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**Paving the Way Forward for Rural Finance  
An International Conference on Best Practices**

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**Case Study**

**Gender Targeting of Rural Financial Services:  
Is this Appropriate?**

**Case Study of FINCA Uganda**

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## 1. Introduction:

Founded in 1992, FINCA Uganda (FU) has provided micro-finance services utilizing a group-based lending methodology to economically active poor women for more than a decade. FU is one of the five African affiliates of FINCA International Inc. (FI) and has been using the Village Banking Methodology™ developed by FINCA International. FU is an NGO and company limited by guarantee with a local Board of Directors.

Following a mission of “*providing empowering micro-finance services within Uganda’s poorer communities – particularly women – under positive social interaction through highly motivated staff*”, FU Uganda has served more than 100,000 poor women since its inception, over 37,000 of whom are still active clients. FU has established a strong track record and has developed into the market leader in micro-finance in Uganda.

Why FINCA chose to target women?

FINCA aims to alleviate poverty in all its form wherever it exists. In developing countries like Uganda, where poverty exists, women form the biggest part of the poor population mainly because:

- Cultural set up of these countries has been such that women are considered inferior and having kitchens as the only area of operation for them.
- Women have been marginalized in terms of education and other opportunities.
- Women are considered subservient to men, and a weaker sex.

These and other prejudices limited opportunities available for women to emancipate themselves.

In poverty stricken countries, there are at least three factors that would cause a difference in the lives of the people. These factors include, *inter alia*:

- Good education

- Good nutrition
- Good health services.

Despite the phenomenon outlined above, women are considered the pillars of families who ensure that children are educated, nourished and are healthy. Because of this, FINCA saw it right and fitting to economically empower women if poverty is to be flushed out of homesteads and lead to improvement in the quality of life.

As a non-deposit taking NGO, the activities of FU have not been regulated by the Central Bank. Currently, commercial banks hold the savings of FINCA clients, and FU has limited its role to that of mobilizing and encouraging savings by its clients.

## **2. Target Market and Outreach:**

The only criterion for selection of the target market for inclusion in the program, is that clients have a viable income generating business. FU is clearly reaching the neediest portion of the population. Program estimates indicate that 60% of borrowers are single mothers, and over 75% are caring for orphans – most of whom have lost parents to the AIDS epidemic. Also, over 90% of the new clients live on less than \$1 per day, which is below the \$2 World Bank universal poverty line. In addition, many borrowers are refugees from political violence in outlying areas of the country. An estimated 72% of the clients are currently located in rural areas (settlements of 10,000 people or less), and 99% are women. In the FY 2000 with the assistance of the USAID PRESTO project, FINCA Uganda opened more branches in rural areas, significantly increasing its rural outreach. Currently FU serves 29 out of the 56 districts of the country, which account for about 60% of the country.

## **3. Type of activities supported:**

FU borrowers mainly engage in commercial, manufacturing, and service delivery. FINCA clients' businesses include: grocery stores, retail shops,

restaurants, kiosks, trade in charcoal, tomatoes, bread, groundnuts and fish, tailoring, poultry production, grain milling, mushroom growing, operating hair salons, making and selling handicrafts, brick-making and brewing local beer.

#### **4. Products:**

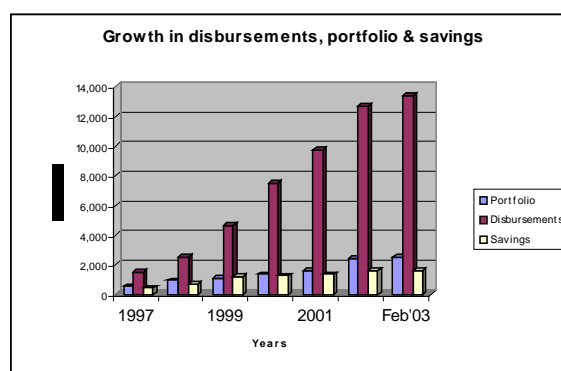
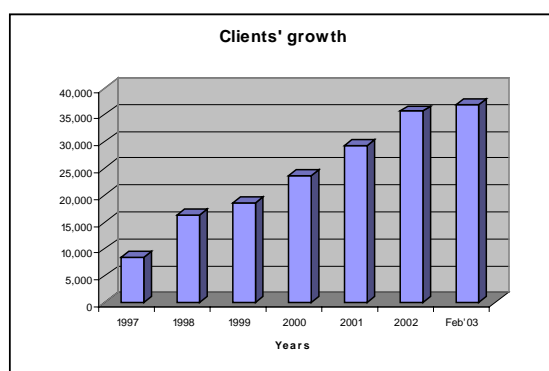
FINCA Uganda's main product has traditionally been Village Banking lending. Under this methodology, prior to obtaining credit, village groups of 20-40 members undergo training in bookkeeping, accounting and loan administration. They also have to save up to 10% of the loan as savings of the loan as collateral, which will be returned after the loan has been repaid in full.

