

## **MICROFINANCE SUPPORT STRUCTURES OPERATING AT THE GRASS ROOTS – SOME UGANDAN EXAMPLES**

**A presentation by GTZ-Sida /FSD / DED / Kabarole Research and Resource Centre (KRC) and Federation of Rwenzori Microfinance Associations (FORMA) at the 3<sup>rd</sup> African Microfinance Conference**

**Theme: NEW OPTIONS FOR RURAL AND URBAN MICROFINANCE.**

**A Case of the Micro Finance Associations Program under Kabarole Research and Resource Centre (KRC), Rwenzori Region, Western Uganda**

### **Introduction**

Microfinance is the provision of credit, savings, and insurance, payment services added with values formation and training for the entrepreneurial poor. Usually, it consists of making small loans to establish or expand small sustaining businesses. It is seen as an effective tool for poverty eradication by empowering the entrepreneurial poor to increase income, generate employment, reduce vulnerability to external shocks and improve quality of the lives of the target beneficiaries. It is promoted as a mechanism for triggering or sustaining social and economic development by supporting entrepreneurial activities. In Uganda as elsewhere, it is a component of the poverty reduction strategies, embedded in the Poverty Eradication Action Plan (PEAP), a framework under which the Millennium Development Goals (MDGs) may be achieved. It should also be acknowledged that there are various and varying microfinance institutions differing in terms of their methodologies; client base and numbers; range of financial products; governance and management; communication capabilities and the non-financial products they offer. The model that this paper presents represents a section of the very poor peasant farmers, especially the women and other vulnerable groups which the formal financial sector has had difficulties in reaching.

**The Rwenzori Region:** This is part of western Uganda comprising of the five districts of Kabarole, Kasese, Kyenjojo, Kamwenge and Bundibugyo. Kabarole Research and Resource Centre (KRC) works with the local communities in the areas of Human rights and Good governance and economic empowerment in each of the five districts.

**KRC VISION: An Equitable Society of Empowered and Enlightened People taking responsibility for their own lives in an economically sustainable manner.**

### **The General Regional Financial Services Sector Situation:**

In the Rwenzori region, the National financial sector panorama clearly shows that formal financial services rarely prevail in the rural areas. There are very few bank branches with Kamwenge district<sup>1</sup> not having any branch at all. Apart from

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<sup>1</sup> The contribution of financial services in the Rwenzori region; case of government and non-government microfinance institutions; a paper presented by Ntungwa Januario, General Manager

HOFOKAM, the rest of the few Banks including the currency centre, MDIs, and big MFIs branches are located in the main towns. This is in spite of the fact that majority of the population (92%) in the region live in rural areas of which, 90% are involved in agriculture activities<sup>2</sup>. Amidst huge demand for financial services<sup>3</sup> throughout the region, by 2003, there existed less than 20 formally registered SACCOs, with limited membership. Implicitly; this affects implementation of some of the appropriate technologies, which require sizable amount of financial capital investment especially into agriculture; but also other sectors. The prevalent unmet financial and other socio-economic needs influence most peasants to try a few coping mechanisms like the widespread ROSCAs, Tweyombeke<sup>4</sup> and such like groups.

The tiered structure of the financial /banking sector in Uganda<sup>5</sup> recognizes that there are several thousands of informal financial institutions with no legal personality. The situation in the rural areas is made worse by the powerlessness of the masses exacerbated by high levels of illiteracy, remoteness of the villages, lack of relevant information, physical weakness (ill-health), gender discrimination and spiritual poverty. Consequently, the precarious situation of the poor peasants has always subjected them to:

