Affordable Finance

ANNUAL REPORT
2019/2020

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MSC at a glance

Who We Are

The Microfinance Support Centre Ltd (MSC) is a Government-owned institution incorporated in 2001 with a mandate to offer affordable credit and business development services to its target clientele. MSC traces its roots to the Rural Microfinance Support Project (RMSP, 2000-2008), which was implemented with support from the African Development Bank (ADB). The project was designed with a view to addressing the problem of sustainable delivery of microfinance services in the country, as well as that of increasing access and deepening rural outreach. The RMSP components were credit and savings mobilization, capacity building and the establishment of The Microfinance Support Centre.

Our Vision

To be the development microfinance institution transforming livelihoods of the economically active poor for attaining sustainable development.

Our Mission

To provide affordable microfinance services through effective management and delivery of Government of Uganda (GOU) & Partner Development (PD) funds, increased access andstrengthening the capacities of institutions of the economically active poor.

Our Values

1. Equity
2. Accountability
3. People Centeredness
4. Professionalism
5. Efficiency

Our Services

Conventional Financing:

- Agricultural financing - funding is extended to support agricultural activities along the value chain i.e. production, productivity enhancement, agro processing, asset acquisition, marketing and construction of farm & warehousing.
- Environmental financing - funding is extended to support environmental and clean energy products i.e. production of solar, biogas, energy saving stoves and water harvest.
- Group financing - funding is extended to Women, Youth, and Persons with Disabilities, Elderly Persons organized in Groups.
- Commercial financing - funding is extended to finance trade and service-related activities.
- Teachers' financing - funding is extended to finance teachers through their respective intermediaries and economic groupings.

Islamic Financing:

- Musharaka Equity financing/partnership): A joint enterprise or venture between two or more partners, in which the partners contribute capital (Musharaka capital) and share the profits and losses arising from the business.
- Mudarabah (profit sharing): is a form of partnership where one party, the financier or the investment capital owner (Rab-Almal), provides the investment capital; while the other party, who operates the business (Mudarib), provides expertise and effort to run the business.
- Murabaha (Cost plus financing): is a transaction of sale of goods at their capital
  cost plus an agreed profit mark up.
- Salam (forward sale): means a contract in which advanced payment is made for good to be delivered at an agreed future date.
- Istisna: is a long-term contract whereby a party undertakes to manufacture, build or construct an asset, with an obligation from the manufacturer to deliver them to the customer on a future date.
- Muqawala: is a contract in which one party undertakes to manufacture an item or perform work for compensation.

Business Development Services

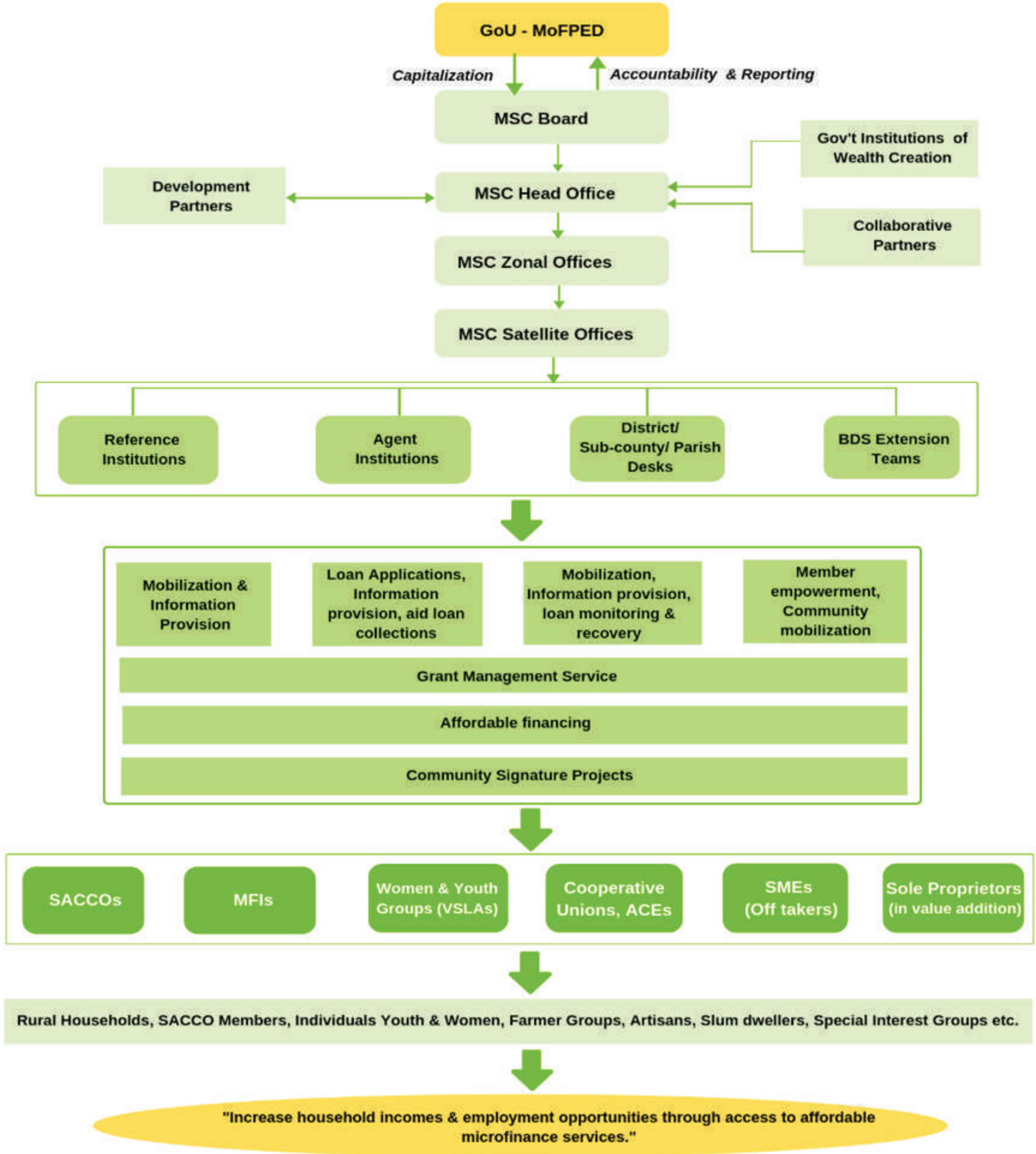
As part of strengthening the capacity of client institutions, MSC also offers the following Business development services:

- Consultancy / business advisory.
- Capacity building and training.
- On and offsite technical assistance.

Our target clientele

- Savings and Credit Co-operative Organizations (SACCOs)
- Microfinance Institutions (MFIs)
- Co-operative Unions & Area Co-operative Enterprises (ACEs)
- Self Help Groups (VSLAs)
- Micro, Small and Medium Enterprises (MSMEs).
- Sole proprietors

BUSINESS DELIVERY STRUCTURE



OUR STRATEGY

Pillar I: Coverage and Depth

- Increase coverage and depth of microfinance services to the economically active poor.
- Strengthen the development impact of MSC by integrating socio-economic measures in its activities.
- Support implementation of the GoU development agenda.

Pillar II: Partnership Development

- Strengthen partnerships.
- Strengthen client institutional capacity.

Pillar III: Product and Service Innovation

- Promote the development of innovative client-centric products and services.

Pillar IV: Organizational Sustainability

- Enhance business growth and efficiency for sustainability.
- Improve resource mobilization and impactful usage of resources.
- Improve governance, performance management and accountability.
- Enhance organizational reputation.

OUR PARTNERS

Development Partners:
Development Partners provide financing and technical support to MSC.

