

**Competition Working for Customers:
The Evolution of the Uganda MicroFinance
Sector
A Longitudinal Study from December 2001
to March 2003**

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Background

Using the Financial Landscape Analysis tool¹, *MicroSave* has been tracking the various product offerings of different (Micro Finance Institutions) MFIs in the East and Southern African region. It is clear that Uganda's microfinance sector, more than any other in Africa, has witnessed growing competition within the last two years. The financial institutions involved have moved beyond the traditional MFIs. Commercial Banks and private registered lenders have entered the market aggressively and are redefining the competitive environment. The industry has seen changes in the corporate brands involved, products being offered, and service delivery mechanisms through which they are being provided.

This paper is part of a wider study "The Competitive Environment in Uganda – Implications for Microfinance Institutions and their Clients" that has been jointly sponsored by *MicroSave* and DFID's FSDU (Financial Sector Deepening Uganda) programme. The paper highlights the major changes in products, corporate brand and service delivery strategies used by MFIs². It documents the evolution of the microfinance industry over the last two years and explores possible strategies for maintaining a competitive edge.

The paper gives an over view and highlights the key changes in the competitive market for the last two years on the basis of the 8Ps of marketing. The 8Ps are product, price, place, promotion, positioning, people, physical evidence, and process – see Table 1.

Table 1. The "8 Ps" of Marketing

The "P"	Details of the "P"
Product (design)	Includes specific product features, opening/minimum savings balances, liquidity/withdrawal terms, loan terms, ancillary services such as loan review and disbursement times, collateral or guarantees, amortization schedules, repayment structures (e.g. balloon payments or interest-free grace periods etc).
Price	Includes the interest rate, withdrawals costs, statement/ledger fees, loan fees, prepayment penalties, prompt payment incentives, transaction costs and other discounts.
Promotion	Includes advertising, public relations, direct marketing, publicity, and all aspects of sales communication.
Place	Refers to distribution and making sure that the product/service is available where and when it is wanted. This includes such options as outreach workers or agents, mobile bankers, ATMs, working with the informal sector financial services etc.
Positioning	Is the effort by the MFI to occupy a distinct competitive position in the mind of the target customer. This could be in terms of low transaction cost, low price, high quality, security of savings, quick turnaround time, professional service, etc. It is a perception.

¹ **Financial Landscape Analysis** is useful in determining the types of competition are operating in the area as well as the rates they charge/offer etc. The tool also provides insights into the use/ availability of a variety of financial services and why participants use them. It can also provide important insights into how poor people's perceptions of financial services sometimes vary substantially from the actual terms and conditions being offered. The tool is based on a Competition Analysis Matrix, which is then validated by clients in Focus Groups. For an example of a Competition Analysis Matrix see Appendix 1 – other Competition Analysis Matrices on Group-based lending, Salary-based lending by Banks and the wide variety of savings products are available on *MicroSave*'s website. See *MicroSave*'s "Market Research for MicroFinance" toolkit for details of the Financial Landscape Analysis.

² This framework is based on *MicroSave*'s "Strategic Marketing for MFIs" paper – available on the *MicroSave* website www.MicroSave.net

The “P”	Details of the “P”
Physical Evidence	Includes the presentation of the product: how the branch physically looks, whether it is tidy or dirty, newly painted or decaying, the appearance of the brochures, posters and passbooks etc.
People	Includes how the clients are treated by the people involved in delivering the product,(i.e. the staff of the MFI). Are they treated with the courtesy and attention befitting a customer? Are they made to feel welcome? etc.
Process	Includes the way or system in which or through the product is delivered: how the transaction is processed and documented, the queues/waiting involved, the forms to be filled etc.

Methods

The research methodology included mystery shopping, observation, focus group discussions and Participatory Rapid Appraisal techniques with clients, ex-clients and non-clients of the various financial service providers. In addition, many insights were drawn from the staff of various organizations. The research used the Financial Landscape Analysis framework and thus focused on the 8 P’s of financial marketing (see Appendix 1). The research focused on Kampala area for most of the study since initially the serious competition had not moved beyond the capital city. However, by 2003 and the final survey, very significant competition had developed in major towns like Jinja, Mukono, Masaka, and Mbarara. In response to this, these towns were included in the 2003 survey and will be included in future surveys.

