. The research evolved into a fully fledged community development organization meant to improve access to appropriate credit and entrepreneurship development services among the marginalized rural communities in the region.

ENCOT, as a Microfinance and Enterprise Development Institution, is fully registered both as a Community Based Organisation/NGO and a company limited by guarantee. In light of its engagement in credit activities, ENCOT is also fully licensed to lend under the Uganda Lenders Act (CAP 273).

ENCOT calculates interest rates on a flat, monthly basis. It is increasingly able to use a mobile money transfer system, and it uses text messaging to inform clients of loan and savings balances.

ENCOT operates in six provinces in the central region of Uganda. As of 30 June 2015, it had 7,526 borrowers and a portfolio outstanding of US\$ 1.3 million, and 58 staff.



SPR Factors – Scorecard-Implied Grades

Scorecard Snapshot

Figure 4

SPR Factor Table

FACTOR	SP5	SP4	SP3	SP2	SP1
Social Mission				68	
Strategy and Leadership				66	
Customer Relationship			54		
Measurement of Social Outcome or Impact		44			
Human Resources		45			
Environmental Performance		49			

Figure 5

Relative Contribution

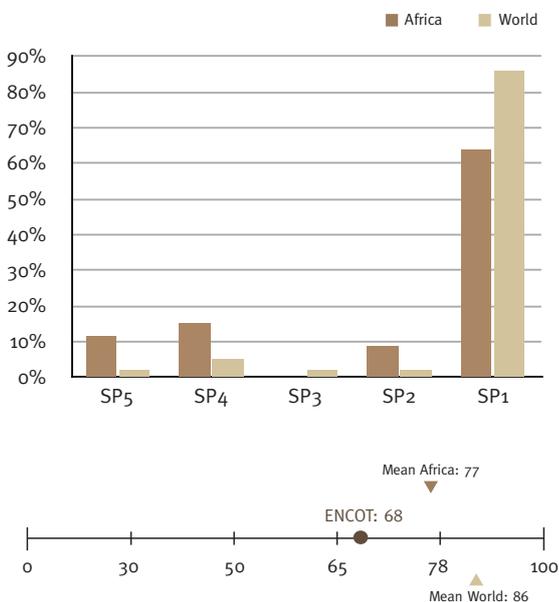




Global and Regional Comparison

Figure 6

Social Mission

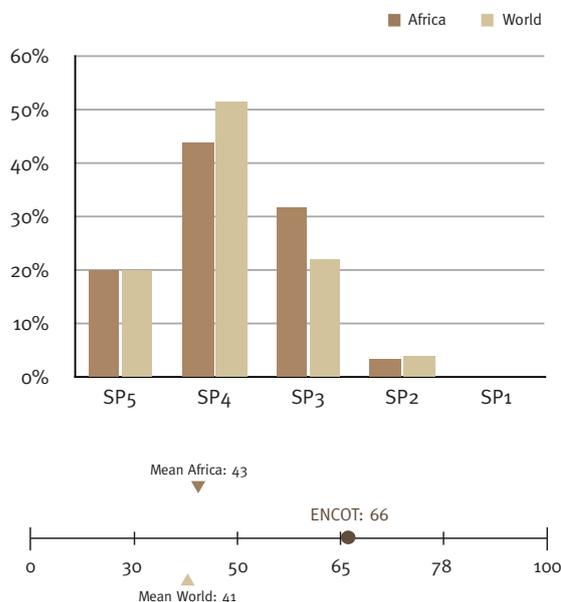


Sources: 2009 and 2010 MIX data and Inclusion [Africa] EPS Scorecard

- » ENCOT's mission statement has been broken down into goals with measurable social performance indicators that cover topics including outreach and customer retention; customers' economic status, asset profiles and repayment rates.
- » ENCOT has a plan in place to achieve specific goals and objectives that include some measurable indicators, though field observations suggest the collection of customer data was not done in a systematic manner.
- » Data on these indicators is communicated to staff and external stakeholders via reports, ENCOT's website and other websites.

Figure 7

Strategy and Leadership



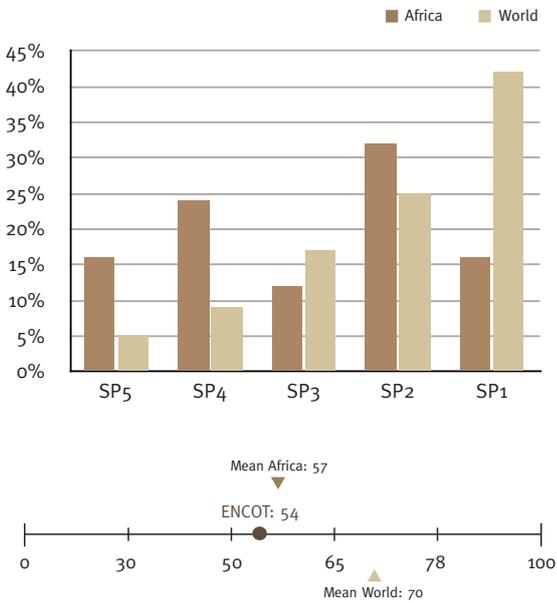
Sources: 2009 and 2010 MIX data and Inclusion [Africa] EPS Scorecard

- » Senior staff have extensive experience in the microfinance industry and in working with the target market.
- » Field-level employees have average levels of experience in the microfinance industry and in working with the target market.
- » Board members have expertise in diverse fields, such as banking, microfinance, development finance, social investment and the public service. Of the seven Board Members, one is an Executive Director, the rest being Non Executive Independent Directors, including one female and the Chairman. Social performance topics have been discussed only at the most recent board meeting but are not standing agenda items.
- » Initial and ongoing staff training covers several aspects of social performance.
- » The MFI's progress vis-a-vis its social performance targets is routinely discussed during management meetings.
- » ENCOT has a mid-level manager who is responsible for social performance but no separate SP Department.