Implementing Partners:
Implementing Partners provide outreach to secondary customers (i.e. the final beneficiaries) by executing the interventions.

Collaborating Partners:
Collaborating partners work in a complementary manner with MSC in executing programs of mutual interest.

4th Islamic Finance workshop held at Hotel Africana in partnership with IRADA Microfinance and Islamic Development Bank

MSC Executive Director, John Peter Mujuni, and Rikolto's Country Manager, Caroline Kahamutima, after signing a Memorandum of Understanding to support smallholder farmers in Mbale sub-region.

LIST OF PARTNERS

- Islamic Development Bank (IDB.
- Cities Alliance/United Nations Office for Project Services.
- African Development Bank
- Ministry of Local Government
- Ministry of Trade Industry and Cooperative (MTIC)
- Heifer Project International (HPI)
- Africa Institute for Strategic Services & Development (AFRISA)
- Goal Uganda
- Engineering Solutions
- VSF-Belgium
- Food and agricultural organization (FAO)
- Opportunity Bank (U) Ltd
- Private Sector Foundation Uganda (PSFU)
- ASIGMA Project and Data Management Services Limited
- Uganda Institute of Banking and Financial Services (UIBFs)
- M-Omulimisa Innovative Agricultural Services (m-Omulimisa)
- Makerere University Business School (MUBS)
- Marula Dream Team
- Kampala Capital City Authority (KCCA)
- Capacity Building Organization for Small & Medium Entrepreneurship & Skills Support (COSMESS)

- Integrated Seed Sector Development (ISSD)
- Ensibuko Tech
- SNV Uganda/Netherlands Development Organization
- Self-Help Africa
- International Fertilizer Development Centre (IFDC)
- Rikolto Solidaridad Office
- International Institute for Rural Reconstruction (IIRR)
- Karamoja Private Sector
- CREAM West Nile
- West Nile Private Sector (WENIPS)
- Operation Wealth Creation
- Rein Group
- Fundo Catholic Charismatic Renewal
- Approaches for Rural Community Development -ACODE
- PALM Business Consult and Agriculture Supplies Ltd
- Centre for E-Governance Development -CEGD
- Caritas
- Kasolo Foundation
- Sasakawa Global
- Zoa Uganda
- Protech Industrial Ltd

Corporate Governance

Chairperson's Statement

I am delighted to present our 2020 Annual Report, amidst these unprecedented times brought about by the COVID19 pandemic. We are particularly honored by the continued Government trust in our ability to deliver our mandate as witnessed by the assignment of the latest wealth creation program dubbed 'Emyooga'. We saw this as an excellent opportunity to expand our outreach to impact the socio-economic lives of more Ugandans, and are confident that it will contribute to the successful delivery of our new Strategic Plan 2019-2024.

This was a year of transition for us as our third Strategic Plan came to an end in June 2019. We were not far along in the implementation of the new one when the pandemic hit; and like several businesses, we had to take a moment to reflect and charter a new course. 'The new normal' was a term we had to embrace, which further meant that we had to revisit our Strategic Plan to accommodate the new way of doing business.

Conducting Business Responsibly

Providing solutions became our primary concern. Following the countrywide lockdown, several businesses plummeted, creating panic for what the future would hold. There was increased demand for financial bail-out, and our relevance was further consolidated through the Emyooga program. As the Board, we tasked Management to look into quick, simple but sustainable solutions to bottlenecks the pandemic had exposed, while being mindful of responding to a panic situation that would plunge businesses deeper into debt.

To ensure business continuity, for example, we developed digital applications for our SACCO and Group clientele to enable them conduct their business remotely. Additionally, we supported our Micro, Small and Medium Enterprise (MSME) clients to introduce new product or service lines that were more relevant to the times.

Business Growth
As a chairperson, I am very proud to say that we financed projects to a tune of Ush.70.2 billion, a 22% increase from the previous year, attributed to massive mobilization and marketing campaigns, as well as trainings to support potential clients. Resource mobilization increased by 346% compared to the previous year, owing to new programs implemented during the year such as Emyooga and the Local Economy Growth Support (LEGS) project funded by Government of Uganda and the Islamic Development Bank, respectively.

As I reflect upon the entire year and the hurdles that came along the way, I cannot help but thank my fellow directors, management and staff for a remarkable performance. While several businesses were rendered non-essential, the team worked hard to ensure that we maintained and excelled in our position as the preferred provider of microfinance solutions to enhance the livelihoods of the economically active poor.

I cannot end without expressing my profound gratitude to the President of Uganda for his leadership and insight during this pandemic. We have seen the havoc it has ravaged in developed countries, inter alia, bringing superior health care systems to their knees. To date, the total confirmed cases as per The Ministry of Health stand at less than 1000 with no deaths recorded.

The Year Ahead
Looking ahead to FY20/21, we will continue to position ourselves as a provider of solutions to local problems and introduce innovations that will support inclusive growth. We intend to keep expanding our network through the establishment of satellite offices and partnerships to develop and grow sustainable income-generating projects, with the ultimate aim of having an office per district.

We also look forward to celebrating 20 years of facilitating access to affordable financial services. With our plans and strategies in place, accompanied by constant innovation and adaptation, we are confident that we shall achieve our overall goal of transforming livelihoods of the economically active poor for sustainable development.

Stay Safe

Dr. Wilberforce Kisamba-Mugerwa
Chairperson, Board of Directors

Board of Directors from L-R (Albert Odoi, Mayanja Gonzaga, Ruth Biyinzika Musoke, John Peter Mujuni (Executive Director), Dr. Wilberforce Kisamba-Mugerwa (Chairperson), Hon. Mary Karooro Okurut (Shareholder, OPM), Hon. Haruna Kasolo Kyeyune (Shareholder, Ministry of Finance, Planning and Economic Development), Dr. Birungi Korutaro, Barigye Robert and Juma Kigozi Walusimbi.)

COMMITMENT TO GOOD GOVERNANCE

The Board of Directors comprises highly competent individuals with a wealth of experience drawn from the Public, Cooperative, Private and Academia sectors. They are selected based on their scientific/professional expertise in their respective fields, and commitment to achieve the strategic objectives of the company.

The Board of Directors plays an oversight role on behalf of its appointing authority, Ministry of Finance, Planning and Economic Development (MoFPED), and monitors the general performance of the Company. The Directors specifically:

- Supervise and monitor the implementation of the Strategic Plan;
- Review and approve operating procedures and practices;
- Review and approve MSC work plans and budgets; and
- Review quarterly performance reports.

Board Charter

For effective Governance, the Board is guided by the Board Charter, a policy document that stipulates the roles, responsibilities, structure and processes of the Board. The Board Charter is in line with sound practices in good governance and is subject to the provisions of the Company's Act No. 1 of 2012 and MSC's Memorandum and Articles of Association.

Appointment, Composition and Term of Office of the Board of Directors

The Board of Directors is comprised of nine independent non-executive directors, who are appointed by the Minister in charge of Finance, Planning and Economic Development. When selecting Directors, emphasis is placed on individuals of high integrity with profound knowledge and passion for the industry. The Directors serve for a period of three years; and are eligible for reappointment for another term not exceeding three years. The Executive Director is an ex-officio member of the Board and has a fixed service contract of five years, renewable subject to regular performance appraisals by the Board. In line with best practices in corporate governance, the Board lays out guidelines and strategies for succession planning; and plays an advisory role during nomination. For appointment of new directors, existing members may constitute themselves into ad-hoc committees to execute this role.

Board Induction and Training

Upon his or her election, each board member participates in an induction program that covers the company's strategy, general financial and legal affairs, financial reporting by the company, and any specific aspects unique to the company and its business activities.

