

20
Annual Report
13



**Strømme Microfinance
East Africa Ltd.**



Financial Services for the Poor



**Strømme
Foundation**



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List of ABBREVIATIONS and ACRONYMS

CEO	Chief Executive Officer
FM	Finance Manager
IGA's	Income Generating Activities
IO	Investment Officer
NGO	Non Governmental Organization
RBM	Result Based Management
SACCOS	Savings and Credit Cooperative Organization
SF	Stromme Foundation
SIDI	Solidarité Internationale pour le Développement et l'Investissement
SMF EA Ltd	Stromme Microfinance East Africa Limited
SPM	Social Performance Management

COMPANY Details

	COMPANY REGISTRATION	LIMITED BY SHARES
 Board of Directors, 2013		<p>Mrs Priscilla Serukka (SF EA Regional Director / Chairperson SMF EA Ltd) Dr. Oyvind Aadland (SMF AS) Mr. Bjorn Stian Hellgren (SMF AS) Mrs. Aasa Sildnes (SMF AS) Mrs. Clare Wavamuno (Independent) Justice Mike Chibita (SMF AS) Mrs. Valentine Gitoho (Independent) Mrs. Sascha Noe (CORDAID) Mr. Frederic Foulon (SIDI)</p>
 Head Office & Registered Office		<p>Plot 25 Bukoto Street, Kamwokya P.O. Box 27200, Kampala, Uganda Tel: +256 414 532842 / 4 Fax: +256 414 532834 Email: sfeastafrica@stromme.org / rdeastafrica@stromme.org Website: www.strommestiftelsen.no Facebook: www.facebook.com/StrommeEA</p>
 Bankers		<p>Standard Chartered Bank, Uganda Speke Road P O Box 544, Kampala. Uganda, East Africa.</p>
 Solicitors		<p>Nyombi and Company Advocates Amber House, 1st Floor, Room 111B/112 Wing B P.O. Box 10885, Kampala. Uganda, East Africa.</p>
 Auditors		<p>Deloitte and Touche 18 Clement Hill Road, Shimon Office Village. P.O. Box 7215 Kampala. Uganda, East Africa.</p>

CHAIR PERSON'S STATEMENT



PRISCILLA MIREMBE SERUKKA
Chairperson,
Board of Directors

The company also developed a Construction technical assistance manual and Financial Literacy manual that would support the different institutions that will be offering the housing microfinance services to their clients.

It is a pleasure and opportunity every year to celebrate the Lord's goodness as we present the performance report and achievements of Stromme Microfinance East Africa Limited (SMF EA Ltd) for the year. On behalf of the shareholders and the Board, I thank all Partners of Stromme Microfinance EA Ltd for their contribution and smart approaches that have enabled the Company to register such tremendous results.

In 2013, SMF EA Ltd in Partnership with the Microfinance Institutions in the region were able to reach out to 1.3 million people by offering them an opportunity to access financial services that included savings, money transfers, credit and training in financial literacy. The Company provided financial and non-financial services to 30 partners during the year.

The Company continued to grow its asset base by 15.3%, from Ugx.25.97bn (USD 10,388,000) in 2012 to Ugx.29.94bn (USD 11,978,000) in 2013. Profit after tax grew by 133 from UGX 769 million (USD 307,744) in 2012 to Ugx.1.790 billion (USD 716,043) in 2013.

The quality of the Portfolio as measured by Portfolio at Risk (PAR > 30 days) also improved from 1.4% in 2012 to 0.06% in 2013.

The company had an external rating by Planet Rating agency in July 2013 which showed an improvement from the last rating in November 2010 of C++ to B-. This improvement was a result of established system of best practices in corporate governance, skilled management and well managed human resource.

With support from Nederlandse Financierings-Maatschappij Voor Ontwikkelingslanden N.V. (FMO) and NORAD, the company provided support to 7(seven) partner institutions to design/review, pilot and roll out the Housing Microfinance product for the low enterprising poor in the region. The total project was worth U\$200,000.

The Company invested Ugx.516 million (USD 206,400) in strengthening the capacity of different partner institutions. Thanks to CORDAID who contributed Euros20,000 and Stromme Foundation for the U\$105,600 support granted. These funds supported product reviews and development, staff training, marketing of the products and exposure visits to other institutions and countries.

The company also developed a Construction technical assistance manual and Financial Literacy manual that would support the different institutions that will be offering the housing microfinance services to their clients.

In a bid to widen its product range and offer market responsive services, the company conducted a market survey on Institutional development loan product and Value Chain agricultural loan product. The Institutional development loan product would support Microfinance institutional partners to meet their institutional related development requirements to enhance their service provision like asset acquisition and MIS software. This shall be introduced and piloted in the year 2014.