Figure 8

Customer Relationship

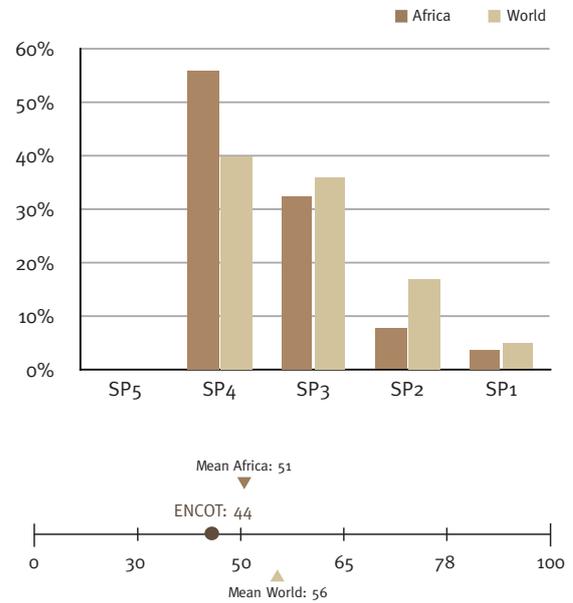


Sources: 2009 and 2010 MIX data and Inclusion [Africa] EPS Scorecard

- » Flat interest rates and fees are disclosed to customers both verbally and in writing, but the effective interest rate is not disclosed. Amortization schedules are not always provided. Interviews indicate that customer awareness of terms and conditions is moderate.
- » Debt-collection practices are not monitored, and field observations indicate that collections are sometimes not in full compliance with Ugandan law, which prohibits offsetting against compulsory savings accounts (LIF).
- » ENCOT utilizes microfinance credit bureaus and conducts house visits to assess new loan applicants' debt capacity and to assign collateral. Repeat customers' loan applications are screened via an internal database.
- » ENCOT's portfolio of financial products includes; Group Loans, Agricultural Loans, Green Loans and Flexi Individual Loans, There are no non financial products offered at this time, although Business Development Services are being introduced in 2016.

Figure 9

Measurement of Social Outcome or Impact



Sources: 2009 and 2010 MIX data and Inclusion [Africa] EPS Scorecard

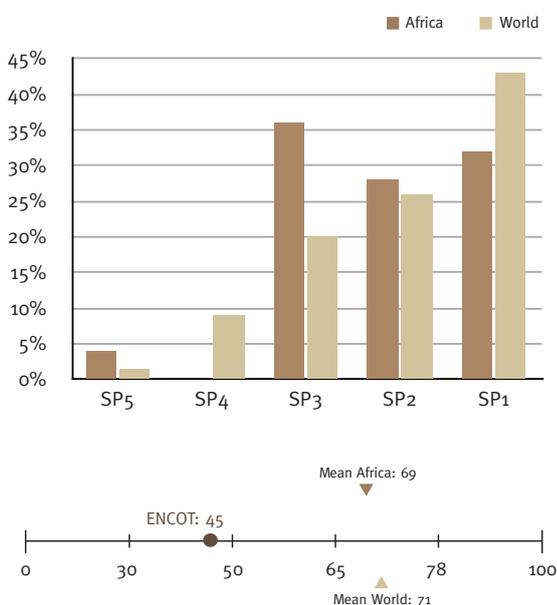
- » The PPI has been rolled out, with information collected only from new customers. PPI data is not audited and field visits revealed that it is often collected in a summary manner.
- » Outcome data is communicated on ENCOT's website and on the MIX Market, as well as in other public communications.



Global and Regional Comparison

Figure 10

Human Resources

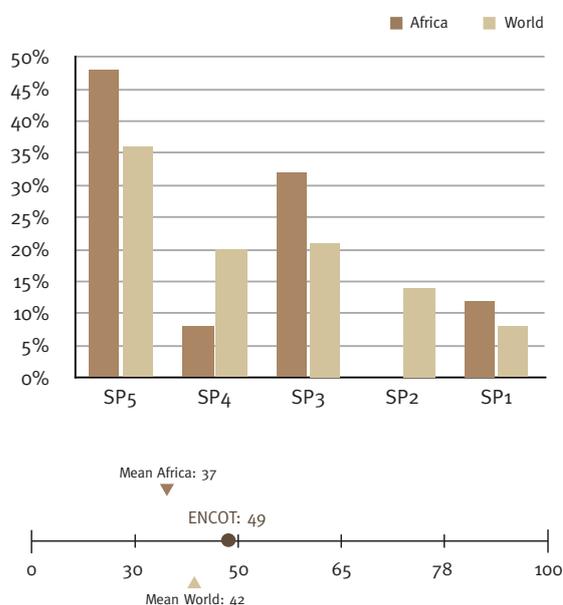


Sources: 2009 and 2010 MIX data and Inclusion [Africa] EPS Scorecard

- » ENCOT does not conduct exit interviews, and as yet has not conducted any staff satisfaction surveys.
- » ENCOT has no written code of ethics. Field visits found that procedures for communicating policies are weak.
- » Approximately 35% of ENCOT's workforce is female.
- » Social performance training during induction is less comprehensive than it is during refresher courses.
- » Staff incentives are based mainly on financial and operational indicators rather than social performance indicators.