The training also highlights the responsibilities of Board members.In an effort to continuously enhance knowledge and skills of the members, the Chairperson conducts a training needs assessment and agrees with each Director on key skills development areas. Additionally, members undertake field trips to areas where MSC operates, in order to fully understand the nature of the business.

Board Meetings and Attendance

Full board meetings are generally held once every quarter at the company premises, but may also take place at an agreed venue outside the company premises. Meetings are held in high esteem, and members who fail to attend four consecutive scheduled meetings of the Board without reason vacate office. Non-members of the Board, including members of senior management team and professional advisors, are admitted to the meetings by invitation and are not entitled to vote.

Conflict of Interest

Board members have a fiduciary obligation to the company and must declare potential areas of conflict of interest, which may undermine the position or service of a Director. While serving his/her term, a Director that has a material personal interest in a matter that relates to the affairs of MSC must give the other Directors prior notice of such interest. Each Director owes the following duties to the company's members' and stakeholders:

- A duty to act honestly and in good faith;
- A duty to act in the best interests of, and for the benefit of, the company;
- A duty to act independently, and free from undue influence of any person;
- A duty to access necessary information to enable him/her to properly execute his/her responsibilities as a Director. The Company Secretary maintains a register of declarations of interest by Directors and reports them to the Board as necessary.

Internal Control

In addition to having a Board committee in charge of governance and audit, MSC has a highly qualified internal audit team whose duty, among others, is to ensure that the company complies with laws, policies and operating instructions. In accordance with Section 13 of the National Audit Act (2008), the Auditor General audits and reports on the financial statements of MSC. The Auditor General may, under Section 23 of this Act, appoint private auditors to assist him/her in performance of his/her functions.

The appointed External Auditor then alerts the Board of Directors of the company's credit and operations risks; ascertains, evaluates and tests internal controls before placing audit reliance on them; and performs an audit in accordance with international auditing standards and such other regulations, directives and policy guidelines of the regulators of the company's business.

Company Secretary

The MSC Company Secretary plays an important role as a source of information for the Board and offers guidance to the members on matters of ethics, best practices in corporate governance and compliance with procedures. S/he assists the Chairperson of the Board in organizing board activities and business including providing information; preparing agendas, board papers, minutes, and is the communication link between the Board and other key stakeholders of the company.

Board Committees

The Board has three established committees, whose terms of reference are reviewed each year. They are appropriately constituted with due regard to the workload, skills and experience required for each committee. While there are three standing committees, the Board may establish ad-hoc committees as and when required to consider matters of special importance. The chairperson of the committee shall be appointed by the Board of Directors and shall not be the chairperson of the Board of Directors or of any other committee of the Board.

Finance, Credit and Business Development Services Committee

The Committee mainly establishes guidelines for controlling the company's business risks and maximizing expectations from investments.

Human Resource and Compensation Committee

The committee looks into matters of remuneration and approves the company's overall remuneration policies and strategies, as well as various performance incentive schemes for the staff. It also reviews the performance of the Executive Director and Senior Management Team at least once a year.

Governance and Audit Committee

This committee reviews the company's internal audit reports, along with the risk management policy and plan for approval by the Board of Directors. It ensures that the audit and risk functions are adequately staffed and effective; and makes recommendations to the Board about appointment of external auditors.

The committee further ascertains the nature of the external audit, co-ordinates the internal and external audit, and considers rectification and implementation of issues raised by the external auditor. In addition, it monitors and reviews the external auditor's independence, objectivity and effectiveness, taking into consideration relevant professional requirements.

Senior Management Team

Mr. John Peter Mujuni - Executive Director
Mr. Mujuni is currently the Executive Director of the Microfinance Support Centre Ltd. He is an economist with extensive experience gained from senior positions held in United Nations Development Program (UNDP) as Assistant Director and Assistant Resident Representative; Head of Planning at National Social Security Fund (NSSF) and Ministry of Finance, Planning and Economic Development.

He holds a Masters Degree in Economic Policy and Postgraduate Diploma qualifications from the Association of Chartered Certified Accountants (ACCA), Uganda Management Institute (UMI) and Frankfurt Business School, among others. He has a special interest in development finance and issues of unemployment.

Ms. Hellen Petronilla Masika – Head, Executive Director's Office
Ms Masika heads the office of the Executive Director. She holds an MBA (Finance), a Bachelor of Business Administration & Management (Accounting) and a Diploma in Microfinance & Community Economic Development. She has attended a number of short courses, both locally and internationally, including certified compliance analyst, performance management, partnership, and general development finance, among others.

She has over 15 years' experience in the financial sector, during which she has been involved in assessing and building capacities of partner organisations including MFIs, SACCOs, Groups, Cooperatives and SMEs.

Ms. Mariam Ndibuuza – Ag. Company Secretary
Ms. Ndibuuza is in charge of compliance management at MSC. She is an enrolled advocate with more than 14 years combined experience in legal practice. She is specialized in corporate secretarial practice and has extensive experience in financial institutions' legal practice.

She holds a Bachelors of Laws degree – LLB and is currently pursuing certification at the Institute of Chartered Secretaries and Administrators (ICSA). She is also a member of the Uganda Law Society and East African Law Society.

Mr. John Mwebembezi – Head, Finance and Administration

Mr. John Mwebembezi is a Fellow Member of the Chartered Certified Accountants (FCCA) and a Member of the Certified Public Accountants of Uganda with over 25 years of experience in Financial Management, Taxation and Project Management gained from having worked with a number of corporate and multinational institutions. Before joining The Microfinance Support Centre Ltd (MSC) as the Head Finance and Administration in 2014, he worked with Ministry of Finance and Economic Planning as the Financial Management Specialist. He held other senior management responsibilities with UNFPA, BAT, and PricewaterhouseCoopers (PwC), Uganda Revenue Authority and Standard Chartered Bank.

John holds a Masters of Business Administration, Bachelor of Statistics and Applied Economics from Makerere University.

Mr. Alfred Ejanu – Ag. Head, Credit and Investments

Mr. Ejanu is a seasoned microfinance practitioner with over 18 years of Banking and Microfinance experience, six of which he spent at middle and senior leadership levels. His experience spans around credit origination, credit administration, credit/risk management, business growth, and SME financing and Islamic microfinance delivery.

Prior to his recent appointment as Head of Credit & Operations department, Mr. Ejanu was the Senior Zonal Manager in charge of Western region. He previously worked for Centenary and Diamond Trust banks as Credit Administrator and Head of Sales respectively before joining The Microfinance Support Centre in 2011.

Alfred is also the Chairperson, Staff welfare committee of the organization.

He has a Masters degree in Business Administration majoring in Small and Medium Enterprise Management; a Post Graduate Diploma in Microfinance Operations and a Bachelor of Science degree in Economics.

Ms. Juliette Doreen Asingwire – Ag. Head, Internal Audit

Ms. Asingwire has over 10 years of experience in accounting (auditing) and administration. She holds a Masters in Business Administration from Eastern and Southern Africa Management Institute (ESAMI) and a Bachelor's degree in Economics from Makerere University.

She is a Certified Public Accountant (CPA), Certified Information Systems Auditor (CISA), Certified Forensic Investigation Professional (CFIP) and holds an IEC/ISO 27001LA certification as a lead auditor in information security.

Ms. Clare Louise Atuheirwe – Ag. Head, Human Resource

Ms. Atuheirwe is a Human Resources Management Specialist with an all-round experience of over 15 years in multinational organisations, national organisations in both private and government agencies.

She possesses a Master's degree in Management Studies/ Human Resource, a Bachelor's Degree in Social Sciences and a host of soft skill improvement programs. She is an associate Member of Uganda Human Resource Managers' Association.