The company was able to source funding to grow its business from CORDAID, KOLIBRI and STROMME MICROFINANCE AS. This enabled the partner institutions to provide more financial services to the enterprising poor who needed it.

SMF EA Ltd remains committed to contributing to the vision of “A World free from Poverty” through improving the lives of the enterprising poor in the Eastern Africa region and thus, has worked on developing more pro-poor products.

I thank all stakeholders including our partners, shareholders, funders and the regional governments, for their continued partnership and support. In a special way, I thank the Board of Directors for the continued oversight, management and staff for their dedication, hard work and commitment.



Priscilla Mirembe Serukka
Chairperson, Board of Directors

BACKGROUND INFORMATION

Stromme Microfinance East Africa Limited (SMF EA Ltd) is a company limited by shares that was incorporated in 2004 to provide wholesale lending services to microfinance institutions in the Eastern Africa region. SMF EA Ltd is owned by Stromme Microfinance AS (SMF AS) in Norway, Stromme Foundation Regional Office in East Africa, Solidarite Internationale pour le Developpement et l'Investissement (SIDI) in France and Catholic Organisation for Relief and Development Aid (CORDAID) in Netherlands.

OUR VISION

To contribute to "A world free from poverty"

OUR MISSION

"To provide, on a sustainable basis, market responsive, financial services and capacity building support to financial and business service providers to enhance access to financial services by the enterprising poor in the Eastern Africa region".

OUR GOAL

"Enhanced socio-economic empowerment of the poor and marginalised through increased access to financial and non-financial services on a sustainable basis".

OUR CORE VALUES

- **Challenging:** We place demands on the poor, our partners and especially on ourselves.
- **Inclusive:** We meet all people with openness, respect and dignity.
- **Result-focused:** We monitor and measure the results of our work, and make any corrective adjustments when needed to achieve our objectives.

PRODUCTS & SERVICES

Our products and services include;

- Institutional loans
- Housing Microfinance Loans
- Capacity Building support
- Guarantees
- Equity Investments

PHILOSOPHY

"Financial services for the poor"

COUNTRIES OF OPERATION

Uganda, Kenya and Tanzania

SMF EA LTD BOARD MEMBERS, 2013



Dr. Oyvind Aadland
Alternate Director



Mr. Bjorn Stian Hellgren.
Director



Justice Mike Chibita
Director



Mrs. Aasa Sildnes
Director



Mrs. Priscilla Serukka
Chairperson



Clare Wavamuno
Director



Frederic Foulon
Director



Valentine Githongo
Director



Sascha Noe
Director

MANAGEMENT AND STAFF



1 Christopher Luyima
Accountant

2 Harriet Mulyanti
Chief Executive Officer

3 Daniel Sentumbwe
Investment Officer

4 Cressy Musasiizi
Investment Officer

5 Peter Kasajja
Finance Manager

6 Joseph Odeke
Driver

7 Paul Katende
Operations Manager

8 Andrew Sooka
Investment Officer

PERFORMANCE REPORT

1.0 SOCIAL HIGHLIGHTS

SMF EA Ltd in Partnership with the Microfinance Institutions were able to reach out to 1.3 million people by offering them an opportunity to access financial services that included savings, money transfers, credit and training in financial literacy. Out of the clients reached, 55% were female and 45% male. Overall, 46% of the clients reached had access to credit facilities through partner institutions and this enabled them to improve their incomes, have food on the table and taking their children to school. Section 3.3 gives an example of the impact of SMF EA Ltd.'s services through its partner institutions.

Partner institutions were able to develop pro-poor products like education loans and savings, bio gas, water provision related products and agriculture to ensure food security for the community.

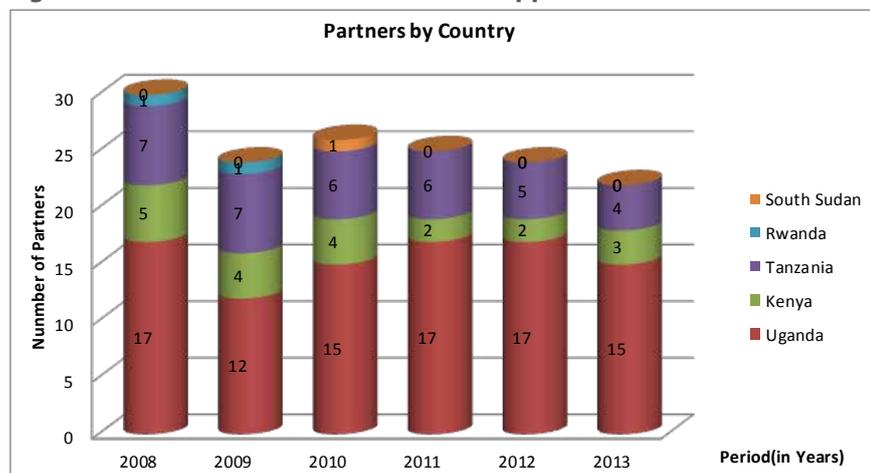
2.0 FINANCIAL HIGHLIGHTS

This section gives an overview of SMF EA Ltd.'s performance for the year 2013 based on different indicators.

