



UGAFODE Microfinance Limited (MDI)

Responsible Microfinance: SPM Implementation on the ground

A Case of UGAFODE Microfinance Limited (MDI)

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About UGAFODE ML

For information about UGAFODE Microfinance Limited (MDI) kindly visit our website:

www.ugafode.co.ug



Lending Methodology

- We use both the group and Individual lending methodology.
- There is flexibility in our lending methodology e.g. multiple loan term i.e. weekly, monthly, quarterly repayments
- Members within a Group can access loans with differing loan periods and frequency of payment, depending on cash flows



Overview: Why we adopted SPM in our operations

Despite a strong start, by 2010 the institution had reached a low point:

- Client numbers were stagnating
- client complaints and default were on the rise
- Average loan sizes were on the rise
- The group methodology was dying out
- The product offering was limited to loans and insurance, without understanding whether these met target clients' needs
- Low staff productivity and high turnover were coupled with cases of fraud
- Loan portfolio quality was deteriorating
- We were making loses
- There was a high customer exit rates-many old customers were leaving



Overview: Why SPM ...

- Far from its original vision, UGAFODE ML had become an institution to be feared, rather than trusted, by clients.
- There were cases of our external debt collectors employing harsh collections practices; They
 - regularly used threats and public shame to pressure clients into repaying,
 - overcharged clients,
 - seized and sold client assets in breach of some laws, and
 - occasionally (having finally successfully collected from clients) failed to remit the money to UGAFODE ML



SPM Interventions/changes made

Over the course of 12 months, we implemented a number of “quick wins” (practical, low-input and high-value actions) to deliver increased value to clients focusing on the following major areas :

- 1) Establishing an entry point for buy-in and implementation
- 2) Incorporating the SPM Bench marks in our strategic objectives
- 3) Increasing outreach/Inclusion
- 4) Creating benefit for our customers
- 5) Client protection.



Intervention 1: Establishing the Entry point

- We started by defining our social goals
- We Incorporated Social goals, indicators, targets and activities related to achievement of the goals in each Department's Strategic Objectives.
- The above helped each Department to pursue the social and financial goals concurrently.
- This sorted out initial skepticism and ensured buy-in and smooth implementation and monitoring of the interventions
- The Board approved the strategy and Business Plan.



Intervention2: Incorporating SPM in our strategic Objectives

We incorporated SPM bench marks/targets and activities related to achievement of the goals in the following Institutional strategic objectives:

- 1) **Creating of an Organizational Culture that Values People, Enhances Performance and Supports the Business.**
 - Human resources department handles SPM issues in this objective like establishment of staff code of conduct, staff well-fare, fair and appropriate treatment of customers, performance based incentive etc.

- 2) **Providing Market-Led, Innovative and Customer Focused financial services.**
 - This objective helps in ensuring we develop appropriate products and services that meet the needs of our target customers.
 - The targets and activities related to product development and innovations are handled by Business Growth department under this strategic objective



Intervention2: Incorporating SPM in our strategic Objectives...

3) **Establishing Excellent Quality, Effective and Efficient Operations**

Implemented by operations department Covers SPM issues related to:

- to quality of customer service,
- mechanisms for handling customer complaints,
- Delivery channels/geographical outreach-new branches, contact offices, mobile banking etc
- Insurance cover
- Growth /outreach targets for savers

4) **Growing a High Quality Asset Portfolio**

- Covers growth targets in terms of number of borrowers, gender outreach, group clients verses individuals, average loan size, portfolio quality targets etc
- Loan processes like appraisals to check over indebtedness, appropriate collection practices etc

5) **Having a Robust Management Information System**

- For secure storage of customer information,
- Processing and Provision of information for decision making including SPM related information



Intervention3: Increasing Outreach

Based on the SPM Diagnostic carried out with support from Oiko Credit, management created an action plan to address key barriers to inclusion.

1) Removing Geographical barriers:

- We opened 3 new Branches in 2012 (*One in Kagadi in a remote area-over 300Km from Kampala and 2 in Kampala to serve clients in the suburbs of Kampala*).
- We relocated our Head office from city Centre to the outskirts for easy access of target clients.
- Mobile money services that enables customers to make loan repayments without coming to Branch offices. Currently we are planning to expand this service to full mobile banking service.
- Opening up contact offices
- Mobile Van to enable our customers open accounts from the field
- We also started mobile money services

2) Removing lending methodology barriers by:

- hired a dedicated group lending Supervisor to review the methodology and address weaknesses.

Key changes included:

- Introducing separate credit officers for group lending



Outreach interventions...