The findings are divided into three main categories:

1. Product strategy,
2. Product delivery/customer service strategy and
3. Corporate brand and identity strategy.

The conclusions and recommendations are categorized in line with the 8 Ps of marketing mentioned above.

Major Findings and Observations

The bulk of the paper focuses on the loans. This is where the competitive pressure is most intense and hence where MFIs operating in Uganda will need to make key strategic decisions.

Loan Product Strategy

Product design

In 2001, only Centenary Bank and Uganda Women’s Finance Trust (UWFT) had *individual lending* products. By the beginning of 2003, almost all major MFIs in Uganda have introduced individual lending products. This have been designed to retain good clients who tend to move to commercial banks when they feel they are big enough to stand on their own – or get fed up with sitting in groups for long periods of time. Group loans are very unpopular among many clients for all the reasons previously documented by *MicroSave* (see for example Wright et al., 1999).

Table 2. provides a list of microfinance institutions which currently offer individual loans.

Table 2. Interest on Selected MFI Loans

Name of Institutions	Term	Interest	Size (Min to Max) Ush. ³
CMF Ltd	6 to 18 months	2.5% per month	1.5 - 5.0 million
PRIDE Uganda	6 to 18 months	25% per year	1.5 - 12.6 million
UWFT	4 to 9 months	2.5% per month	0.5 - 5.0 million
Faulu	6 to 12 months	2 to 3% per month	0.8 - 10.0 million
Med Net	6 to 12 months	4% per month	2.0 - 5.0 million
UMU	6 to 12 months	3 to 4% per month	0.1 - 4.5 million

³ Ush.1,950 : US\$1

On the other hand, Orient Bank and a growing number of Savings and Credit Cooperatives have introduced group-lending products. Orient Bank use groups of five to cross-guarantee loans and is the first commercial bank in Uganda to offer group lending.

There are reports that Orient Bank and Uganda Commercial Bank/Stanbic Bank (especially in the Jinja, Mukono area) are refinancing loans of clients from competitors. They are reported to offer lower interest and longer terms in order to capture those clients. Several MFIs have reported massive drop outs (as many as 90 clients in one week in one branch) as a result. To be eligible for these loans, clients need only demonstrate that they have been good payers with their current lender. In the case of UCB/Stanbic Bank customers must prove that they are salary earners with a reputable employers.

The *average group size* among most MFIs operating in urban centres has dropped from the upper twenties to the upper teens. This is because of difficulty of mobilizing and organizing groups. Some MFIs have groups of only five individuals and they seem to be doing fine. Uganda Women's Finance Trust now requires that all groups must be registered with the local council. This is designed to aid loan recovery using collateral should the need arise.

There is a growing *shift from micro-enterprise lending to financing a wider range of financial needs*. Uganda Microfinance Union (UMU) has introduced a Health Providers Loan while Faulu introduced a school fees loan. Centenary Bank and DFCU Bank have joined Housing Finance Company of Uganda (HFCU) to introduce home improvement loans and mortgages respectively. There is a general feeling among many clients interviewed, especially in Masaka, that DFCU loans are still out of reach for micro-client. This includes DFCU's much-publicized leasing product.

Most MFIs have introduced *Salary Loans/Personal Loans/Employer Guaranteed Loans* products. Two years ago, Uganda Microfinance Union was the only MFI targeting this market. This is quickly becoming one of the most competitive market segments with products on offer from almost all the commercial banks plus Commercial MicroFinance Ltd., UWFT, Pride Uganda, and Med-net. The formula for the maximum loan amount varies between commercial banks and microfinance institutions. Commercial banks set a multiple of the borrower's salary, whereas most MFIs have less clear bases and appraisal procedures (see Table 3.).