Typically repaid in a 16-week cycle, FU's village bank loans currently carry a flat 4% rate per month. FU does not charge additional fees for affiliation, stationary or training. Furthermore, the 4% per month includes insurance, which provides all active loan clients (and up to 5 family members) protection by FU's Credit and Life Insurance and Group Personal Accident Policy, which is administered by the American Insurance Group Uganda. This insurance policy acts as portfolio insurance for FU as well as accident life insurance for its clients and their families.

FU has also recognized the importance and need to develop products that graduate with changing client needs as their businesses grow. FU is consequently in the process of designing and implementing lending products to graduate Village Bank clients that require greater flexibility and larger loans. Several products are currently at the testing stage. These include small group loans, individual loans and savings products.

**5. Outreach to-date (figures in '000 US\$):**

<i>Item/FY</i>	<i>1997</i>	<i>1998</i>	<i>1999</i>	<i>2000</i>	<i>2001</i>	<i>2002</i>	<i>Feb 2003</i>
Clients	8,473	16,400	18,634	23,538	29,224	35,610	36,872
% Female	100%	100%	100%	100%	100%	100%	98%
Portfolio	538	957	1,078	1,366	1,628	2,401	2,560
Cumulative disbursements	3,088	5,632	10,266	17,746	27,499	40,192	48,019
Savings	443	703	1,191	1,254	1,354	1,580	1,614
PAR>30 days <sup>1</sup>	1.5%	0.1%	0.4%	1.4%	2.1%	2.9%	1.5%
Op. SS <sup>2</sup>	73%	82%	94%	130%	106%	103%	123%
Fin. SS <sup>3</sup>	67%	72%	79%	124%	99%	97%	103%

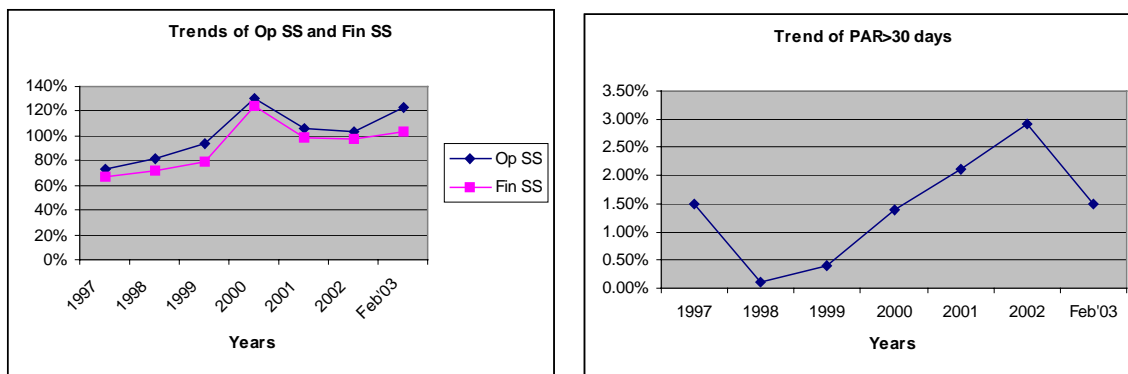


The above graphs reflect a marked growth of clients' numbers as well as growth in disbursements, portfolio and savings. Portfolio has been growing at a somewhat slower rate compared to disbursements mainly because the short term nature of the group loans, all of them averaging 4 months.

<sup>1</sup> PAR>30 days refers to Portfolio at Risk which has instalments that are past due for more than 30 days

<sup>2</sup> Op. SS refers to operating self-sufficiency which is the ratio of operating income to operating expenses, including provisions for bad debts

<sup>3</sup> Fin. SS refers to Financial Self sufficiency which is the ratio of operating income to operating expenses, including provisions for bad debts and inflationary adjustment due to erosion of equity.