2.1 Microfinance Partners

SMF EA Ltd provided financial and non-financial services to 30 Partners during the year although the year ended with 22¹ Microfinance partners having outstanding loans i.e. Uganda (15), Kenya (3) and Tanzania (4).

Figure 1: Trend of Microfinance Partners supported



Source: SMF EA LTD audited accounts

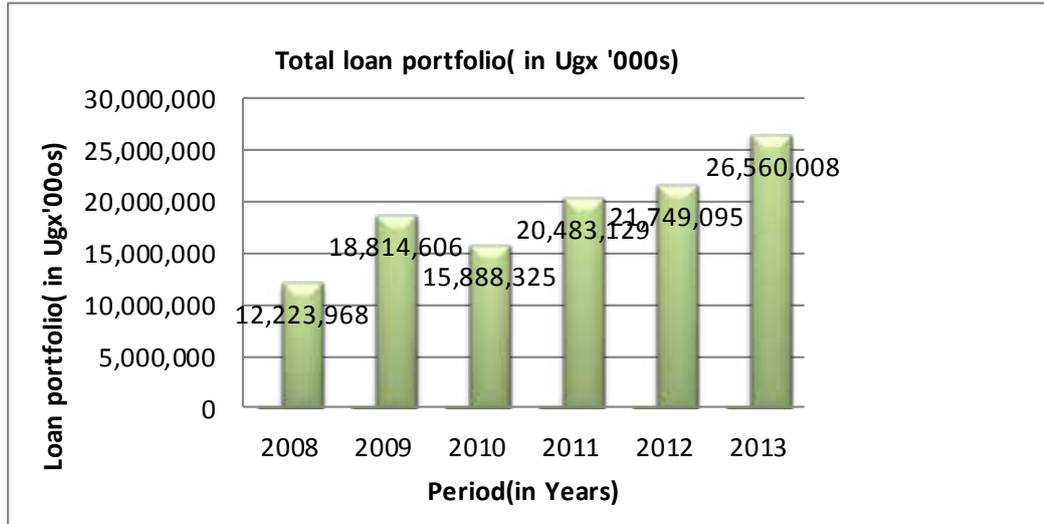
2.2 Loan Portfolio volume and Quality

The Company registered a 22.1% growth in portfolio from Ugx.21.7 billion (USD 8.68 million) in 2012 to Ugx.26.6 billion (USD 10,640,000) in 2013. Figure 2, below shows the trend in gross loan portfolio of over the period 2008- 2013.

There was also great improvement in the portfolio quality. The portfolio quality as measured by portfolio at risk (>30 days) went as low as 0.06% compared to 1.4% as at end of 2012.

¹ Some Partners had paid off their loans

Figure 2: Trends in Gross loan portfolio

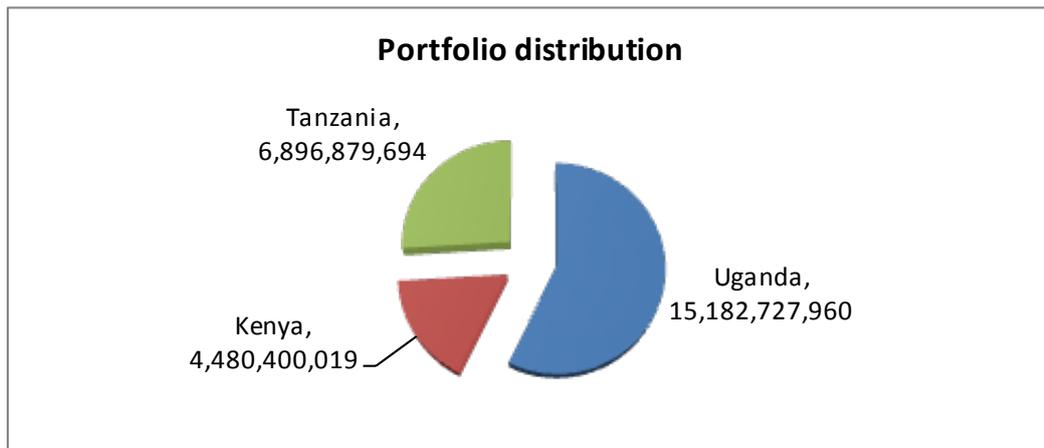


Source: SMF EA LTD audited accounts

2.3 Distribution of Loan Portfolio by Country and Product Type

Figure 3 and 4 show the loan portfolio distribution by Country and by product type as at December 2013. The biggest portfolio concentration was in Uganda (57%), followed by Tanzania (26%) and Kenya (17%).