Table 3. Salary Loan Size Analysis

Name of Institution	Term	Interest	Size (Min to Max) Ush.
Stanbic Bank	6 to 24 months	25 % per year	3 times net pay up to Ush.12 million
Standard Chartered Bank	24 months	Competitive rates	4 times net pay up to Ush.10 million
Dfcu Bank	24 months	21% prime rate + up to 10 per year	6 times net pay up to Ush.15million
Barclays Bank	1 to 4 years	32% per year	Ush.1million to Ush.10million
Bank of Baroda	10 months	24% per year	5 times net pay up to Ush.5million
Centenary Bank	6 to 36 months	19% per year	Ush.500,000 up to 12 times net pay
Allied Bank Ltd	12 to 24 months	25% per year	Ush.500,000 to Ush.10million
Crane Bank	24 months	25% per year	Ush.1million to 10million
Housing Finance Company of Uganda	24 months	21% per year	6 times net pay up to Ush.10million
Access Financial Services	3,6,9,12 months	24% per year	Ush.80,000 to Ush.2million
Myriad Financial Services	6 months	9.75% per month	4 times net pay up to Ush.2million
Orient Bank	24 months	21.5% prime rate	4 times up to Ush.10million

Name of Institution	Term	Interest	Size (Min to Max) Ush.
UWFT	4 to 9 months	2.5% per month	Ush.500,000 to Ush.5million
UMU	6 to 12 months	4% per month	Ush.1million to Ush.5million
FSA Kampala	3 to 6 months	9% per month	Ush.40,000 to Ush.2million
PRIDE Uganda	12 to 18 months	25% per year	Ush.1.5m to Ush.12.6million
Faulu	6 to 12 months	2% per month	Ush.800,000 to Ush.10million
FINCA	3 to 12 months	3% per month	Ush.500,000 to Ush.10million
Med Net	6 to 12 months	4% per month	Ush.2million to Ush.10million
CMF Ltd	6 to 12 months up to 18 months	2.5% per month	Ush.300,000 to Ush.5million

During focus group discussions (particularly among civil servants in Mukono), it became clear that the salary loans were cannibalising the working capital loans offered by the various NGO MFIs like PRIDE, UWFT, and MedNet in the local area.

Cannibalization at work?!

“If someone needs working capital, they can ask a civil servant to apply for salary loan on their behalf. The salary loan has better terms. It does not come with weekly repayments and meetings. It tends to be bigger from the outset. This makes a big difference to most business people”

– A client of CMF Ltd with Mukono District Administration.

With the exception of UWFT, most MFIs are increasingly reducing their *collateral* requirements. CMF Ltd. has reduced the loan to collateral value ratio from 250% two years ago to 150%. In most MFIs, the compulsory savings required (effectively as a loan insurance fund) have been reduced from 20% to 15% of the principle loan amount. Centenary Bank, on the other hand, now recognizes the *Kibanja* land title (certificate of occupancy and not ownership) as acceptable security for loans up to Ush.2 million. Centenary reports that this has tremendously increased the ability of poorer people to access credit since many households have nothing but a *Kibanja* title.

Over the last two years, the industry has witnessed a growing trend towards *increasing the loan term*. Many MFIs are now offering longer terms than the traditional 16-week loan term. For example Centenary Bank, Commercial MicroFinance Ltd and PRIDE Uganda now offer loans for as long as 2 years. UMU increased its maximum loan term from 6 to 12 months. It should be noted however that these long-term loans are accessible to a very small fraction of the clients. A mixture of cautious risk aversion and a shortage of funds for lending amongst the MFIs drive this rationing of longer-term credit.

No major changes have been observed with *nominal interest rates* and fees over the last two years as illustrated in the Table 4. below. Centenary Bank reduced interest on salary loans from 22% to 19% per annum. DFCU Bank increased rates on personal loans from 18% to 22-24%. Some interest rate related changes have been observed at Faulu where preferred clients get the Growth Business Loans at 2.5% per annum compared to 3% per month for ordinary loans. Faulu has also reduced interest rates on individual loans from 3% to 2% per month.