Looking Back

Performance of the Strategic Plan 2014-2019

Performance of the Strategic Plan 2014-2019 (as of March 2019)	
Performance Status	**Rating**
Strategic Objective, 1. Increase Coverage of MSC Services and Products	
The percentage of districts with at least one reference SACCO by the time of the evaluation stood at 70% against a target of 90 %.	Partially achieve d
MSC achieved the target of having at least 118 of districts with at least one reference institution (initially targeting one reference SACCO).	Achieved
The number of active customers in Partners rose from 380,000 to 1,296,925. This achievement is expected to surpass the FY 2018/19 target of 1,305,000	Achieved
The savings among members of Partners rose from UGX 51.4 billion to UGX 184.7 billion. The final year target of UGX 185.4 billion is expected to be surpassed.	Achieved
The number of clients served has been increasing but not to the level of 10% that MSC Strategic Plan had projected.	Partially Achieved
The client membership in the partner institution increased by about 247% from the baseline year of 610,110 (2013/14) to 2,119,847 million in 2018/19 Financial years.	Achieved
The outstanding loan portfolio stood at UGX 86.1 billion up from UGX 42.26 billion. The target for the end of the strategic period was UGX 95 billion.	Partially Achieve d
For Conventional MSC Loan Product, the value of disbursements averaged UGX 30.8 billion, but this was below the set strategic target average of UGX 38.8 billion	Partially Achieve d
The portfolio for Islamic Financing launched only in year three of the Plan stood at UGX 30.78 billion	Achieved
Strategic Objective 2: Enhance Product Development	
The Group loans and other products such as the teacher's fund products. Overall the process of product development through this period was slow despite the number of product surveys done.	Partially Achieved
MSC carried out reviews of all its products during the strategic period, and changes were instituted after the midterm review.	Achieved
The figures for the uptake of the MSC products rose from 85%, but this has since declined to the current level of 2.5%. The only positive development was Islamic financing as alluded to above.	Not Achieved

Performance of the Strategic Plan 2014-2019 (as of March 2019)	
Performance Status	Rating
MSC carried out reviews of all its products during the strategic period, and changes were instituted after the midterm review.	Achieved
The figures for the uptake of the MSC products rose from 85%, but this has since declined to the current level of 2.5%. The only positive development was Islamic financing as alluded to above.	Not Achieved
Strategic Objective, 3. Strengthen Client Institutional Capacity	
The Client Governance Performance Index was introduced in FY 2016/17 showed an improved governance performance from a base value of 70% to the current 82.9%	Achieved
The number of client staff and board members trained rose from the base value of 252 to 2,175 above the final year target 2,100.	Achieved
The number of client institutions offered technical assistance rose from 128 to 557 between 2014/15 and 2017/18.	Achieved
The number of defunct co-operatives mobilised rose from 8 to 26 against a target of 122.	Not Achieved
Client Financial Performance Index was only introduced in FY 2016/17 and showed an increase in performance from 69% to 88.7%.	Achieved
Strategic Objective 4: Strengthen Strategic Partnerships	
MSC worked with partners resulting in increased presence and influence in various aspects – in which MSC capacity was limited. These synergies proved effective in agricultural, commercial and BDS activities.	Partially Achieved
Worked within MoU arrangements with over six partners. Most of these MoU were short term and ended by July 2019.	
% of the expected outputs of the partnerships has been achieved rising from 75% to 87% over the strategic planning period.	Achieved
Strategic Objective 5: Improve Resource Mobilization	
The percentage increase in resources mobilised over averaged 14.8% below the target of 15%.	Partially Achieved
The equity increased from UGX 61.4 billion to UGX 89.0 billion since this was below the 95 billion targets. Shortfalls in financing from the Government was cited as a reason for this performance.	Partially Achieved

Performance of the Strategic Plan 2014-2019 (as of March 2019)	
Performance Status	**Rating**
The value of resources in the pipeline (including financing commitments) rose from UGX 3.88 billion to UGX 58 billion against the target of UGX 141 billion.	Partially Achieved
Two new development partners and funders identified -Islamic Bank and the African Development Bank.	Achieved
Strategic Objective 6: Enhanced Organizational Sustainability	
Throughout the Strategic Plan period, MSC strived to minimise costs to keep the costs at least 1:1. However, it remains problematic for MSC to compute and report on the cost-income ratio of 1.1 at the Zone level.	Indeterminate
The percentage of amounts of due loans collected annually averaged 71% against an initial target of 93%.	Partially Achieved
The above rate is shown in the value of due collections that averaged UGX 25.4 billion against a target of UGX 39.3 billion.	Partially Achieved
The performance measured by risk management maturity was at kept Stage 3, which ensured prudence in the management of resources.	Achieved
The internal Audit capability level was achieved, and audit reports prepared as required by the corporate strategy. However, the internal audit reports were not made public.	Achieved
Implementation of all Board Directives over the period averaged 82%.	Achieved
Portfolio at risk (PAR) averaged 17.3% over the strategic period against a target of 14%.	Partially achieved
% of business processes that are reviewed and automated increased over the strategic period stood at an average of 50% against a target of 60%.	Partially achieved

Forging Ahead

Strategic plan highlights (2019-2024)

The Strategic Plan 2019-2024 seeks to consolidate and build on the achievements recorded over the past five years. The Plan purposes to address identified constraints and challenges in the execution of MSC's mission and support of Uganda's Vision 2040 and National Development Plan III.

The overall goal of Strategic Plan 2019-2024 is "to increase household incomes and employment opportunities through access to affordable microfinance services by effectively managing Government of Uganda and partners' microfinance funds".

The Plan is founded on four reinforcing Pillars illustrated below:

2019/20

Operating Environment

Upon confirming Uganda's first case of C19, Government put in place a partial lockdown implemented through a number of measures aimed at curbing the spread of the virus. These measures included: closure of schools, places of worship, non-essential businesses and markets; restrictions on domestic and international travel; restrictions on gatherings; wearing of protective gear in public spaces; social distancing; use of hand sanitizers and a night-time curfew.

The lockdown took a heavy toll on all sectors and businesses but affected the urban and rural poor most as they have little or no access to adequate social and economic safety nets.

Measures put in place at MSC

MSC constituted the Safety & Business Continuity Taskforce to plan, coordinate andimplement safety measures to ensure staff safety and business continuity. Key decisionsand guidelines were periodically communicated to staff through Management, including:

- Purchase and distribution of safety gear - masks, gloves, sanitizers, temperature guns and mobile hand-washing equipment were acquired and distributed to all MSC Offices. Safety precaution posters were also printed and pinned at assembly points.
- Sensitization & preparation - medical practitioners were engaged to sensitize and train staff on prevention and disease management.
- Decongestion - rotational working was introduced and staff were supported with tools to enable them work from home.
- Digitalization - MSC Online Meetings Facility was set up to support virtual meetings (internal and external client meetings) for continuity of operations.
- Combined assurance initiatives were implemented to fast track risk assessment and mitigation.
- Mobility during lockdown: through strategic engagement with RDCs, Public Service and Ministry of Works, stickers were acquired to support continued mobility for effective business monitoring.

2019/20 Performance

The company's performance during this period focuses on key indicators in line with the strategic objectives. In the third Quarter of FY 2019/20, the country witnessed the effects of the COVID-19 pandemic, culminating into partial closure of the economy. As a result, the company experienced performance disruption and low activity implementation.