Figure 11

Environmental Performance



Sources: 2009 and 2010 MIX data and Inclusion [Africa] EPS Scorecard

- » The MFI's written policies state that it will incentivize and support environmentally friendly enterprises, and that credit should not be extended for enterprises that may damage the environment. Field visits revealed that these policies are only partially implemented, however, and there are no guidelines specifying the types of enterprises that should be supported and the types that should not.
- » ENCOT does provide a Green Loan product aimed at financing ecologically sustainable agricultural practices.



SPA Factor and Sub-Factor Analysis

Social Mission	Strategy and Leadership	Customer Relationship	Measurement of Social Outcome or Impact	Human Resource	Environmental Performance
----------------	-------------------------	-----------------------	---	----------------	---------------------------

History of the social mission, goals and objectives | Focus of the social mission | Plans and communications for achieving social mission, goals and objectives

Scorecard-implied grade – SP2 (68)

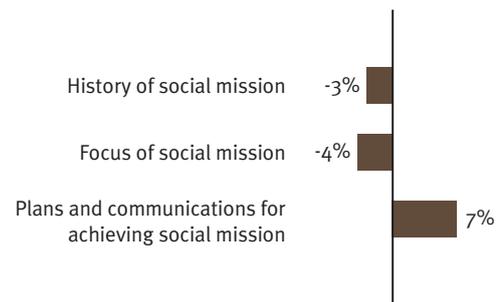
Figure 12

SPR Sub-Factor Table

Sub-Factor	SP5	SP4	SP3	SP2	SP1
History of social mission			55		
Focus of social mission			60		
Plans and communications for achieving social mission					79

Figure 13

Relative Contribution



Key Indicators

- » ENCOT’s social mission was modified in 2014 to expand the targeted market beyond Masindi. The mission statement is reviewed annually.
- » ENCOT’s social mission focuses on providing financial services to the low income earning people of Uganda so that they can create their own jobs, increase their household income and improve their livelihoods .
- » The social mission has been broken down into goals and objectives with measurable social performance indicators such as outreach and customer retention; customers’ economic status, asset profiles and repayment rates; and the percentage of clients that are female.
- » These goals and objectives, along with the relevant measurable indicators, are communicated to both staff and external stakeholders.



Social Mission	Strategy and Leadership	Customer Relationship	Measurement of Social Outcome or Impact	Human Resource	Environmental Performance
----------------	-------------------------	-----------------------	---	----------------	---------------------------

Management quality | Governance | Outreach and access | Administrative setup

Scorecard-implied grade – SP2 (66)

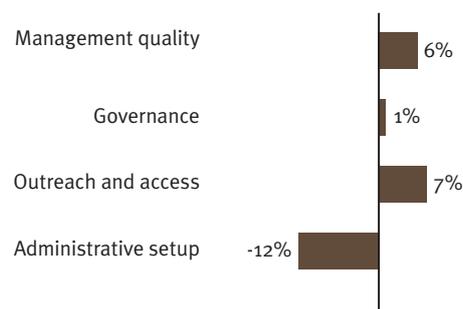
Figure 14

SPR Sub-Factor Table

Sub-Factor	SP5	SP4	SP3	SP2	SP1
Management quality				69	
Governance			65		
Outreach and access				67	
Administrative setup	13				

Figure 15

Relative Contribution



Key Indicators

- » Senior staff have experience in the microfinance domain (five to ten years) and of working with the target market.
- » Staff turnover was nil during the past year, while the absence of a succession plan to replace key staff poses a risk to the MFI’s social performance.
- » Staff refresher training covers a wide array of topics, including the MFI’s social mission, the prevention of over-indebtedness, transparency around pricing, proper repayment-collection practices, the collection of customer data and the need to keep customer data private.
- » Board members have expertise in diverse fields, such as banking, microfinance, development finance, social investment and the public service. Of the seven Board Members, one is an Executive Director, the rest being Non Executive Independent Directors, including one female and the Chairman.
- » Social performance is not routinely discussed at board meetings nor does it appear as a regular agenda item.
- » Basic social performance data is captured in ENCOT’s MIS and includes information on customers’ household assets, liabilities, income and gender. This information is not audited and periodic reports are not generated.