- Revitalizing the group meeting function to provide increased contact and support to clients
- Replacing the collateral requirement with the traditional group-based guarantee
- Introducing flexible repayment terms: weekly and monthly
- Establishing guidelines around client graduation to individual loan

3) Aligning staff incentives towards target client outreach

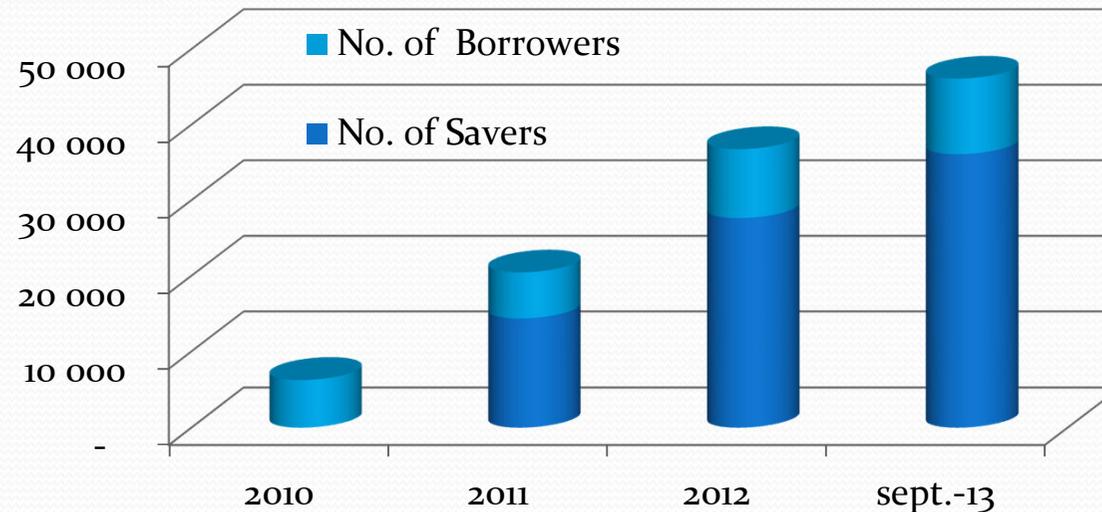
- Following the initial SPM workshop, UGAFODE ML added an incentive around the number of new groups, with the aim to bring women and poorer clients back into the frame.

Results from Outreach interventions



Figure 1:

Growth in client outreach as at Sept 2013



- Loan clients increased by 60% since implementation of SPM
- opened over 36,000 savings accounts new branches account for 5% of the overall loan portfolio and 27% of total deposits
- share of group loans increased from 15% (in 2010) to over 30% of clients (currently).
- Share of women clients increased from below 25% to 35% currently
- 49% of group clients are now women. In the new groups formed 70-90% are women.



Improvement in Institutional performance

- Integration of SPM in our operations led to general improvement of institutional performance as summarize below:

	Dec-10	Dec-11	Dec-12	Sep-13
No. of Group Clients	760	1,685	2,831	3,325
No. of Individual Clients	4113	4,414	6,296	6,876
PAR>30 Days	10.06%	3.01%	3.43%	4.07%
Loan portfolio (USD)	2,825,224	3,616,192	5,307,122	6,786,753
Savings Portfolio (USD)	0	206,625	1,605,881	2,287,044
Profitability (USD)	3,832	192,710	84,293	42,000



Intervention4: Creating Benefits for our customers

Interventions included the following:

1) Reviewing the loan offering:

- This involved number of changes to existing loan products like reducing the minimum loan amounts on asset acquisition, agricultural financing and school fee loans and reducing the interest rate across a number of loans. UGAFODE ML also introduced a grace period on its agricultural loan of 1-6 months (as appropriate to the microbusiness), to better align the product with the cash flow needs of clients in that sector.
- In addition of two new Loan products suitable for the needs of our target clients were developed (School Fees Loan , Flexible Housing loan)

2) Offering a range of voluntary savings products

- Taking advantage of its savings mobilization license (MDI License) received in September 2011, UGAFODE ML rolled out a range of voluntary savings products, designed to meet both long- and short-term savings needs, including one product for young clients (Junior Savings Account)



Creating Benefits ...

3) Insurance of Loans

- UGAFODE ML contracted a company that offer credit life Insurance with expanded coverage (**beyond death and permanent disability to include coverage for natural calamities, arson loss, partial disability, severe illness, and funeral expenses**).
- We managed to negotiate a lower Insurance premium of 0.85% compared to the previous 1%. By following a rigorous pre-qualifying process for potential new service providers

Results from the Interventions above:

- The biggest impact was growth of savers to over 36,000 clients with average savings balances of \$63 (compared to average loan sizes of \$665) in less than 2years.
- Having no minimum savings balance was an important aspect of the rapid growth in savings mobilization.