Pillar 1: Coverage and Depth

During FY 2019/20 the company disbursed Ushs 63.8 billion in conventional financing to partner institutions which included SACCOs, Unions, SMEs and VSLAs. This is compared to Ushs 53 billion disbursed during FY 2018/19 representing 20% performance growth. We attribute this to additional credit fund received from GOU in the financial year, this increased on coverage and credit support extended to partners.

During FY 2019/20 the company financed several Islamic projects worth Ushs 10.2 billion compared to Ushs 9.96 billion in the FY 2018/2019, representing 2% financing growth, this is attributed additional funds received to boost Islamic project under LEGS project.The financing results were attributed to massive mobilization campaigns and trainings to support potential clients within the country. The performance in conventional loans was due to increased uptake of conventional financing facility. MSC also continued to enhance marketing through mobilization drives in regional and satellite offices and collaboration with partners, district commercial Officers and other Local Government Officials and community based organizations.

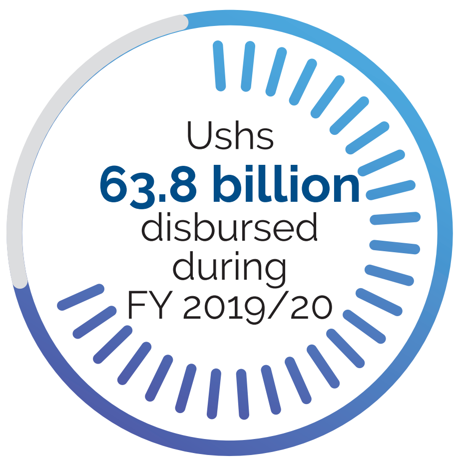


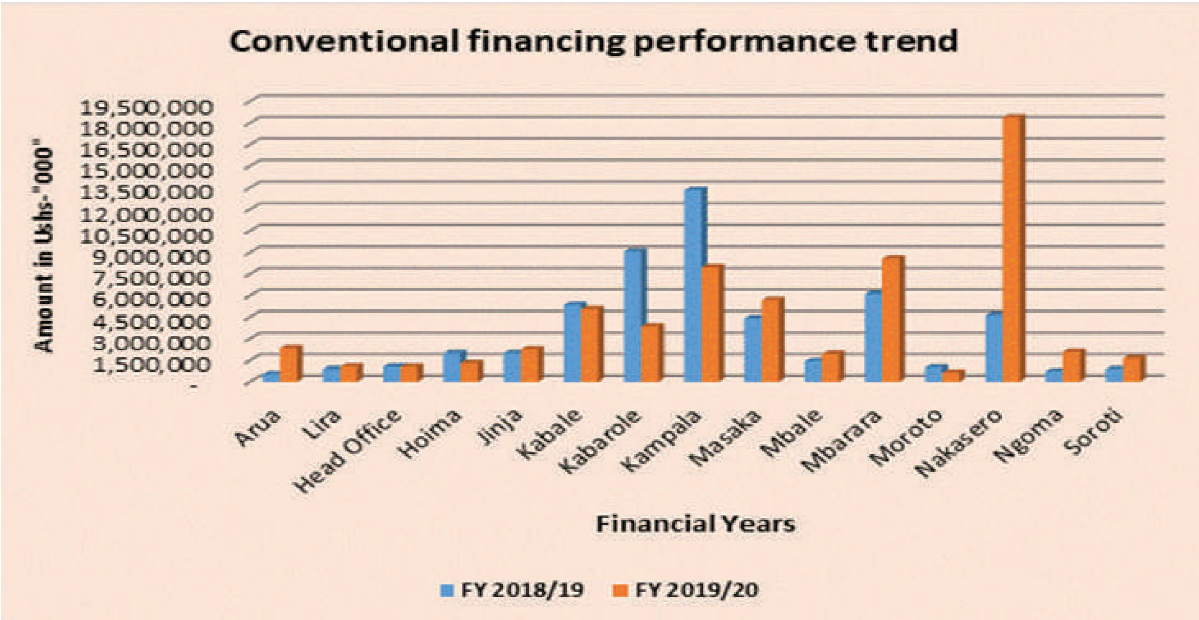
Table1; Showing conventional financing absorption to partners during FY 2019/20 compared to FY 2018/2019

Conventional financing absorption -Ushs "000"		
Zones	FY 2018/19	FY 2019/20
Arua	522,689	2,362,810
Lira	901,830	1,071,222
Head Office	1,082,000	1,053,500
Hoima	1,993,000	1,300,000
Jinja	1,996,000	2,267,000
Kabale	5,339,000	5,050,000
Kabarole	9,069,000	3,850,500
Kampala	13,324,450	7,955,000
Masaka	4,411,000	5,674,490
Mbale	1,446,235	1,932,586
Mbarara	6,111,000	8,551,000
Moroto	1,020,000	631,000
Nakasero	4,605,000	18,376,695
Ngoma	718,800	2,084,450
Soroti	897,734	1,643,266
Total	**53,437,738**	**63,803,519**

Source: Management Information System

The above table shows growth in conventional financing to clients by 19% during FY 2019/20 with Nakasero zone recording the highest level of absorption while Moroto had the least absorption.

Figure 1; Graph Showing conventional financing absorption to partners during FY 2019/20 compared to FY 2018/2019



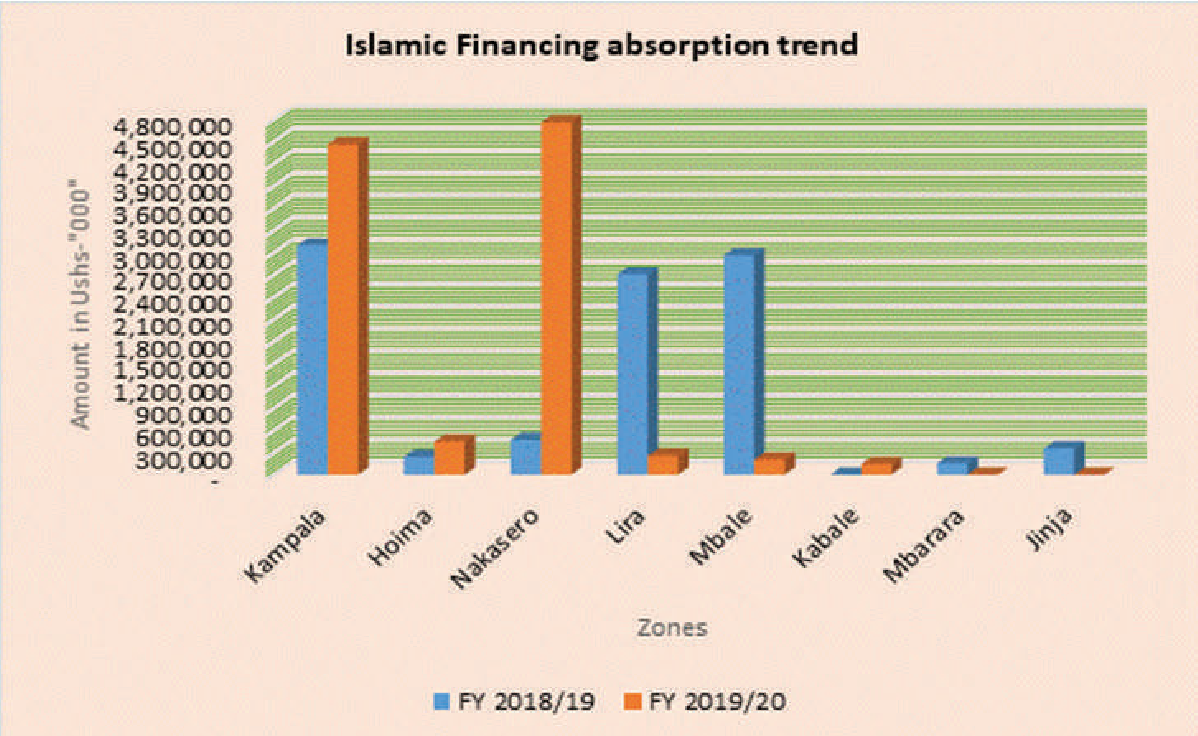
Source: Management Information System

Table2; Showing Islamic financing absorption by partners during FY 2019/20 and FY 2018/2019

Islamic financing absorption -Ushs "000"		
Zones	FY 2018/19	FY 2019/20
Kampala	3,094,769	4,454,000
Hoima	236,000	444,000
Nakasero	468,221	4,754,000
Lira	2,702,760	250,000
Mbale	2,958,250	200,000
Kabale	-	140,000
Mbarara	150,000	-
Jinja	350,000	-
Total	**9,960,000**	**10,242,000**

The above table show growth in Islamic financing to clients by 3% during FY 2019/20 with Nakasero zone recording the highest level of absorption while Kabale had the least absorption.