Social Mission	Strategy and Leadership	Customer Relationship	Measurement of Social Outcome or Impact	Human Resource	Environmental Performance
----------------	-------------------------	-----------------------	---	----------------	---------------------------

Management quality | Governance | Outreach and access | Administrative setup

Figure 16

SPR Sub-Factor Table

Sub-Factor	SP5	SP4	SP3	SP2	SP1
Experience of staff			50		
Professionalism of staff				76	
Management turnover					92
Key worker risk	29				
MFI history/product history		43			
Availability and quality of training				68	
Management transparency			51		

Figure 17

Relative Contribution



Key Indicators

- » Policies and procedures related to social objectives (e.g., respectful treatment of customers, complaint resolution) are contained in employee manuals. Coverage of social performance indicators during staff performance reviews is limited to customer retention. Customer feedback is not included in employee evaluations.
- » Staff exit interviews are not conducted.
- » The absence of a succession plan to replace key staff means ENCOT has key-worker risk.
- » All employees are trained on social performance topics.
- » Staff training covers the MFI’s social mission, the prevention of over-indebtedness, transparency around pricing, proper repayment-collection practices, the collection of customer data and the need to keep customer data private. Training is conducted both in the classroom and on the job (e.g., employees are assigned to other departments or are mentored). Field observations found that the level of training varies among branches and personnel. There has been one Director’s training session conducted, which focused on governance and some social performance topics.
- » Social performance data is not audited or periodically communicated to staff. A CPP study was undertaken in 2015, but the results have not been made available on public websites.



Social Mission	Strategy and Leadership	Customer Relationship	Measurement of Social Outcome or Impact	Human Resource	Environmental Performance
----------------	-------------------------	-----------------------	---	----------------	---------------------------

Management quality | **Governance** | Outreach and access | Administrative setup

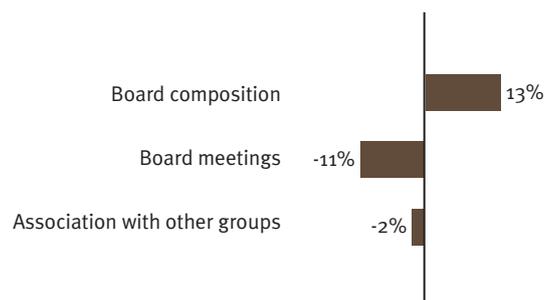
Figure 18

SPR Sub-Factor Table

Sub-Factor	SP5	SP4	SP3	SP2	SP1
Board composition				70	
Board meetings		34			
Association with other groups		49			

Figure 19

Relative Contribution



Key Indicators

- » The board has expertise in diverse fields such as banking, microfinance, development finance, social investment and the public service. Stakeholders’ presence on the board is met by the presence of six independent non-executive directors, of which one is female.
- » The board meets quarterly to review the MFI’s operational and financial performance. Social performance topics are discussed, but not as a regular agenda item.



Social Mission	Strategy and Leadership	Customer Relationship	Measurement of Social Outcome or Impact	Human Resource	Environmental Performance
----------------	-------------------------	-----------------------	---	----------------	---------------------------

Management quality | Governance | **Outreach and access** | Administrative setup

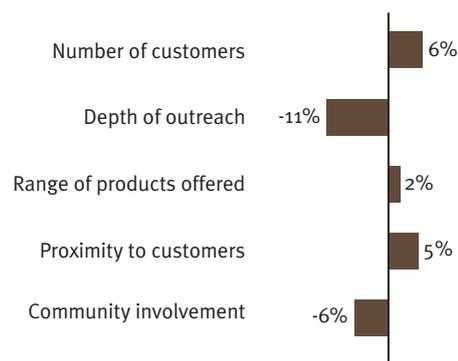
Figure 20

SPR Sub-Factor Table

Sub-Factor	SP5	SP4	SP3	SP2	SP1
Number of customers					88
Depth of outreach		37			
Range of products offered				74	
Proximity to customers				71	
Community involvement		42			

Figure 21

Relative Contribution



Key Indicators

- » Despite high growth rates (CAGR: 65.4%) during the past two years, ENCOT’s customer borrower base is small (7,526). 100% of customers belong to the MFI’s target group of smallholder farmers and enterprises in rural areas.
- » ENCOT’s portfolio of financial products includes; Group Loans, based on group guarantees and a peer lending approach; Agricultural Loans, which focus its lending and penetration initiatives to farmers and farmer communities; a Green Loan product aimed at financing ecologically sustainable agricultural practices; and Flexi Individual Loans, intended to take care of the individual commercial, production and consumption needs of clients who outgrow the group methodology. There are no non financial products offered at this time, although Business Development Services are being introduced in 2016.
- » Loan officers travel to rural areas to visit customers’ residences or places of business, promote products, evaluate potential borrowers and facilitate or attend group meetings. Mobile technology for product delivery and repayment collection has been piloted, but has yet to reach wide usage, due to high cost for clients.