Table 4. Interest Rates and Fees over Time

	2001	2002	2003
Interest Rates Declining Per Annum			
UMU	36 - 48%	36 - 48%	36 - 48%
CERUDEB	22%	19 - 22%	19% - 22%
CMF Ltd – only 2003 is flat rate	34.8%	34.8%	30% ⁴
Interest Rates Flat Per Annum			
FINCA	48%	48%	36%
FAULU	36%	24 - 36%	24 - 36%
UWFT	30%	30%	30%
PRIDE	30%	25 - 30%	25 - 30%
Application /Processing Fees			
UMU	Ush.1,000	Ush.2,000	Ush.10,000
CERUDEB	Ush.5,000	Ush.5,000	Ush.5,000

Recently CMF Ltd limited moved from the *declining balance to the flat rate* method of calculating interest rates. The reasons advanced are that clients find it easier to calculate the flat rate. This is because it is familiar and often used in the informal sector (and indeed by most of CMF Ltd's competitors in the formal and semiformal sectors). This leaves only UMU (among the traditional MFIs) using the declining balance method to calculate interest rates on loans.

Compulsory savings, processing fees, commissions and insurance structures have changed in all directions over the last two years. Most of the MFIs have now incorporated *life/loan insurance* as part of the upfront fees. Two years ago only FINCA was insuring its loans with built-in cover from the American Insurance Group (AIG). Recently many MFIs, including UMU, UWFT and PRIDE Uganda, have joined this scheme. Centenary Bank has removed the 0.5% of outstanding principle as a monthly monitoring fee on selected loan products, but seems set to re-introduce it. Faulu has introduced a 2% commission on principle loan amount but has abolished the 1% set up fee. Faulu has also standardized its life/credit insurance fees at 1.25% for all loans regardless of size. In addition, the compulsory savings (or loan insurance fund) required as a percentage of loan size is slow decreasing overtime – representing another decrease in the effective cost of the loan for the clients.

Table 5. Compulsory Savings Required by Selected MFIs

Compulsory Savings (Percentage of Loan Value)	2001	2002	2003
UMU	20%	20%	20%
UWFT	15%	20%	20%
FAULU	30%	25%	25%
FINCA	20%	20%	10%

Penalties for late payment have been introduced by most MFIs. PRIDE now charges Ush.50,000 on late remittances of salary loan cheques. UWFT charges Ush.10,000 for any past due payment. CMF Ltd has revised its penalty structure from 5.8% to 3% per month of outstanding principle. In addition CMF Ltd charges Ush.10,000 per telephone made by the loan officer to the client with a late payment. UMU charges Ush.5,000 per day past the due date.

Most MFIs have in practice *reduced the loan processing time* especially in the Kampala market area. MFIs' field agents are doing this unofficially in response to the increasingly heated competition. Reports from clients indicate that the rules in the books are being clients. Today clients can get loans in as few as 3 days -especially if they have a clear credit history from a respectable competitor.

⁴ Flat rate

The demand for a *grace period* is growing and rewritten in the field. Two years ago, 8 weeks of pre-credit training was the norm for new becoming a focus for clients' selection of financial service provider. This was observed especially in Masaka. Most clients feel that it makes better business sense to allow them use the money for at least a month before they are required to make a first repayment. It is for this reason that UWFT is reported to be gaining popularity and Centenary attracting dropouts from competitors in Masaka.

Grace Period

“We should be allowed to okunyumunguza (rinse) the money for at least one month before we take the first payment. Otherwise you have to immediately set aside a portion of the loan as soon as you get it. This is only to ensure that you have the following installment” – *a client echoing the voices of many in the study.*

Savings Product Strategy

Most banks have *lowered the opening balances* making them accessible to the micro market segment. Post Bank is the only one that increased its minimum balance. In most cases banks have the same amount required for opening and minimum balances. This was not the case two years ago where most banks had higher opening balances and lower minimum balances. This is illustrated in the minimum balances Table 6 below.