Figure 2; Showing Islamic financing absorption by partners during FY 2019/20 and FY 2018/2019



Source: Management Information System

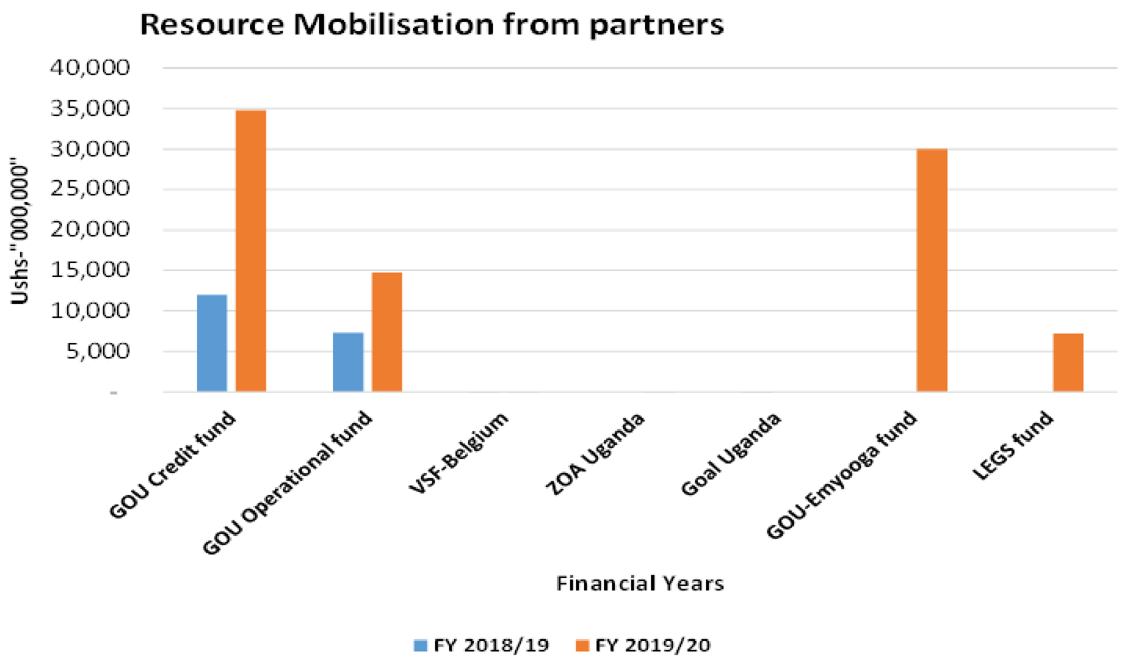
Pillar 2: Partnership Development

In strengthening partner development, MSC implements its interventions through partner organisations. During the FY 2018/19 and FY 2019/20 the company has been able to attract additional funding from Government of Uganda in form of Credit fund and operating grant. Through the good working relationship with stakeholders MSC has been able to attract partnership funds from VSF-Belgium and ZOA Uganda as seen below;

Resource Mobilisation -Ushs "000,000"		
Partners	FY 2018/19	FY 2019/20
GOU Credit fund	11,996	34,743
GOU Operational fund	7,293	14,729
VSF-Belgium	66.4	76.8
ZOA Uganda	-	20
Goal Uganda	66	-
GOU-Emyooga fund	-	30,000
LEGS fund		7,222
Total	**19,422**	**86,791**

Source: Management Information System

Figure 3; Showing MSC resource mobilization performance



During FY 2019/20 resource mobilisation by the Company increased by 346% compared to FY 2018/19,this is attributed to new programmes implemented in the financial year like EMYOOGA and LEGS from which additional funds were received from Government of Uganda and Ministry of Local Government.

Pillar 3: Product and Service Innovation

Rabbit Project

Youth Irrigation Project

Valley Dam Excavation Project

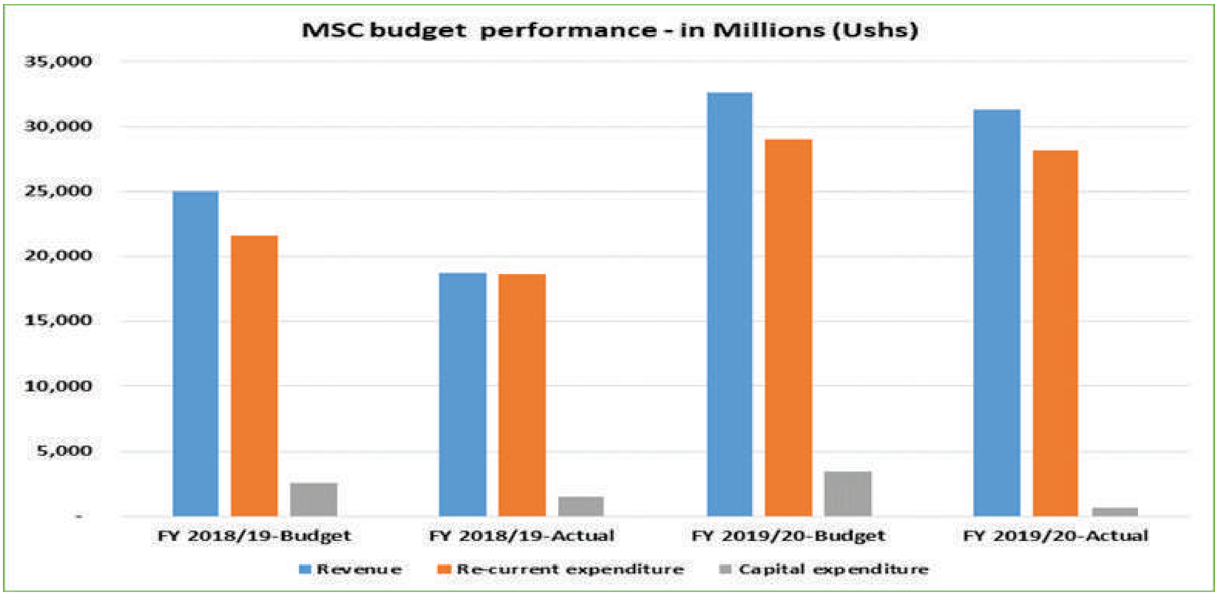
Pillar 4: Organizational sustainability

Table showing MSC budget performance trend

Budget Performance Summary trend -Ushs "000,000"				
Items	FY 2018/19-Budget	FY 2018/19-Actual	FY 2019/20-Budget	FY 2019/20-Actual
Revenue	25,030	18,702	32,630	31,343
Re-current expenditure	21,658	18,655	29,089	28,138
Capital expenditure	2,549	1,526	3,401	654

During the FY 2020/21 the company budget provision increased by 30% for revenue, 34% for re-current expenditure and 33% for capital expenditure compared to FY 2018/19. This is attributed to growth in Company activities and programmes. The main sources of revenue for financing Grants from Government of Uganda, Interest Income from credit, grants from partners and other internally generated sources.