Figure 3: Loan Portfolio Distribution by Country (In Uganda Shillings)



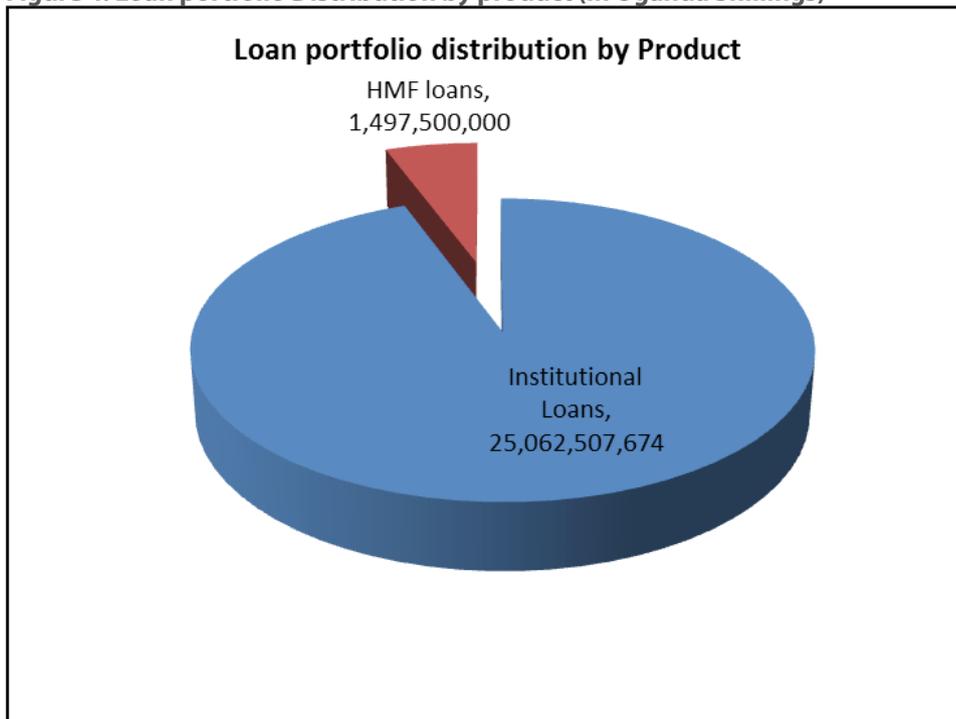
Source: SMF EA LTD audited accounts

During the year company continued to support partners to pilot and roll out the Housing Microfinance product. 7 partner institutions including UGAFODE Microfinance Limited (MDI), Letshego Uganda Limited (former Micro Uganda Ltd), Letshego Kenya Ltd (former Micro Africa Ltd), HOFOKAM Ltd (Uganda), STIMA SACCO (Kenya), Uganda Micro Credit Foundation Ltd and PRIDE RFW (Tanzania) were supported to review/design, pilot and roll out the Housing Microfinance Product. Figure 4 below shows the portfolio distribution by product type.

SMF EA Ltd plans to roll out the product in 2014 and more disbursements will be made to partners. This is intended to enable partner clients to get access to decent housing and improve their social well-being in society in addition to minimizing health related dangers associated to poor shelter and environment.

In addition to the housing microfinance two new products; Institutional development loan product and the value chain agricultural loan product were developed. The Institutional development Loan product will be pilot tested in 2014.

Figure 4: Loan portfolio Distribution by product (In Uganda Shillings)