Social Mission	Strategy and Leadership	Customer Relationship	Measurement of Social Outcome or Impact	Human Resource	Environmental Performance
----------------	-------------------------	-----------------------	---	----------------	---------------------------

Management quality | Governance | Outreach and access | **Administrative setup**

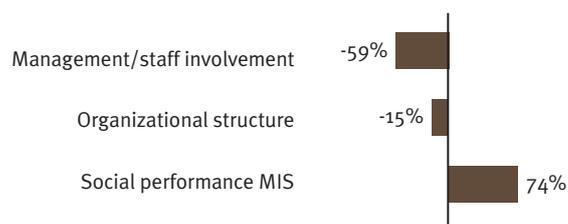
Figure 22

SPR Sub-Factor Table

Sub-Factor	SP5	SP4	SP3	SP2	SP1
Management/staff involvement	0				
Organizational structure	0				
Social performance MIS			51		

Figure 23

Relative Contribution



Key Indicators

- » ENCOT does not have a separate social performance department as such. The responsibility for managing its SPM is headed by a mid-level manager, although all senior management are tasked with monitoring its progress toward specific objectives. In addition, staff at all levels have responsibilities that include elements of social performance. Such responsibilities are clearly defined in employees’ job descriptions.
- » Social performance topics (e.g., outreach, customer complaints, staff training) are discussed as agenda items during staff meetings.
- » ENCOT’s MIS captures household-level social data, such as type of housing, gender of occupants, the number of school-going children, land holdings, debt levels and income. This information is not audited and periodic reports are not generated.



Social Mission	Strategy and Leadership	Customer Relationship	Measurement of Social Outcome or Impact	Human Resource	Environmental Performance
----------------	-------------------------	-----------------------	---	----------------	---------------------------

Customer protection | Customer service

Scorecard-implied grade – SP3 (54)

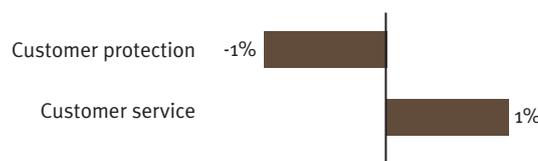
Figure 24

SPR Sub-Factor Table

Sub-Factor	SP5	SP4	SP3	SP2	SP1
Customer protection			55		
Customer service			53		

Figure 25

Relative Contribution



Key Indicators

- » A monthly flat interest rate is disclosed to customers both verbally and in writing; the effective interest rate is not disclosed. Principal and interest components are not separated in customers’ passbooks, and passbooks are often not updated. Customers are moderately aware of product terms and conditions.
- » Both policies and practices around debt collection are weak. There are no written guidelines on how staff should handle delinquencies or prohibiting inappropriate behavior in such cases. Debt-collection practices are not monitored, and field observations found that they are not always in compliance with local laws, which prohibit setoff of voluntary savings accounts without prior notice.
- » Written policies note to check for over-indebtedness and to clearly communicate information to customers and to treat them respectfully, as well as the need to design products to suit customers’ needs and characteristics.
- » Meetings are conducted to gain understanding of customers’ needs and preferences, and this information is used in product design.
- » Checking for over-indebtedness is challenging given customers’ rural locations and that the existing credit bureaus are not universally available to non-deposit-taking MFIs, although ENCOT is one of the few Tier 4 MFIs that does have access. The lack of universal access limits the depth of credit histories for MFI clients in Uganda. Debt capacity is ascertained via home visits and, for repeat customers, by checking an internal database, though field observations found that home visits were often too cursory for an accurate appraisal.
- » There are dedicated, trained staff to handle customer complaints. Complaints data is not monitored to track timeliness of resolutions or to improve products and services.
- » ENCOT’s portfolio of financial products is limited. It offers three principal loan products, to finance Farmers, Groups and Individuals. No non-financial services are offered.



Social Mission	Strategy and Leadership	Customer Relationship	Measurement of Social Outcome or Impact	Human Resource	Environmental Performance
----------------	-------------------------	-----------------------	---	----------------	---------------------------

Customer protection | Customer service

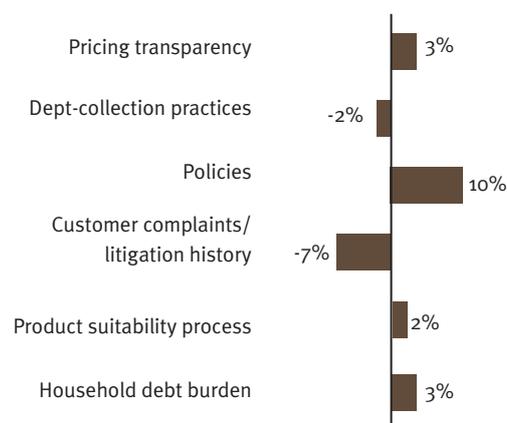
Figure 26

SPR Sub-Factor Table

Sub-Factor	SP5	SP4	SP3	SP2	SP1
Pricing transparency			59		
Dept-collection practices			50		
Policies				72	
Customer complaints/litigation history		40			
Product suitability process			57		
Household debt burden			59		

Figure 27

Relative Contribution



Key Indicators

- » Staff is trained to communicate product prices to customers. A monthly flat interest rate is disclosed both verbally and in writing, while the effective interest rate is not disclosed. Passbooks do not separate principal and interest amounts and the information revealed to customers varies among branches. Customer awareness about product terms and conditions is moderate.
- » There is no formal customer feedback process in place.
- » Documentation around debt collection is weak. There is no written policy requiring that customers be informed of debt-collection practices before loan disbursement, and no written guidelines setting out timelines for repayment collection or follow-ups after missed payments.
- » There is no written policy prohibiting inappropriate behavior toward customers during repayment collection and follow-ups after missed payments. However, there are specific guidelines around taking legal action against defaulters, including the sale of pledged assets, although there are cases of voluntary deposits being setoff without prior notice to clients.
- » Debt-collection practices on the ground are not monitored by ENCOT's management or internal auditor.
- » Documentation is strong around several aspects of customer protection. Written policies note to check for over-indebtedness, to communicate information clearly and to treat customers respectfully, as well as the need to design products to suit customers' needs and characteristics.
- » Periodic communication of customer protection policies is not part of a formal process, and the results of investigations into violations of these policies are not communicated to stakeholders.