Figure 4; Graph showing MSC budget performance during FY 2018/19 & FY 2019/20



Source: Management Information System

MSC Trend Analysis 2014-2020 UGX (Billion)						
	2015	2016	2017	2018	2019	2020
Interest Income	6.3	7.3	8.1	7.7	6.3	12.7
Profits from Islamic	-	-	-	2.1	3.1	2.2
GOU Operating Grant	4.7	4.3	4.7	4.3	7.3	19.0
Operating Expenses	12.3	13.3	12.2	14.0	18.6	29.7
Islamic Investment financing	-	-	4.1	35.4	9.9	10.2
Disbursment-Conventional	37.9	34.5	33.4	32.7	53.4	63.8
Total Assets	76.8	72.2	103.1	104.3	113.5	183.0
Total equity	61.5	59.5	64.0	92.1	100.0	139.6
Portfolio	49.4	55.2	62.3	82.2	97.1	133.4

Source: Management Information System

Over the years Company performance on Key Performance Indicators have steadily increased, demonstrating the continued level of MSC growth both in terms of activities and outreach, this reflects its capacity to providing access to finances sustainably.

Corporate Social Responsibility

Finance sector:

MSC donated a heavy duty mini safe to Buikwe Twezimbe SACCO, following a robbery incident at the SACCO's premises.

Health sector

MSC contributed Ush.2m to the Rotary Club of Kampala Central to support the Cancer Run initiative.

Transport sector

Donated road safety gear (reflector jackets and helmets) worth Ush.200m to boda-boda riders in Masaka as part of the end of year retreat activities. MSC also repainted the only zebra crossing in the city.

Financial Report

REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF THE MICROFINANCE SUPPORT CENTRE LIMITED FOR THE FINANCIAL YEAR ENDED 30TH JUNE 2020

Opinion

I have audited the accompanying financial statements of The Microfinance Support Centre Limited ("MSCL"), set out on pages 9 to 41, which compromise the statement of the financial position as at 30th June 2020, the statements of profit or loss, statement of changes in equity and statement of cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

In my opinion, the accompanying financial statements give a trues and fair view of the financial position of The Microfinance Support Centre Limited as at 30th June 2020 and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards (IFRSs) and the requirements of the Ugandan Companies Act, 2012.

Auditor's Responsibilities for the Audit of the Financial Statements

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Other Reporting Responsibilities

In accordance with Sections 19(1) of the National Audit Act, 2008, I report to you, based on my work described on the audit of Financial Statements that, the activities, financial transactions and information reflected in the financial statements that have come to my notice during the audit, are in all material respects, in compliance with the authorities which govern them.

Report on the audit of compliance with legislation

There was no material finding in respect of the compliance criteria for the applicable subject matters.

John F.S. Muwanga
AUDITOR GENERAL
30th September, 2021

COMPANY INFORMATION

BOARD OF DIRECTORS	: Dr. Wilberforce Kisamba Mugerwa (Chairperson) : Dr. Albert Odoi : Dr. Birungi Korutaro : Mr. Mayanja Gonzaga : Ms. Biyinzika Ruth Musoke : Mr. Juma Yusuf Kigozi Walusimbi : Mr. Bariyo Robert Barigye : Mr. Odongo Milton Amaya Moses : Mr. Mujuni John Peter (Executive Director)
REGISTERED OFFICE	: Plot 32 Nakasero Road : P.O.Box 33711 : Kampala, Uganda
COMPANY SECRETARY	: Ms. Ndibuuza Mariam (Acting Company Secretary) : Plot 32 Nakasero Road : P.O. Box 33711 : Kampala, Uganda
INDEPENDENT AUDITOR	: PKF Uganda : Certified Public Accountants Plot 1B Kira Road : P.O. Box 24544 : Kampala, Uganda
PRINCIPAL BANKERS	: Centenary Bank : Mapeera House : Plot 44-46, Kampala Road : P.O .Box 1892 : Kampala, Uganda : United Bank of Africa : Plot 2 Jinja Road : P.O.Box 7396 : Kampala, Uganda : DFCU Bank : Plot 26 Kyadondo Road Nakasero : P.O.Box 70 : Kampala, Uganda : Bank of Uganda : Plot 37/43 Kampala Road : P.O.Box 7120 : Kampala, Uganda

REPORT OF THE DIRECTORS

The directors submit their report and the audited financial statements for the year ended 30 June 2020, which disclose the state of affairs of the Company.

PRINCIPAL ACTIVITY

The Microfinance Support Centre Limited (MSC) is government owned company under the Ministry of finance, planning and economic development. MSC has a dual mandate to provide affordable credit and business development services to micro finance and other registered business organisations. MSC's core activities are in areas of offering loans, business development services and has of recent pioneered Islamic microfinance model in Uganda .

MSC is currently implementing a five year strategic plan (2020 -2025) with four (4) key pillars;

- Coverage and depth
- Partnership development
- Product and service innovation
- Organizational development

The Company has continuously conducted annual performance reviews of the strategic plan to ensure that it is still on track to achieve the planned outputs.

The vision of MSC; "To be the development microfinance institution transforming livelihoods of the economically active poor for attaining sustainable development."

The mission of MSC; "Provide affordable development microfinance services through effective management and delivery of GOU & partner development funds, increased access and strengthening the capacities of institutions of the economically active poor."

The Company's clientele includes Savings and Credit Cooperative organisations (SACCOs), Area Cooperative Enterprises (ACEs) Microfinance Institutions (MFIs), Cooperative Unions and Marketing Cooperatives, Small and Medium Enterprises (SMEs).

	2020	2019
RESULTS	**Shs'000**	**Shs'000**
Profit before tax	4,692,558	5,583,314
Tax	-	-
Profit for the year	4,692,558	5,583,314

PRINCIPAL RISKS AND UNCERTAINTIES

The overall business environment continues to remain challenging and this has a resultant effect on overall demand of the Company's services. The Company's strategic focus is to enhance revenue growth whilst maintaining profit margins, the success of which remains dependent on overall market conditions and other factors such as the impact of the recent coronavirus outbreak. Whilst at this stage it is too early to predict the full potential impact of this outbreak on the Company operations, the directors continue to monitor this situation closely with a view to assessing and mitigating its impact on the Company.

The current risks and uncertainities facing the Company is:

- Non repayment of loans by the customers.

REPORT OF THE DIRECTORS (CONTINUED)

DIRECTORS

The directors who held office during the year of audit are shown on page 1.

In accordance with the Company's Articles of Association, no director is due for retirement by rotation.

INDEPENDENT AUDITOR

In line with the terms of our engagement with the Office of the Auditor General, PKF Uganda will not be continuing in office for the subsequent year of audit.

BY ORDER OF THE BOARD

COMPANY SECRETARY
KAMPALA

23rd Sept 2021

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Ugandan Companies Act, 2012 requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company as at the end of the financial year and of its profit or loss for that year. It also requires the directors to ensure that the Company keeps proper accounting records that are sufficient to show and explain the transactions of the Company; and that disclose, with reasonable accuracy, the financial position of the Company and that enables them to prepare financial statements of the Company that comply with the International Financial Reporting Standards (IFRS) and the requirements of the Ugandan Companies Act, 2012. The directors are also responsible for safeguarding the assets of the Company and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors accept responsibility for the preparation and fair presentation of the financial statements in accordance with the International Financial Reporting Standards (IFRS) and in the manner required by the Ugandan Companies Act, 2012. They also accept responsibility for;

i) designing, implementing and maintaining such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error;
ii) selecting and applying appropriate accounting policies; and
iii) making accounting estimates and judgements that are reasonable in the circumstances.