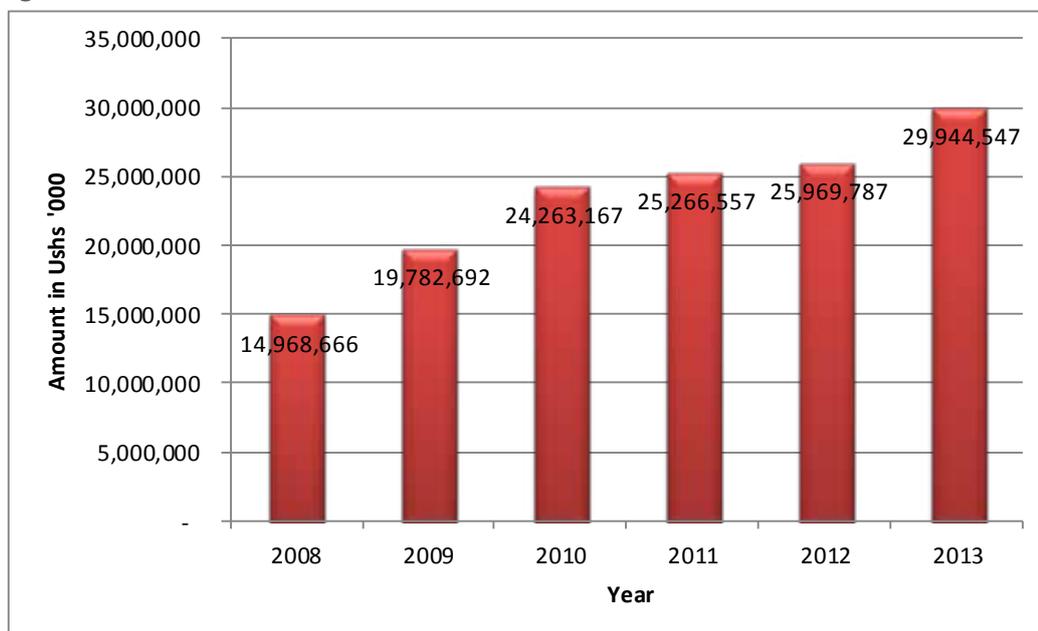


Source: SMF EA LTD audited accounts

2.4 Total Assets

Total assets increased by 15.3%, from Ugx.25.97bn (USD 10,388,000) in 2012 to Ugx.29.94bn (USD 11,976,000) in 2013.

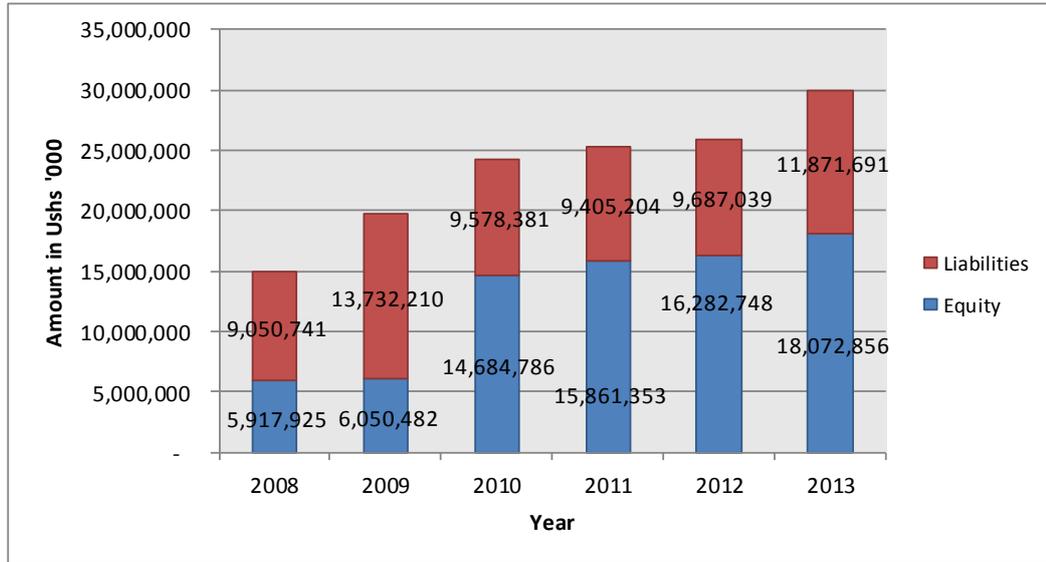
Figure 5: Trend of Growth in Total Assets



Source: SMF EA LTD audited accounts

2.5 Equity and Liabilities

Figure 6: Trends in Equity and Liabilities (in '000 Uganda Shillings)