The above graph indicates that FU attained operating and financial self sufficiency during the financial year 2000, eight years after inception. Since then self sufficiency has been maintained albeit at a lower level due to a rise in inflation and expenses arising out of expansion.

Portfolio at risk has been maintained at below 3% throughout the period of operation. It is however reflected that since 1999, quality has been deteriorating rising from 0.5% to 2.9% at end of year 2002. This has been as a result new product testing and civil unrests in some of the areas where expansion took place.

## 6. Results and impact:

### 6.1 Distinguishing features of the program:

The Village Banking methodology of delivering micro finance services to the poor has proved to be an appropriate tool of filling the gap left by formal financial institutions. Formal banks look for a number of requirements from borrowers before loans are extended. These requirements include formal books of accounts, stringent collaterals and of course they prefer clients who borrow big loan amounts. The poor who have the capacity of economic activeness have been denied the opportunity to engage in meaningful activities because they lacked credit and savings facilities. These underserved yet deserving part of the population has sought assistance from programs such as that of FU. Over the decade of operations, over 100,000 clients have been assisted by FU and the impact has been great.

The most phenomenal feature of the FU program is that unlike other financial institutions which require clients to go to them to get the services, FU goes to the clients in their villages hawking small loans and delivering other micro finance services from door to door. This approach saves the clients valuable time of looking after their businesses and home chores.

The other distinguishing feature is that the program targets women as the market to deliver its services.

## **6.2 Impacts:**

The impact of the program has been manifested in five main areas, namely:

- Income generation by the participating clients
- Savings mobilisation
- Contributions to the local economy
- Contribution to program sustainability; and
- Social aspects.

### *6.2.1 Income generation:*

Empirical evidence from impact assessment studies has indicated that on a loan of \$75, an average client with an average business earns a gross margin of \$15 per week, which is \$2.50 per day. After subtracting her weekly payment of loan principle, interest and savings, the client is left with a net margin of about \$1.50 per day. She will therefore generate an extra \$9 per week, \$36 per month and \$140 per 4-month loan cycle. If it is assumed that the client remains in the program for one year, which is 3 loan-cycles, she will earn \$420. This would have already propelled her above the average GDP percapita of \$320 currently for Uganda.

Research has also indicated that the large majority of FINCA clients at least sustain and sometimes slightly increase their earnings after leaving the program. If the average departing FINCA client invests her accumulated



savings in business inventory, she will continue to generate a net profit margin of \$1.50 per day, \$9 per week or \$36 per month after leaving the program.

#### 6.2.2 *Savings generation:*

One of the components of the program, is a requirement to save on a regular basis. The average client will generate savings of about 20% of the loan amount, which is about \$15 per loan cycle or \$45 over the three cycles of her participation. The above graph reflects a growth in savings; these savings (\$1.6m) have contributed to the investment capacity of the economy.

#### 6.2.3 *Contribution to the local economy:*

History has indicated that an average client replenishes her inventory every week, and purchases total about \$75 per week, \$300 per month or \$1,200 per 4 month loan cycle; and \$3,600 after three cycles of participation. This is a tremendous contribution to the demand in the economy by one client.

A departing client is expected to continue contributing to the economy, with continued replenishment of inventory. With the over 100,000 clients so far served, the contribution to the economy which arose out of the small loans that FINCA gave out, is enormous!

#### 6.2.4 *Contribution to program sustainability:*

On a \$75 loan, the client will pay about 4% per month, which is 1/10<sup>th</sup> of what local money lenders charge. This amounts to \$3 per month, \$12 per loan cycle or \$36 over three cycles of contribution. Of this amount, 70% will be applied to FU operating costs, and the rest goes to build capital and cover inflationary costs.

### 6.2.5 *Social impact:*

The social impact this program has accorded the clients that have worked with FINCA is tremendous. The current client base of 37,000 is organised in over 1,400 groups, called the Village Banks. The social capital these women derive from these associations is unprecedented. These associations form the platform in which these women share and solve their social and other problems. Be it losing a relative or looking after a sick family member, the rest of the group members would offer a hand either financially, socially or morally.