- » ENCOT has trained, dedicated resources to handle customer complaints, and customers are given written explanation of how to submit complaints. Complaints are not monitored to track timeliness of resolutions or mediation history, or to improve products and services.
- » Customer awareness of product terms and conditions was found to be limited despite staff training and written policies on the need for transparency around pricing. ENCOT does not conduct surveys to assess customers' awareness of terms and conditions, and there is no "cooling off" period within which customers can cancel a loan contract without incurring a penalty.
- » Understanding of household debt-absorption capacity is limited, although there is a dedicated microfinance credit bureau this is only available to banks, MDIs and some non-deposit taking institutions such as ENCOT. Field staff make house visits and occasionally check with loan officers of other MFIs to try to ascertain customers' debt-repayment capacity. ENCOT has an internal database containing past repayment records, which is used to screen repeat customers' loan applications.



Social Mission	Strategy and Leadership	Customer Relationship	Measurement of Social Outcome or Impact	Human Resource	Environmental Performance
----------------	-------------------------	-----------------------	---	----------------	---------------------------

Customer protection | **Customer service**

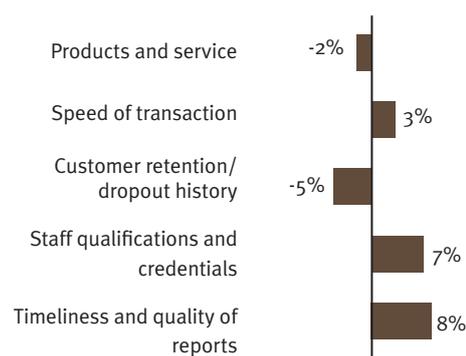
Figure 28

SPR Sub-Factor Table

Sub-Factor	SP5	SP4	SP3	SP2	SP1
Products and services		49			
Speed of transaction			63		
Customer retention/dropout history		43			
Staff qualifications and credentials				67	
Timeliness and quality of reports				71	

Figure 29

Relative Contribution



Key Indicators

- » ENCOT’s portfolio of financial products includes; Group Loans, based on group guarantees and a peer lending approach; Agricultural Loans, which focus its lending and penetration initiatives to farmers and farmer communities; a Green Loan Green Loan product aimed at financing ecologically sustainable agricultural practices; and Flexi Individual Loans, intended to take care of the individual commercial, production and consumption needs of clients who outgrow the group methodology. There are no non financial products offered at this time, although Business Development Services are being introduced in 2016.
- » The turnaround time for loan disbursement from receipt of an application is about two weeks, except where a group has a history of repayment problems, when it takes a little longer.
- » At approximately 66%, ENCOT’s customer retention rate is moderately low. Interviews are not conducted to ascertain why customers leave.
- » Staff members at all levels are well educated and speak the local language.
- » It was found that customers’ passbooks had often not been updated. Additionally, passbooks do not contain breakdowns of principal and interest amounts. Group registers are accurate and up to date, however, and customers can check their loan balances in the group register.
- » Customers can submit feedback via a dedicated telephone hotline or ENCOT’s SMS. The MFI also sends periodic messages to garner feedback. The first formal customer satisfaction survey will be undertaken in May 2016.



Social Mission	Strategy and Leadership	Customer Relationship	Measurement of Social Outcome or Impact	Human Resource	Environmental Performance
----------------	-------------------------	-----------------------	---	----------------	---------------------------

Participation in social outcome or impact studies | Explicit tool to measure social outcome or impact | Frequency of data collected on social outcome or impact | Transparency

Scorecard-implied grade – SP4 (44)

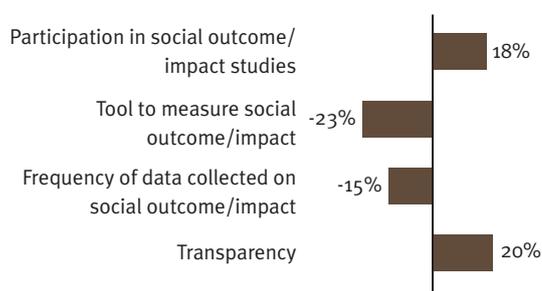
Figure 30

SPR Sub-Factor Table

Sub-Factor	SP5	SP4	SP3	SP2	SP1
Participation in social outcome/ impact studies					95
Tool to measure social outcome/ impact	0				
Frequency of data collected on social outcome/impact	4				
Transparency			64		

Figure 31

Relative Contribution



Key Indicators

- » ENCOT completed an accompanied self-assessment review of its Client Protection Principles in 2015.
- » ENCOT rolled out the PPI in September 2012. Only information from new customers is collected for the purpose of measuring outcomes. An internal working group completed a PPI study of ENCOT’s market in 2012.
- » The MFI does not communicate outcome and impact data externally.