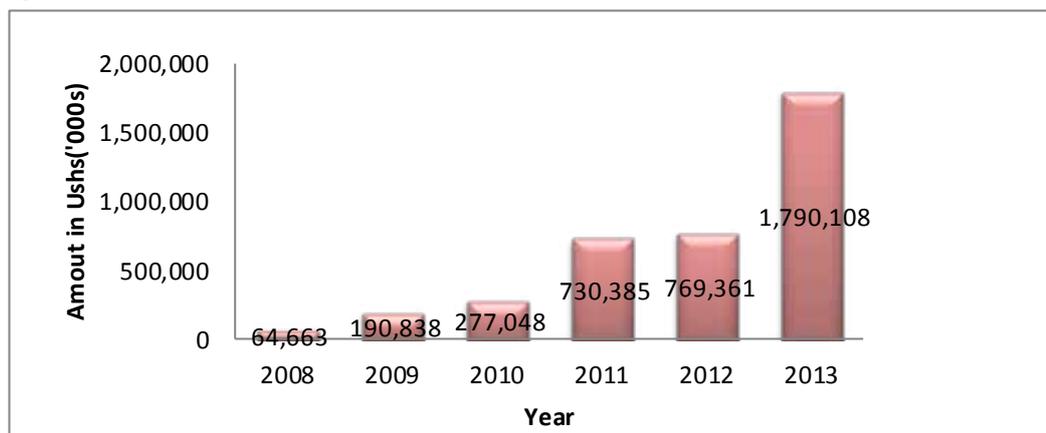
Source: SMF EA LTD audited accounts

Total Liabilities increased by 22.6%, from Ugx.9.687 billion (USD3.87 million) as at 31st December 2012 to Ugx.11.871 billion (USD 4.75 million) as at 31st December 2013. Equity increased by 11%, from Ugx.16.283 billion (USD 6.51 million) as at 31st December 2012 to Ugx.18.072 billion (USD 7.23 million) as at 31st December 2013. Increase in liabilities was mainly caused by accessing more loans funding for on-lending to partners. Increase in equity was as a result of the proven ability of the company to be profitable.

2.6 Profits After Tax

The Company's profitability has steadily increased over the years. The Company realized a 133% increment in profit after tax, from Ugx.769 million (USD 307,744) in 2012 to Ugx.1.790 billion (USD 716,043) in 2013. Figure 7 below provides the trends for the years 2008 to 2013.

Figure 7: Trends of Profit after Tax



Source: SMF EA LTD audited accounts

3.0 NON-FINANCIAL SERVICES

3.1 Institutional Capacity building support

The company provided a variety of capacity building support to its partners which included exposure visit to learn more on housing microfinance and training of 34 partner staff in corporate governance and strategic leadership. During the period, capacity building support was availed to Small and Emerging partner institutions and as a result;

- a) REMODE in Uganda was supported to open its service centre in Gomba and also train youth in financial literacy.
- b) ISSIA Sacco in Uganda was supported to review its business plan covering the period 2014 to 2016.
- c) Gatsby Microfinance in Uganda was supported to review its business plan, conduct and institutional assessment and also conduct a market survey of its products and services
- d) Uganda Ecumenical Church Loan Fund in Uganda was supported to train its Board Members in credit and financial analysis.
- e) Kenya Ecumenical Church Loan Fund in Kenya was supported for the exposure visit of its Operations Manager to PRIDE Microfinance Limited (MDI) in areas of operations, compliance and risk management.

SMF EA Ltd is committed to continue providing support to its partners to enable them to become more efficient and effective in their operations and reach out to more people in the different communities.

3.2 Practitioner networks

SMF EA Ltd also contributed to strengthening the sector in which it operates by working hand in hand with the practitioner networks of Tanzania, Uganda and Kenya to enable them enhance the sustainable delivery of financial services of MFI's. As a result of this support;

- The Association of Microfinance institutions of Uganda (AMFIU) was able to organise the annual microfinance conference that bring together all the players in the Country to learn and share from each other. The members also had a pre-conference session where a risk management training was conducted
- The Tanzania Association of Microfinance Institutions (TAMFI) was supported to organise its annual general meeting.
- Makerere University Business School was supported to organise the African Microfinance Conference.
- There was more information sharing within the region as Board and staff continued engaging and meeting other wholesale lenders/players in Kenya and Uganda. SMF EA Ltd Board of directors visited and had interaction with the Association of Microfinance Institutional of Kenya (AMFI).

3.3 Social Performance Management (SPM)

To further evaluate its interventions, SMF EA Ltd carried out an impact survey with BRAC-Uganda over a three year period to track the changes in the livelihood of the beneficiaries. The company invested U\$1.4m in BRAC Uganda and Tanzania in 2009; which makes it one of the biggest and longest borrowers from SMF EA Ltd. Key findings were the following:

- The average monthly household income of clients increased by 79%, from Ugx.235,458 (USD 94) in 2012 to Ugx.422,194 (USD 169) in 2013. This implied improved investments in income generating activities thus seeing an increase in monthly incomes.