Also, as result of this program, many children who would have otherwise not got a chance to be educated are educated. As the saying goes, “the more you learn the more you earn”. FINCA research shows that about 70% of FINCA Uganda clients have all of their school-age children enrolled in school, even before the Universal Primary Education scheme of Government was introduced. If we assume that a child with a complete primary school education will have an earning capacity of \$3 per day, which is almost four times the minimum daily wage of an illiterate, unskilled labourer (US\$0.80 per day), this gives a net gain of US\$2.80. let us further assume a useful working life of 40 years and 200 days of employment per year. This would mean that a child who completes primary school will be able to earn in her lifetime some \$24,000 ( $\$3 \times 200 \times 40$ ) as compared to \$6,400 for an illiterate. This is a lifetime difference of \$17,600, thanks to her FINCA small loan! If 70% of the current client base, ie 25,900 clients, are able to finance a complete primary education for only one of child, the small loans would lead to a gain in income-generating capacity worth US\$455m.

## **7. Challenges with project implementation**

While implementing the program, many challenges have been encountered. These include the following:

### **7.1 Cultural inhibitions:**

Culturally, women have been disadvantaged and treated as good for home rather than carrying out economic activities. This has posed a challenge to the FU program while extending credit to women. Sometimes, after money has been disbursed to women, their husbands ask for it to go and do their business. In most cases in such circumstances, it is difficult to recover that money. This has been overcome by training the women in business management, leadership and issues which create a sense of responsibility and independence. Has this caused rebellions in homes? Not at all. Men have come to realise that additional income from their wives is very useful for food, school fees, hospital bills and other developmental projects. So the FU small loans are reorienting the culture of the country.

### **7.2 Funding:**

In the initial days of operations, the program depended on donor funds which would come in at regulated intervals. The regulated disbursements would not be in line with the clients' demands, which very often frustrated the clients. Lately, FU has been assisted through various means including donors, to access commercial loans which have ensured constant access to funding as long as the loan terms and covenants are complied with. Clients feel encouraged to pay up on time, if they know that they will immediately get another loan.

### **7.3 Under developed banking infrastructure:**

Money transfers and the overall liquidity management has been a nightmare given the underdeveloped banking infrastructure of the country. The alternative has been to physically transfer the money across the countryside, which poses other security risks and insurance costs.

#### **7.4 Insecurity in some areas:**

This has led to displacement of some of our clients which eventually leads to delinquency. Also, business has slumped in insecure areas leading to less demand for credit. We have tried to scale down on operations in insecure areas.

#### **7.5 Illiteracy of the clients:**

Most clients that we deal with have limited levels of education. This makes credit administration and business operations difficult. It is a policy of FU to train clients before loans are advanced to them. Additional refresher training is accorded to all group executives.

#### **7.6 HIV- Aids and other ailments:**

These have afflicted some of the clients, which leads to delinquency and clients' drop out, when businesses cannot be operated due to ill health. Through an international insurance company, FU has offered a disability and accident life insurance policy at no extra cost to all the clients. This policy covers the outstanding loan balance in case of death from causes except AIDS. FU is also giving loans to clients to enrol on a health insurance scheme operated by an allied organisation.

#### **7.7 High operating costs:**

Village banking is very expensive given the fact that small loans have to be hawked to the doors of the clients. Cost control and emphasis on productivity by all staff, have been the tools FU has used to overcome this, albeit painstakingly.

#### **7.8 Client attrition/drop out**

Client drop out has been above reasonable levels. This makes life difficult as it is more expensive to attract new clients and train them to a level where they can access reasonable loans, compared to retaining old clients. A number of things have been done including refining the current product, designing new products and improving on customer care.

#### **7.9 Political interference:**

This has some times been a roadblock to effective service delivery, whereby some political leaders make clients believe that the micro-finance schemes are a Government mechanism to reward voters, for example. Once clients are given this impression, they may not pay the loans back as they know that Government money is free. Education and non-involvement of Government agencies in the operations have been some of the solutions to this.

#### **7.10 Staffing**

Staffing and staff capacities have been a bottleneck in the whole industry since micro-finance has been a new phenomenon. Recently, microfinance has been a catchword even among academicians and researchers, which is assisting to enhance the knowledge in this area. FU also established a fully fledged training unit to carry out constant training of all staff.