Social Mission	Strategy and Leadership	Customer Relationship	Measurement of Social Outcome or Impact	Human Resource	Environmental Performance
----------------	-------------------------	-----------------------	---	----------------	---------------------------

Organization and facilities | Code of ethics | Hiring policies (gender and anti-discrimination policies) | Culture of delegation | Fair compensation | Staff skills and training | Promotion and retention | Staff incentives and audit

Scorecard-implied grade – SP4 (45)

Figure 32

SPR Sub-Factor Table

Sub-Factor	SP5	SP4	SP3	SP2	SP1
Organization and facilities					89
Code of ethics	25				
Hiring policies			50		
Culture of delegation	0				
Fair compensation	17				
Staff skills and training				69	
Promotion and retention			50		
Staff incentives and audit	27				

Figure 33

Relative Contribution



Key Indicators

- » Staff satisfaction studies have not been conducted. Exit interviews are not conducted to better understand the reasons why staff leave or how happy they were during their employment.
- » The grievance redressal procedure for staff is clearly documented. Aggrieved employees can file a formal complaint with their supervisor, and the operations manager must convene a hearing within three days of receiving it. All parties involved will attend the hearing, as will any key witnesses. The verdict of the grievance committee can be appealed by either side, in which case the managing director will make a final and binding decision.
- » ENCOT has no written policy on employee health and safety (e.g., procedures for field staff when carrying large amounts of cash).
- » There is no written Code of Conduct policies on conflict of interest, anti-discrimination, anti-harassment and gender. Nor are there specific policies covering anti-corruption, debt collection or customer protection.
- » Procedures for communicating code of ethics are weak. A code is not included in the entrance exam for staff, or in staff training and annual pledges/contract renewals.
- » ENCOT's written policies prohibit discrimination in hiring and promote equal opportunities and equal pay for equal skills, and prohibit harassment.
- » Work hours are adapted to family constraints. Compassionate leave is granted in case of death or serious illness of a family member. Female staff is entitled to 90 days' maternity leave and male staff to two weeks' paternity leave, with full pay and benefits.



- » About a third of ENCOT's workforce is female. Approximately 40% of field staff are women, while the proportions are lower at the middle and senior levels, at 33.3% and about 20%, respectively.
- » A mid-level managers is responsible for tracking and evaluating social performance (e.g., customer satisfaction, creation and management of customer service units, identifying capacity building needs).
- » Staff is provided with a breakdown of the fixed and variable components of their compensation, and there are policies in place to ensure gender parity in pay. Pay is above the minimum wage, but ENCOT's salary structure is not in line with market rates in terms of skills, nor does it take into account the gap between the highest- and the lowest-paid employees.
- » Just a few topics are covered during induction, including the MFI's social mission, social performance and data-collection techniques for the PPI. Refresher training is more comprehensive; in addition to those topics it covers credit analysis, the prevention of over-indebtedness, communicating pricing to customers, proper repayment collection, privacy of customer data and complaint procedures.
- » Operational and financial indicators (e.g., outreach, disbursement, repayment rates) are used more than social performance indicators for promotion of field staff. Customer retention is used both as a financial and a social performance indicator.
- » Staff incentives are not based on social performance indicators, and ENCOT does not periodically review its incentive system to understand the effect of the system on its social performance.



Social Mission	Strategy and Leadership	Customer Relationship	Measurement of Social Outcome or Impact	Human Resource	Environmental Performance
----------------	-------------------------	-----------------------	---	----------------	---------------------------

Customer standards | Internal standards

Scorecard-implied grade – SP4 (49)

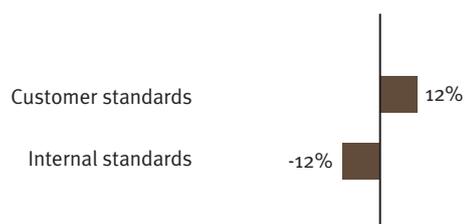
Figure 34

SPR Sub-Factor Table

Sub-Factor	SP5	SP4	SP3	SP2	SP1
Customer standards			55		
Internal standards		43			

Figure 35

Relative Contribution



Key Indicators

- » ENCOT has a written policy on environmental norms that states customers are to be incentivized to pursue environmentally friendly activities, that conservation activities are to be supported and that credit is not be advanced for enterprises that may damage the environment.
- » Written policies encourage staff to maintain a clean environment and to reduce waste and recycle paper.
- » The written policy does not contain detailed guidelines on what types of enterprises should be supported and what kinds should not, and the written policy does not mention monitoring and reporting on environmental practices.
- » As an informal practice, loans are not considered if they will be used to purchase certain types of machines that are harmful to the environment.



The Uganda Microfinance Market

Moody's Investor Services has assigned Uganda a B1 credit rating, with a negative outlook.