The directors are of the opinion that the financial statements give a true and fair view of the financial position of the Company as at 30 June 2020 and of its financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standards (IFRS) and the requirements of the Ugandan Companies Act, 2012.

In preparing these financial statements the directors have assessed the Company's ability to continue as a going concern. Nothing has come to the attention of the directors to indicate that the Company will not remain a going concern for at least the next twelve months from the date of this statement.

The directors acknowledge that the independent audit of the financial statements does not relieve them of their responsibilities.

So far as each of the directors is aware, there is no relevant audit information which the auditor is unaware of, and each of the directors has taken all the steps that ought to have been taken in order to become aware of any relevant audit information and to establish that the auditor is aware of that information.

Approved by the board of directors on 23rd Sept 2021 and signed on its behalf by:

CHAIRPERSON	DIRECTOR	EXECUTIVE DIRECTOR

STATEMENT OF PROFIT OR LOSS

	NOTES	2020 Shs'000	2019 Shs'000
Interest income	2	12,689,644	6,879,798
Revenue from Islamic financing assets	3	2,154,921	1,946,033
Other income	4	22,186,187	10,443,853
(Increase) / decrease in impairment allowance	11 & 13	(2,572,705)	4,196,939
Administrative expenses		(26,011,043)	(15,497,455)
Other operating expenses		(3,672,754)	(2,385,854)
Finance costs		(81,691)	-
Operating profit before tax	5	4,692,558	5,583,314
Tax	7	-	-
Profit for the year		4,692,558	5,583,314

STATEMENT OF FINANCIAL POSITION

Assets	Notes	2020 Shs'000	2019 Shs'000
Cash and cash equivalents	10	34,731,609	8,618,224
Loans and receivables at amortised cost	11	95,973,686	64,960,564
Other receivables	12	10,509,076	5,472,883
Financing Receivables	13	37,497,344	32,268,163
Inventories	14	105,123	77,795
Property and equipment	15	2,612,736	2,771,294
Right-of-use assets	16	774,533	-
Intangible assets	17	853,124	1,052,809
Total assets		183,057,231	115,221,732
EQUITY			
PAP funds		3,180,752	3,180,752
NSADP		1,597,790	1,597,790
RMSP funds		23,438,267	23,438,267
GOU Credit funds		69,899,738	35,156,621
RIEEP funds-AFDB		29,818,281	29,818,281
RIEEP funds-IDB		31,429,395	31,429,395
Accumulated losses		(19,670,157)	(24,362,715)
Total equity		139,694,066	100,258,391
Liabilities			
Trade and other payables	19	2,971,477	4,604,226
Deferred Income	18	32,937,661	-
Lease liabilities	9	699,005	-
Administered fund	21	6,755,022	10,359,115
Total liabilities		43,363,165	14,963,341
TOTAL EQUITY AND LIABILITIES		183,057,231	115,221,732

The financial statements on pages 9 to 40 were approved and authorised for issue by the Board of Directors on 23rd Sept 2021 and were signed on its behalf by:

CHAIRPERSON | DIRECTOR | EXECUTIVE DIRECTOR

STATEMENT OF CHANGES IN EQUITY

	PAP funds	RMSP funds	NSADP funds	GOU credit funds	RIEEP funds AFDB	RIEEP funds-IDB	Retained earnings	Total
	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000
Year ended 30 June 2020								
At start of year	3,180,752	23,438,267	1,597,790	35,156,621	29,818,281	31,429,395	(24,362,715)	100,258,391
Profit for the period	-	-	-	-	-	-	4,692,558	4,692,558
Transfer from deferred income (GOU SACCO Fund)	-	-	-	34,743,117	-	-	-	34,743,117
At end of year	3,180,752	23,438,267	1,597,790	69,899,738	29,818,281	31,429,395	(19,670,157)	139,694,066
Year ended 30 June 2019								
At start of year	3,180,752	23,438,267	1,597,790	23,160,000	29,818,281	31,429,395	(20,494,294)	92,130,191
Prior year adjustment								
- Changes on initial application of IFRS 9	-	-	-	-	-	-	(9,451,735)	(9,451,735)
As restated	3,180,752	23,438,267	1,597,790	23,160,000	29,818,281	31,429,395	(29,946,029)	82,678,456
Profit for the period	-	-	-	-	-	-	5,583,314	5,583,314
Transfer from deferred income (GOU SACCO Fund)	-	-	-	11,996,621	-	-	-	11,996,621
At end of year	3,180,752	23,438,267	1,597,790	35,156,621	29,818,281	31,429,395	(24,362,715)	100,258,391

The notes on pages 13 to 40 form an integral part of these financial statements.

Report of the independent auditor - pages 5 to 8

STATEMENT OF CASH FLOWS

	Notes	2020 Shs'000	2019 Shs'000
Operating activities			
Cash generated by operations	20	(36,042,733)	(20,311,402)
Interest paid on lease liabilities		81,691	-
Net cash from operating activities		(35,961,042)	(20,311,402)
Cash flows from in investing activities			
Cash paid for purchase of property and equipment	15	(756,755)	(2,046,092)
Proceeds from disposal of property and equipment		-	43,926
Cash paid for purchase of intangible assets	17	(193,215)	(1,058,192)
Net cash used in investing activities		(949,970)	(3,060,358)
Cash flows from financing activities			
(Decrease) / increase in administered funds	21	(3,604,093)	375,554
Proceeds from funding		67,680,778	11,996,622
Payments of principal portion of the lease liability		(1,052,288)	-
Net cash from financing activities		63,024,397	12,372,176
Increase / (decrease) in cash and cash equivalents		26,113,385	(10,999,584)
Movement in cash and cash equivalents			
At start of year		8,618,224	19,617,808
Increase / (decrease)		26,113,385	(10,999,584)
At end of year	10	34,731,609	8,618,224

1. SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

These financial statements comply with the requirements of the Ugandan Companies Act, 2012. The statement of profit or loss and statement of comprehensive income represent the profit and loss account referred to in the Act. The statement of financial position represents the balance sheet referred to in the Act.

a) Basis of preparation

The financial statements have been prepared under the historical cost convention, except as indicated otherwise below and are in accordance with International Financial Reporting Standards (IFRS). The historical cost convention is generally based on the fair value of the consideration given in exchange of assets. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or liability, the Company takes into account the characteristics of the asset or liability if market participants would take those characteristics into when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these financial statements is determined on such a basis, except for measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 or value in use in IAS 36.

In addition, for financial reporting purposes, fair value measurements are categorised into level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which aredescribed as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

Transfer between levels of the fair value hierarchy are recognised by the directors at the end of 'the reporting period during which the change occurred.

Going concern

The financial performance of the Company is set out in the Director's report and in the statement of profit or loss. The financial position of the Company is set out in the statement of financial position. Disclosures in respect of risk management are set out in note 24.

Based on the financial performance and position of the Company and its risk management policies, the directors are of the opinion that the Company is well placed to continue in business for the foreseeable future and as a result the financial statements are prepared on a going concern basis.

New and amended standards adopted by the Company

The Company applied for the first-time certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2020. The Company has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

Amendments to IAS 1 and IAS 8 Definition of Material (issued in October 2018)
The amendments, applicable to annual periods beginning on or after 1 January 2020, clarify the definition of material and how it should be applied by including in the definition guidance that previously featured elsewhere in IFRS

2019/20

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