#### **7.11 High involvement of Labour:**

Micro finance operations have been hitherto quite labour intensive, and staff have to work very far from offices where they can be closely supervised. In some cases this has caused some staff not to perform as expected, which has led to high delinquency. FU has countered this mainly in two ways:

- Close supervision of the field staff through instituting a good number of supervisors in the field. The optimal case load for a field officer is 16 village groups, and that of a supervisor is 6 field officers. Supervisors are expected to perform spot checks on each group at least once a cycle.

- A performance based bonus incentive scheme was designed for the field staff. This has gone a long way to improve the productivity of staff.

## **8. Policy and donor recommendations based on FINCA Experience**

- Some donor communities and indeed Governments have generalised and assumed that success stories in one region will hold in other regions as well. The development of a more region-responsive, market-led approach to giving assistance and setting policies would be an important phenomenon in this micro finance industry which has been hitherto largely dominated by the misconception that simple replication of successful models could achieve massive and sustainable scale worldwide.
- As micro-finance industry moves away from the era of aid or handouts, there is need to seriously consider possibilities of sustainability while assisting micro-finance programs. Clients love a situation whereby they know if they pay up, they will be accessing another loan. Donor agencies should assist where they are sure the program will be sustained.
- Staff make or break an institution, therefore the better and robust their capacities are, the stronger and sustainable the institution would be. Capacity building is therefore important and should be emphasised by all policy makers and donors. If you want to assist a poor man, teach him how to fish, rather than giving him the fish.
- Targeting of credit in micro finance operations is as important as in modern business management. Avoid ‘middle of the roaders’ since realistically no one can be everything for every body. For example when credit is targeted to women only, the clients will feel it is their ‘thing’ and will always work to ensure success. This is even more pronounced in a cultural set up like that of Uganda where women had been hitherto looked at as inferior and only good for home. It will even be easier for the MFIs to know better the needs of the clients and therefore serve them better.

- Conducive legal and political environment lead to better and flourishing delivery of micro finance services. This is evidenced by the environment obtaining in Uganda currently. Uganda Government has been supportive of the micro-finance services, which has culminated into the development of a special law for micro-finance operations. It is therefore imperative that donors and policy makers advocate for a conducive legal environment as a prerequisite for effective micro-finance service delivery.
- Donors should encourage linkages between MFIs and formal financial institutions, as the latter are very good and dependable sources of commercial funding and useful for cash management, loans collections from loanees and funds transfers across the network. For example FU has got valuable benefits from linking with commercial banks through the assistance of one of the donors.
- Micro-finance organisations should be more market oriented. Days are gone when micro-finance was supply driven because donor funds were floating everywhere. Now that the donor taps are being turned off, MFIs have to re-examine their products and delivery systems to respond better to clients' needs. Furthermore, the growth in competition between MFIs in many markets has meant that growing numbers are responding by seeking to better understand their clients' demands and preferences and thus taking a market-led approach to their business<sup>4</sup>.
- Poor people will always take small loans and are quite spread out in the country-sides. This makes operations quite expensive. MFIs and donors at large have to ensure that there is great outreach, whether vertically or horizontally so that a critical mass of clients is achieved in order to have a sustainable operation.

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<sup>4</sup> Anyago, Sebtsad and Cohen, 2002

- The importance of operational sustainability and continuity cannot be overemphasised, because when clients are sure that they will be able to access another loan when they finish paying, they will be encouraged to pay up on time. In order to ensure sustainability, donors and practitioners have to ensure cost control, amidst the high operating costs, and enforce high productivity levels from staff and all other resources.

## **10 Final conclusions:**

Gender targeted micro-finance services can be very effective to fight poverty because the target groups own the program and feel that they belong to the institution, while at the same time the institution gets to understand better, and serve better the needs of the clients. Of course this approach has challenges, which in some cases afflict other approaches as well. That's why FU chose to target the women in Uganda for they knew that smaller loans would yield bigger changes for this underserved yet deserving group of the population. It has also been a belief that once a woman is empowered, the whole nation would be empowered, as the saying goes: educate a woman and educate a nation.

Donors and other agencies should endeavour to foster such issues as sustainability, capacity building, productivity and cost control, on top of encouraging an enabling legal environment for micro-finance operations to prosper.