Figure 36

Uganda: Key Credit Metrics

	2013	2014	2015	2016F
Real GDP (% change)	3.6	4.0	5.3	5.4
CPI inflation (% change Dec./Dec.)	4.3	5.0	10.0	7.0
Gen. gov. financial balance/GDP (%)	-4.1	-4.0	-4.5	-7.1
Gen. gov. debt/GDP (%)	27.5	30.7	38.9	45.0
Current account balance/GDP (%)	-6.8	-9.4	-10.0	-13.1

Source: FMI

Key Credit and Macroeconomic Factors

Uganda's near-term fiscal outlook is dominated by a rising deficit and debt burden due to debt-funded infrastructure investment, election-related spending and a large depreciation in the Ugandan shilling. Overall, Uganda's macro-economic and political outlook remains constrained by (1) its susceptibility to destabilizing security- and fiscal-related issues in the lead up to the 2016 election; and (2) a weak external payments position.

Uganda's economic strength is impacted by the economy's small size (with nominal GDP of USD26 billion); (2) its low per capita income (USD2,023 on a purchasing power parity basis); (3) the country's substantial reliance on the volatile primary sector, which represents 25% of GDP and employs two-thirds of the workforce; and (4) the high transport costs linked to Uganda being a land-locked country. Moreover, Uganda's rapid population growth has created high welfare demands, while 63% of the population lives on less than \$2 a day on a PPP basis. However, per capita income has risen quickly, having doubled in just 10 years. Although down from higher levels prior to 2011, growth prospects are high reflecting increasing investment in infrastructure. Oil exports are not expected to start in our rating horizon but could support long-term growth prospects.

The country's institutional strength is considered low as reflected by its Worldwide Governance Indicators, with centralization of power continuing to pose risks in terms of political succession. However, government effectiveness is stabilizing, albeit at a low level, and the rule of law is improving. Uganda also benefits from IMF support under the Policy Support Instrument (PSI) and the fiscal policy framework has improved following the enacting of the Public Financial Management (PFM) Act. Although the country's monetary policy track rec

Current Market

Estimates calculated using MIX Market data on Ugandan MFIs suggest a combined outreach of around 750 thousand borrowers and a loan portfolio of about US\$ 613.4 million as of 30 September 2014. About US\$ 611.2 million of savings deposits from some 2.9 million depositors was held by the deposit-taking MFIs at the same date.

Regulatory Environment

Uganda's financial infrastructure includes commercial banks, credit institutions, deposit-taking microfinance institutions (MDIs), non-deposit taking microfinance institutions (MFIs) and Savings and Credit Cooperatives (SACCOs) that are categorized into a four tier system. Tiers one, two and three institutions offer a broad range of financial services and are supervised and regulated by the Bank of Uganda (BoU). These institutions are primarily based in urban areas but are expanding to rural areas due to high levels of competition in the cities. Tier four institutions, comprised mainly of small and rural based MFIs and SACCOs, remain unregulated and face significant operational and financial challenges.



The Ministry of Finance is currently developing a microfinance law for Tier 4 institutions. The tier four bill is aimed at curbing the increase in client complaints and at channelling funds to disadvantaged groups through financial institutions. The law would also lay the foundation for a new microfinance regulatory body that would be responsible for supervising Tier 4 institutions. This authority will apply different regulatory standards, depending on the size of the institution. The bill is currently undergoing review by other Government entities. The MDI Act of 2003 was reviewed and updated during 2013 – 2015 to ensure that more institutions can achieve MDI status and be regulated by the Central Bank. In late 2013, the BoU issued mobile money guidelines, which were developed with Uganda Communications Commission.

In 2011, Bank of Uganda issued consumer protection guidelines, with which all regulated institutions are expected to comply. The guidelines are comprehensive, and reflect the concepts included in the Smart Campaign Client Protection Principles. Compliance is supervised by BoU.

Competition

Credit-only MFIs in Uganda face increased competition from SACCOs and bank subsidiaries that conduct deposit-taking microfinance business. Moreover, regulations restrict Tier 4 MFIs from using compulsory savings as a funding source or from offering current account facilities.

Even though in some pockets of the country competition is high, other areas remain underserved. Overall, inclusion in the financial system is low, with less than 40% of adults holding an account at a formal financial institution at year-end 2014, according to the World Bank.

ENCOT's geographical market of Masindi and the greater mid-western region is currently served by Five banks (STANBIC, Barclays, Post Bank, Centenary & Equity) and FINCA an MDI. However, all the above do not provide specialized services to the low incomes category of the communities in Masindi most especially smallholder farmers. However, as competition grows amongst the traditional banks and the MDIs, it is expected that these institutions may begin to downtier their product range to reach further into the MSME market, which could impact ENCOT's market dominance in the low incomes category.

Inclusion [Africa] Ltd. is the first rating agency based in Africa that focuses exclusively on rating social performance and impact. Created as a social enterprise, its primary mission is to promote financial and social inclusion across Africa. It provides Social Performance Ratings (SPR) to microfinance organizations in the region whose missions and goals promote financial inclusion and social responsibility. In addition to the rating of microfinance Institutions, Inclusion [Africa] assigns social ratings, using its proprietary methodology, to rate financial institutions, insurance companies, businesses, social enterprises and other organizations active in the social sector field in Africa.

With offices in Kigali, Rwanda and Cotonou, Benin, staff currently consists of experienced evaluators and analysts in the fields of social performance, financial analysis, financial advisory and research.

The company is registered in the UK under Reg No: 09305849.

© Inclusion [Africa] Ltd.