- (a) **Outright theft of savings:** Taking advantage of the poor peasants' vulnerability, unworthy people (organizations or individuals) often mobilized these peasants to save money on promise of / in anticipation of reasonable amounts of loans. As soon as the people mobilized enough savings, the thieves would escape with all the poor peasant farmers' savings. The commonly mentioned examples include Triple Nine and Poverty Africa among others.
- (b) **Very high loan interest rates:** There is a good number of people in the village who fear loans. These can only borrow under emergence cases like taking a patient to hospital and death of a kinsman. Under such circumstances, it would necessitate one to borrow from individual money lenders or their own self help ROSCA type groups. According to KRC's baseline survey findings<sup>6</sup>; in each case, interest rate would be high per month; usually ranging between 10-15% per month.
- (c) **Borrowing from some Microfinance Institutions at unfavourable terms:** There are some groups that try to borrow from MFIs on terms like meeting weekly or by-weekly repayment schedules. Under such circumstances, save for traders and professionals, majority of the subsistence farmers confess to giving up on such loans. This is for a clear reason that the rate of rotation and nature of cash flows for agricultural activities are usually too low to meet very short repayment schedules. Therefore, the government SACCO plan under the Prosperity for All Program is very timely and; if well thought through in terms of the target group,

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HOFOKAM during the Rwenzori regional leaders conference on Exploiting the Economic Potential for the Region May 2007.

<sup>2</sup> Report for the Market Potential Study on the Rwenzori region to SNV by Wilson W Wamatsembe, August 2003

<sup>3</sup> Ibid

<sup>4</sup> Literally translated as 'Let us develop Ourselves'

<sup>5</sup> Success through Micro finance: How to respond to the twin challenge of social and economic development, vol 1

<sup>6</sup> Unpublished

implementation system and plan, it may be a panacea to the peasants' credit challenge.

### **KRC-MFAP's Role**

In line with the vision of KRC, through capacity building and technical support, such groups are mobilized and supported to organize themselves and their local initiatives into more meaningful economic entities; thus MFAs from ROSCA groups. By June 30<sup>th</sup> 2007, KRC had supported 55 ROSCA groups to gain legal SACCO status. It is these, alongside the large number of unincorporated groups which make up the 20 Microfinance Associations with over 15,000 members (with majority women<sup>7</sup>) partnering with KRC in the region. A Micro Finance Association is an organization whose membership is normally made up of groups of rural farmers, predominantly women, from a sub county, involved in their own savings and credit activities. These come together with the prime purpose of pooling their savings that will enable them to obtain better credit facilities to provide the necessary capital to run their farms and households more productively. Secondly, by coming together, it allows KRC to train them in a cost effective manner and allows them to learn quickly by sharing experiences. It aims at promoting the establishment of sustainable organisations (MFAs) that help poor women and men farmers to create wealth, provide sustainable financial services, challenge gender inequality and reverse environmental degradation. The program promotes gender equity, strategically advocating for majority women membership both at organizational and leadership levels. By supporting (MFA) structures that enable the low-income rural women and men farmers an opportunity to develop both their on and off-farm income generating activities, the program implicitly contributes towards the realization of MDGs. As a result of such intervention, there has been increase in women's income which has positively impacted on their children's nutrition, education and well-being<sup>8</sup> also in line with MDGs and the country's PEAP goals. In the context of KRC's wider mandate of civil society development, KRC sees the MFAs as a channel through which community participatory good governance mechanisms, organizational skills and linkages with other networks can be tapped, shared and; or developed for a people led development.

### **Progress of the Program:**

Having started in 2003, there are 20 MFAs with each having at least 2 affiliate legally registered Primary SACCOs and at least eight more unincorporated groups. The MFAs have high chances of attaining self sustainability<sup>9</sup>. More MFAs demanding for our services are emerging. Each of the MFAs has been increasing on their portfolio and the overall total has increased from 42 Million Uganda Shillings in 2003 to over 380 million (June 2007) within a span of four and a half years.

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<sup>7</sup> MFA Program Annual Report ( 2006) see [www.krc.or.ug](http://www.krc.or.ug).

<sup>8</sup> MFA Program Evaluation by Dr Linda Mayoux and Ton Zaal, (2005). Refer to [www.krc.or.ug](http://www.krc.or.ug)

<sup>9</sup> The External Monitoring Report by ACLAIM Africa quoted the MFA self sustainability at b146% by Dec 2006.