- There was an increase in assets acquisition due to improvement in income levels. 87% of the clients had a radio(compared to 84% in 2012); 41% had acquired a TV(compared to 31.3% in 2012) and 89% had acquire a mobile phone(compared to 84% in 2012). Thus, Brac-Uganda empowered its clients through increased access to information and knowledge.
- There has been a progressive increase in the average loan size per household from the previous loans received. The average loan size increased from Ugx496,475 (199 USD) in 2011 to Ugx590,961(USD 236) in 2012 and 733,868 (USD 294) in 2013. This implies that Brac-Uganda targets the poor people given the loan size which is within SMF target.

The above findings provided confirmation that SMF EA Ltd has been able to meet her vision / mission and that her interventions and those of her partners like BRAC are properly aligned.

4.0 CHALLENGES FACED DURING THE YEAR

- The company still faced challenges of working with small and emerging institutions whose systems are not fully developed and where governance and management issues remained.
- Measuring of social performance was still a challenge due to lack of a standard regional / industrial reporting format to ease the data collection.

5.0 OUTLOOK OF THE OPERATIONS PLAN 2014

SMF EA Ltd envisages the following results by end of its 1st year of operations under the new Business Plan (2014-2018). The Key Objectives are summarized below:

1. Increase business growth in Kenya and Tanzania that will lead to an increase in number of partners from 22 to 29.
2. The Company plans to scale up Housing Microfinance product. Percentage of Housing Microfinance portfolio is projected to increase from the current 6% to 10% of the gross loan portfolio.
3. Following the completion of the diagnostic study in 2013, an Agricultural and Institutional development loan products are expected to be developed. The Institutional development loan product will be introduced and pilot tested.
4. Improve on the documentation and tracking of impact of MFI's supported by SMF EA Ltd through promotion of Social Performance Management (SPM) and Client Protection principles, where 2 million people will have had improved livelihood, decent shelter, increased income and their children accessing education. The company in partnership with the MFI apex associations will also participate actively in the development of a standard industry social performance reporting tool to ease the reporting of Partners on social performance indicators to different stakeholders.
5. Strengthen the internal capacity of small and emerging MFI's to deliver financial and non-financial services to the enterprising poor in the East African Region

SMF EA LTD FINANCIAL STATEMENTS, 2013

a) Statement of Comprehensive Income for the Year ended 31st December 2013

	2013 Ushs'000	2012 Ushs'000
INTEREST INCOME	3,412,043	2,846,579
INTEREST EXPENSE	(563,346)	(784,344)
NET INTEREST INCOME	2,848,697	2,062,235
Fee and commission income	84,937	100,039
Net foreign exchange gains	-	626,452
Other operating income	670,714	110,348
Grants for non-financial activities	1,119,696	2,358,847
OPERATING INCOME	4,724,044	5,257,921
Net impairment loss on loans and advances	-	(320,000)
Staff costs	(757,158)	(804,090)
Net foreign exchange loss	(260,441)	-
Administrative expenses	(575,646)	(478,523)
Expenses on non-financial activities	(809,010)	(2,435,973)
PROFIT BEFORE TAXATION	2,321,789	1,219,335
TAXATION CHARGE	(531,681)	(449,974)
PROFIT FOR THE YEAR	1,790,108	769,361
OTHER COMPREHENSIVE INCOME	-	-
TOTAL COMPREHENSIVE INCOME	1,790,108	769,361

b) Statement of Financial position as at 31st December 2013

	2013 Ushs'000	2012 Ushs'000
ASSETS		
Cash and bank balances	2,755,244	4,136,373
Deposits with other financial institutions	766,243	1,000,000
Investments	8,483	8,483
Loans and advances to customers	25,667,648	20,034,389
Other receivables	263	51,063
Due from related parties	295,971	317,864
Property and equipment	84,711	101,459
Intangible assets	8,578	12,255
Deferred tax asset	357,406	307,901
	<hr/>	<hr/>
Total assets	29,944,547	25,969,787
	<hr/> <hr/>	<hr/> <hr/>
LIABILITIES		
Borrowings	10,915,896	8,762,253
Corporate tax payable	387,292	197,438
Trade and other payables	500,123	377,813
Deferred grants	68,380	349,535
	<hr/>	<hr/>
Total liabilities	11,871,691	9,687,039
	<hr/>	<hr/>
EQUITY		
Share capital	3,557,410	3,557,410
Share premium	6,241,565	6,241,565
Equity contribution	5,082,939	5,082,939
Retained earnings	3,190,942	1,400,834
	<hr/>	<hr/>
Total shareholders' funds	18,072,856	16,282,748
	<hr/>	<hr/>
Total liabilities and equity	29,944,547	25,969,787
	<hr/> <hr/>	<hr/> <hr/>

The financial statements on page 8 to 40 were authorised and approved for issue by the Board of Directors on **4th April 2014** and were signed on its behalf by :



.....
Director



.....
Director

VOICES FROM THE PARTNER CLIENTS

Mr. Muwanga with his Motorcycle that was acquired through financial support from AUMF



Mr. Muwanga Wilson is a resident of Wakiso District, Senge. He is a family man with 6 children and one wife. He is one of the beneficiaries that SMF EA LTD has reached through its partner Advance Uganda Microfinance Limited (AUMF).