Interventions 5: Client protection

- **Emphasis on repayment capacity**

UGAFODE ML's loan appraisal tool considers a client's current (and expected) household-level income and expenditure, as follows:

- **Income:** Not only income from the project to be financed, but all other sources of income (farming, milk sales, salary, spouse's income etc.)
- **Expenditure:** Includes business, and family/household expenses, and **other loan obligations** as obtained from the **credit reference bureau** as a compulsory check.
- This information is used to determine **net disposable income**. Maximum loan instalments, per UGAFODE ML's credit policy, should not exceed 50% of net disposable income.
- Enrolled on the Credit Reference Bureau to help check on over-indebtedness.
- ***Our delinquency management paradigm had to change from “can clients repay when things go wrong?” to “how can we make sure things go right?”***

- **Emphasizing customer care**

- We put in place a customer care policy that has provision on how customer complaints and feedbacks should be handled.
- We have recruited Customer Care Officers in ALL Branches to improve on customer service level at the Branches
- Training all employees on the client protection principles and customer care.



Client protection...

- Have provided customer complaint/complement registers
- Putting suggestion boxes in all Branches
- We moved each branch manager's desk into the branch lobby, so that clients could walk in and get an answer to their question from management at any time.
- We launched a customer care hotline, whereby clients could ring in and speak directly to CEO's assistant, should they be unable to visit the branch itself
- The CEO takes part in a twice-monthly radio call-in program where customers give direct feedback.

Overhauling debt collection practice

- UGAFODE ML saw the need to rethink what happens when things go wrong for clients, and they become unable to repay.
- Introduction of in-house debt collectors to ensure that we are operating within the limits of our policy guidelines and national law around client protection.
- UGAFODE ML introduced a policy around loan rescheduling for clients determined to be facing genuine distress, wherein no other options exist and the client is not a deliberate defaulter. Our MIS system is flexible to handle rescheduling.



Client protection...

Results around protecting clients

- Improved institutional image/reputation .UGAFODE ML was voted *by clients* across the country as being one of the most trusted MFIs in Uganda as part of the Uganda Responsible investment Award Initiative (sponsored by the United Nations and East African Community)
- International recognition of UGAFODE ML's efforts also comes in the form of the 2011 "Silver Award for SPM Improvement" from the Ford Foundation.



Challenges faced during SPM integration

1) Initial skepticism about SPM

- Initially, being able to see the costs associated with SPM, without a clear vision of the benefits, led me and other senior management team to dismiss the importance of SPM.
- UGAFODE ML had previously undergone an Oikocredit-sponsored client protection assessment, which was perceived to be directly relevant to the daily business operations of the MFI. On the basis of this, Oikocredit encouraged the CEO to attend a subsequent SPM workshop.
- As a result of the initial SPM workshop, and in dialogue with his SPM mentor, we began to see the potential to build a commercial strategy for the institution by offering the *right services* to the *right clients* in the *right way*.



Challenges faced...

- 2) **Effective integration:** SPM was viewed as a ‘**separate project**’ from our operations. We over-came this by integrating our social goals relating to each department in their Strategic Objectives ,as well as in our Business Plan. Targets are then set and monitored.

- 3)**Financial constraints-** some intervention e.g. MIS Upgrade, staff trainings, product reviews/development, opening new branches etc have remarkable cost implications: These were overcome by budget allocations internally and some grants from our partners.

- 4) **Buy-in from the rest of the staff:** We experienced some resistance among the staff in the initial stages. This was overcome through constant engagements and trainings.

- 5) **Choosing the starting point:** The most workable option was to Identify “quick wins” (practical, low-input and high-value actions) that can deliver increased value to clients based on institutional capacity. This calls for self evaluation on SPM as well as current capacity (financial, human resource and technical infrastructure/ICT).



Challenges faced...

- 6) Understanding Client needs:** We did not have internal capacity to carry out the client satisfaction surveys which informed our decision to review our products and introduce new ones. We overcame this challenge by engaging the services our SPM consultant with support from our partners-Oiko credit.
- 7) Limited Bench Marking:** There were limited institutions that had successfully done SPM integration in the country. Most of the initiatives came as a result of our desire to get means of serving our customers better.
- 8) Tracking SPM Indicators:** As part our intervention, we wanted to track some of the indicators like number of women, group/low income borrowers, rural clients, poor clients etc. Some parameters like urban, peri-urban and rural are not clearly defined in the Ugandan context, making it had to track.



Conclusion

- From the above discussion, the following lessons can be learnt:
 - Buy-in of top Leadership is key to successful implementation of SPM
 - Have clearly defined social goals and marry them with the financial goals
 - Do a self evaluation of resources in your disposal-especially financial, human and technical/ICT
 - Select “quick wins” that you want to undertake as an institution based on the available resources at your disposal
 - Key partnership with development partners like social investors is key to the success of integration.
 - Impede SPM interventions in your routine business operations for effective implementation
 - Have an SPM Champion for coordination
 - Continues training of staff is key



Thank you and God Bless You