**Table showing the overall Portfolio Growth of the Contracted MFAs as at June 2007 compared to 2003**

Year	Total savings (Ug. shs)	Total value of shares ((Ug. Shs)	Others: -Retained earnings -KRC Top up fund	Total loan portfolio (Ug. Shs)
Dec 2003	23,027,943	18,685,200	981,300	<b>42,694,443</b>
June 2007	197,814,516	119,548,350	67,078,061	<b>384,440,927</b>

### **LEARNING POINTS (from experience)**

- 1. The poor, if well mobilized can save.** The trend of Kyarusoji MFA / sub-county in Kyenjojo district is a case in point. The members of Kyarusoji MFA have increased their assets from nine hundred thousand (0.9 M) Uganda shillings to ninety six (96) million since 2003. Generally, it is not the lack of resources (both material and financial) but rather the lack of skills to mobilize/harness, then rationally and optimally utilize the available/existing resources. The pilot MFA that started in 1999 in Kyarumba Sub County, Kasese district already has adequate loan portfolio with manageable interest rate (2.5% per month, having started at 5% like most current MFAs). The members get interest on their deposits. It would be a recommendable strategy for the SACCO plan/approach to be employed as a means to mobilizing financial resources (especially by the poor), as opposed to directly giving financial resources to the poor. KRC has employed the idea of giving top up on members' own funds instead of directly administering loans to the MFAs as a reward for hard work and respecting of groups' own bye laws during financial resources mobilization.
- 2. Easy access to loans greatly discourages and may totally kill the Savings culture.** As an example, the program has experienced a situation where the MFAs that have managed to get external loan are failing to meet their normal regular monthly savings schedule. Ideally, it is essential to note that the development of an efficient and effective (national) financial delivery system must be based on domestic savings mobilization. Also, that the growth of domestic savings not only provides a safety net for members but also helps to reduce the (loan) dependency syndrome<sup>10</sup> that some people are currently suffering from.
- 3. Loan Defaults:** Experience with MFAs shows that members rarely default when the MFA has just started. Although there are varied reasons for this, the most outstanding one is the fact that usually, the loan size is small and manageable. Under the normal MFA arrangement where loan sizes usually increase over time, the problem is not pronounced. Inevitably, due to lack of adequate business and financial management skills, the peasants' ability to cope with the bigger amount of loans should grow over time. The MFAs that had maintained a 100% loan repayment rate were negatively affected by abrupt acquisition of external loans; a

<sup>10</sup> No Loan, no survival. This especially happens to small retail traders who can not generate adequate incomes. Stock ends with the loan cycle. One applies for a loan to restock. Someone ends up working as an employee to generate income for the MFI.

case of Kilembe and Kisomoro in Kasese and Kabarole districts respectively<sup>11</sup>. For Kisomoro, the same has happened in cases where members have borrowed from multiple sources. All this points to the fact that peasants, although desiring to have as much loan as possible, lack the capacity to handle the loan. The challenge is how stakeholders will build the capacities of the peasants to be able to absorb and effectively utilize (bigger) loans. Another aspect is certainly the lack of adequate loan assessment capabilities by the loan officers and committees. There is therefore great need for improving the financial literacy and Consumer financial education in particular for the poor people.