Mr. Muwanga processes banana juice at his home in Wakiso District Senge. The idea of banana Juice was first initiated by his wife, who learned from a friend how to process the juice and preserving it. The family took the idea forward. They started with a few cans of juice which they would sell cheaply to their neighbours.

However the situation turned around after Wilson joined AUMF in 2008 and started to borrow in order to increase his capital. So far he has had 8 loan cycles. His current loan cycle with AUMF is UGX 1,500,000 (USD 600). His first loan was UGX 500,000 (USD 200) which he used to buy a Motor cycle to help him in his other business of supplying milk. The juice business is currently managed by the whole family, supplying mainly small scale supermarkets, restaurants, Jakana

processing plant at Kawempe and other retail traders. On average between 600 to 700 litres of juice are made daily and supplied and this has greatly improved their family income.

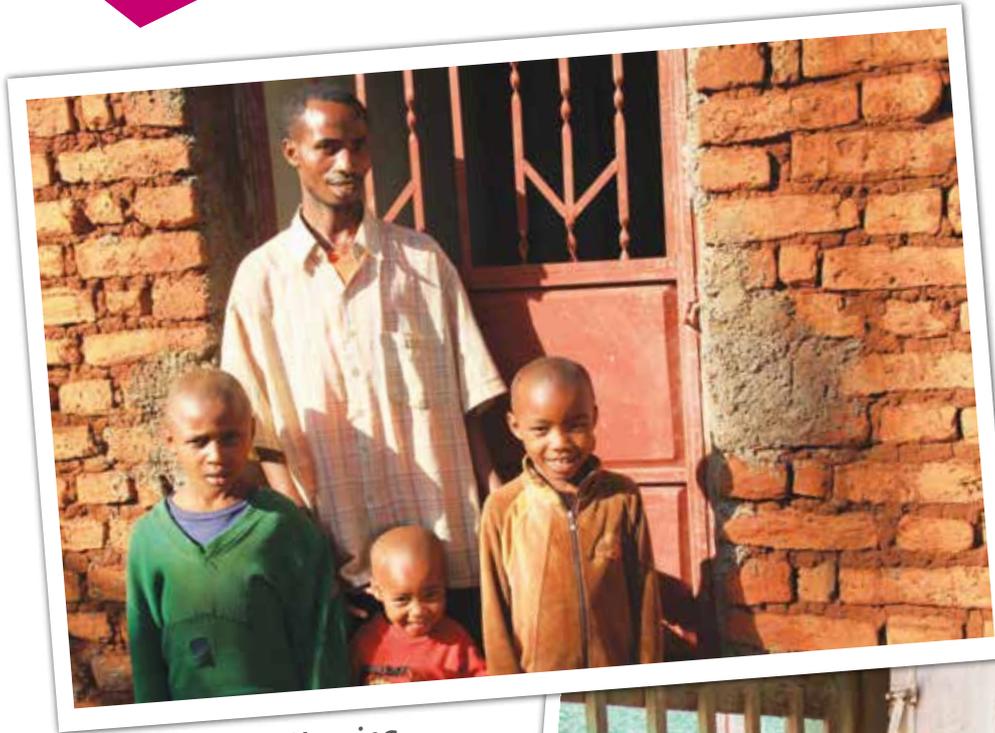
Together with his wife, they have been able to purchase land and construct their residential home with extra units that they hope to rent out when completed. They are also able to pay school fees for their children, two of whom are in University and the rest in secondary school.

"We have over time funded his businesses and we have boosted them with capital. We supported his milk business by enabling him to acquire a motorcycle to ease transportation of milk", says Mr. Kasibante Michael, CEO AUMF.

Some of the challenges they still face include lack of electricity that makes the juice processing quite difficult. Wilson hopes that this will be sorted soon and that they will expand their business to supply to more outlets.



PARTNER CLIENTS IN PICTURES



Better Housing



Microfinance beneficiary at her restaurant business.



Microfinance beneficiary at her retail shop business.

Microfinance Beneficiary in front of her rentals.



Microfinance beneficiary busy at work iron smith.







Stromme Microfinance East Africa Ltd

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Financial Services for the Poor