4. **Lack of insurance services:** The rural financial services, especially credit, are faced with many challenges ranging from the nature of economic activities (agriculture, market uncertainties) and other vulnerabilities like illness and death of the people. The insurance sector services hardly exist in the rural areas. Short of these services, even microfinance institutions / SACCOs become vulnerable. A system of complementing the financial services with insurance services (appropriate products) and knowledge in the rural setting is very crucial.
5. **Capacity building:** There is high level of illiteracy and wrong attitude towards development among the people in rural areas. Owing to numerous factors, communities tend to have lost confidence and self esteem within and amongst themselves. The culture of self sacrifice, hard work and commitment is largely missing. Most people tend to believe that they can never achieve what they want by themselves. Usually, they believe in an external agency to cause or catalyse local development. They believe more in (donor / government) handouts than their own knowledge and hard work. There is really great need to work on peoples' attitudes towards development. There is need for creating cadres through structures and systems that can lead a revolution to change the wrong mentalities, current wrong systems and practices among our society members. For the case of KRC, there is an intervention through building the capacities of **Community Process Facilitators**, to undertake the training within and creation of structures like the MFAs (FORMA), Rwenzori Anti Corruption Coalition (RAC), Rwenzori Information Centre Network (RIC-NET), Sustainable Agriculture Trainers Network (SATNET) among others that can cause a change in peoples' attitudes.
6. **Women Empowerment and Women Access to Loans.** Under the *laissez faire* arrangement, although women are among the majority poor, they never get access to credit. According to the causes of gender inequalities in Uganda, the distribution of credit to females account for only 9%<sup>12</sup>. As fate had it, society in Rwenzori region is largely patriarchal. Most men tend to not only overlook but also undermine the woman's potential in most aspects. Contrary to this, women are the main productive force in the main activity (agriculture). In spite of this, the land where production occurs is the property of their husbands. This is clear with ownership of registered land where women own only 7%<sup>13</sup>. When men directly acquire loans, in most cases, this loan never directly goes into agriculture production. With extreme cases, the loan has been used for drinking or marrying

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<sup>11</sup> They acquired loans from mainly The Micro finance Support Centre Ltd and FORMA.

<sup>12</sup> Gender inequality in Uganda: The Status, Causes and Effects, Discussion Paper 11, August 2006

[www.finance.go.ug](http://www.finance.go.ug)

<sup>13</sup> Ibid

another wife. This has often fuelled conflicts, endangering the social and economic fabric among families and society at large. It is thus critical that any credit program mainstreams human / civic / gender rights issues. The MFA program is trying to address the aspect of gender imbalance by ensuring that it supports groups where majority (targeting 70%) of the members are women. The program also encourages women to take up leadership roles (at least 2/3 of leadership positions should be women). This numerical strength is buttressed by capacity building and other efforts that lead to women's ability to access and effectively utilize financial services. This has encouraged the practicing of sustainable agriculture and growth of leadership skills among women. Women have also been able to meet their household demands and acquire and own assets like land, houses, goats and cows<sup>14</sup>. All these help the women to improve on their status and the power of decision making in the homes and community.

#### **7. The rationale for a Group lending methodology for the poor in rural areas**

The nature of the clientele includes vulnerable groups and individuals like the aged, the physically disabled, the widowed and women who lack the ability to walk/travel for long distances away from their homes. In the remote areas, the members in the commonly known SACCOs with individual saving/lending methodology usually qualify to be categorised as the rich (businessmen, professionals, big farmers) in their respective specific contexts where the poor are usually left out. The MFA methodology, where group members are able to delegate their leaders to effect financial transactions for them in their office at sub county level has proved to be more effective and friendly for the rural poor. The members of the groups also get trained in their villages. The community trainers/ community process facilitators<sup>15</sup> makes this system possible.

#### **Supporting the Rural Farmers to improve and increase their Agricultural Produce, incomes and general livelihoods**

Saving and credit is not an end in itself. Credit is a necessary but not sufficient prerequisite for livelihood improvement and rural transformation. The end result should be livelihood improvement. This means that both the savings and especially the loans have to be wisely utilized to create more wealth. As agriculture is the main activity of the rural peasants, there has to be a way of helping the subsistence farmers to organize themselves and their activities in a more meaningful way. For KRC, promotion and adoption of the concept of **Middle Level Farmers Groups**<sup>16</sup> is making surprising strides forward. This is an Agro Based Enterprise Model aimed at helping the rural farmers to undertake agriculture as a business. The idea is to help the members of MFAs to transform themselves from being just subsistence farmers into Semi- and Commercial Farmers through the promotion of Sustainable Agriculture Practices. The aspects of value addition are key aspect in the process. Farmers are always frustrated after producing because of the poor income generated from the activities, mainly due to poor marketing strategies. There is need for collective marketing for better bargaining power, quality control, reduced transportation costs and better prices, to mention but a few, that should enable them realize increased

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<sup>14</sup> Gender sensitivity study by Deborah Kasente and Gerry Hofstede (March, 2005) [www.krc.or.ug](http://www.krc.or.ug)

<sup>15</sup> Read KRC Concepts at [www.krc.or.ug](http://www.krc.or.ug)

<sup>16</sup> These are basically Model Farmers in an area (Sub County) that can be given more training and facilitated to train affiliate groups in a sub county. Read more in the KRC Concepts at [www.krc.or.ug](http://www.krc.or.ug)

incomes. *Farmers usually save income from their activities with the MFAs while MFAs extend credit opportunities to the members for investment into income generating projects.* The credit base depends on the shares held in the MFA. During lean or low price periods, the members may draw on their savings for survival instead of selling their produce at low prices. Model Farmers (MLFGs) are facilitated to train others (in MFA groups) in the best practices to improve agriculture. With improved and increased production, the farmers organize themselves into Processing/Marketing Associations.

**Examples of Initiatives**

INITIATIVES	REGISTERED
Primary SACCOs	55
Secondary SACCOs / MFAs	20
Marketing Associations	5
Processing <sup>17</sup> plants ( Five primary and 4 secondary)	9
Middle Level Farmers’ Groups.	33

**Sun flower oil production by members of Kyempara Farmers, one of the groups of the Bwera Microfinance Association.**



- Cooperative Society of 185 members producing sun flower oil. Works with 25 farmers groups (750 farmers).
- 1 tonne of sun flower seed value of 300,000 shillings, the same tonne processed is worth 561,000. Shillings.
- Oil is sold at wholesale and retail prices to the local communities, Kasese Town and DR Congo.

**The Federation of Rwenzori Microfinance Associations (FORMA)**

As a matter of principle, KRC believes that as far as possible, people should be empowered to control their own affairs through their own democratic structures. It has been envisaged that the MFAs must set up their own elected body to oversee the MFAs, monitor the implementation of all MFAs’ rules and generally supervise the management of MFAs if they are to be self sustaining. The idea of FORMA as an umbrella organization of all the MFAs in the region emerges from this need. The MFAs have already established this body which is currently getting support from KRC and DED. There is a well constituted Board of Directors, a qualified Manager

<sup>17</sup> In Kasese district, Farmers are now able to earn over 30% more on wet processed coffee compared to the usual sun dried coffee. Rwenzori Finest Coffee (private company) has offered this market opportunity.

and a Technical Advisor who is supported by DED. The ultimate objective of this arrangement is to establish a Farmers' Bank in the region.

**Vision:** To build a strong regional (farmers) bank that will provide financial services to the rural communities in the Rwenzori region.

**Mission:** To develop a sustainable Micro-Finance Federation that will provide quality financial services to the rural communities in the Rwenzori region

**Achievements:** Members have a positive attitude to their organization. They are saving, buying shares and taking loans.

**Challenges:**

- Weak governance structures and internal controls. Inadequate skills (record keeping, analysis, monitoring, etc) by some board members and Managers - no financial literacy.
- High levels of illiteracy of MFA members: poor business management skills, record keeping problems etc.
- Vastness of the region, thus increased costs
- Low loan Portfolio
- Legal constraints.

**Way forward**

- More training of MFAs
- Partnering with government and other agencies for capacity building of the MFAs.

**Conclusion**

The rural people are starved of financial services. Often, the few financial service providers have tended to exploit the peasants. This calls for interventions that will reverse the situation. The need for modification or development of appropriate financial products that suit the rural subsistence farmers can not be overemphasized. Bearing in mind that majority of the poor, especially women, who (in spite of being the main productive force) do not access financial services, gender issues call for more specific attention. With the opportunity of most (women) groups having evolved their own coping mechanisms like ROSCAS, such efforts and already existing innovations should be supported and strengthened to be able to effectively serve the needs of the poor farmers; the very reason why KRC supports the establishment of MFAs in rural areas. Other emerging local initiatives like farmers striving to establish and manage their own Farmers Bank in the region need to be zealously supported. Taking an integrated approach as alluded to in this paper (microfinance, agriculture improvement and marketing issues), with appropriate training and capacity building, there is great potential for peasant farmers to mobilize and generate their financial and other resources; which can result into improved livelihoods and general communities' transformation.

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