Table 6. Minimum Balances of Selected Banks

Name of Bank	Old Minimum Balances (Uganda Shillings)	Current Minimum Balances (Uganda Shillings)	% Change
Stanbic Bank	500,000	20,000	-96%
Crane Bank	200,000	100,000	-50%
Cairo Bank	300,000	30,000	-90%
Allied Bank	100,000	50,000	-50%
Post Bank	20,000	50,000	+250%

Orient Bank, DFCU Bank and HFCU have introduced *saving accounts with chequebooks*. This is a trend likely to be followed by other banks. In addition, this will increase access to financial services especially with banks, hire purchase companies, MFI and moneylenders who tend to prefer post dated cheques as part of collateral. This is because “bouncing” a cheque is a criminal offence in Uganda. Therefore a post-dated cheque is an excellent form of collateral. Making chequebooks available to more people is likely to have a very strong impact on contract enforcement between lenders and borrowers.

DFCU Bank has joined Imperial Investment Finance Company Ltd in introducing accounts targeting minors (i.e. below age of 18). DFCU has launched and aggressively advertises in several media the Young Savers Account that has an opening balance of Ush.50,000. However, most micro-clients interviewed feel this is too high for this type of account. Imperial Investment Finance Company has been offering its Junior Account for over the last 4 years.

Barclays Bank has introduced a salary account for salary earners that comes with an ATM card. The customer does not need an opening balance for this account: evidence of employment and a contract to transmit the salary through Barclays is all that is required.

Service Delivery and Customer Care

Customer Service continues to be perceived by clients as deplorable in most banks. Many clients feel that MFI have better customer service than banks. With the growth in competition, however, customers are becoming increasingly demanding and discriminating. They are increasingly moving to institutions that provide quick service.

ATM technology is increasingly becoming a common feature in the major competitive markets especially Kampala. Kampala has over 40 ATMs at the moment and the numbers are growing every other month. Banks offering accounts with low minimum balances have been at the forefront of introducing ATMs. The growth of ATMs and their increasing acceptance amongst the lower-income people has significant implications for the urban microfinance sector. It appears that these same banks have recently signed up large numbers of clients from the microfinance market segment on the basis of these ATM facilities coupled with the low minimum balance. Two years ago, there were 4 ATMs in Kampala – and Standard Chartered Bank owned most of them. Two years ago, there were 4 ATMs in Kampala – and Standard Chartered Bank owned most of them. As of early 2003, Crane Bank had the most ATMs, a total of 16 in Kampala and its suburbs. Nile Bank and Barclays Bank have 8 ATMs each, while Standard Chartered Bank and Orient Bank have 6 each. Other banks include Stanbic Bank with 3 ATMS, Allied Bank with 2 ATMs and Bank of Baroda with one ATM.

Discussions are ongoing amongst the banks to negotiate a joint venture to develop a common ATM infrastructure for use by all interested banks. At the moment not much detail is available about the progress of these discussions.

There are strong signs of growing differentiation within the ATM market and this is expected to grow. Orient Bank is currently the most visible in this area. Orient Bank has three types of cards, which include Blue, Platinum and Golden. The outstanding features are that the Golden card works as a credit card while the Blue and Platinum Cards earn 10% on savings above Ushs.110,000. There are mixed feeling among clients interviewed about the value of this differentiation. This is mainly because these are very new products. The public reaction to this differentiation should be a subject for future investigation.

Banks' branch networks have increased, especially within Kampala. This is particularly true for banks now targeting lower income earners. The Banks include Centenary, DFCU, Orient, Stanbic and several non-bank financial institutions including Stanhope Finance Ltd. Faulu has also recently opened a front office over-the-counter operation, which represents a significant departure from its traditional practice.

In the last two years, competitive pressures have also forced most banks and MFIs to adjust the workweek to include Saturday. Several commercial banks now open on Saturday from 8:30 am to 12:30 pm. Crane Bank on the other hand closes at 3:00 pm while Stanhope Finance Company Ltd and other non-bank financial institutions extend up to 4:00 pm on Saturday. This has become important because important market segments (especially many people in civil service) rarely find time to conduct their banking during the week.

Corporate Brand Strategy

The last four months have seen a growing trend towards aggressive branding. Nile Bank and Crane Banks, both of which have lowered their opening balances, have made huge investments in corporate branding through all manner of media advertising. A year ago Uganda Post Bank embarked on a sustained re-branding campaign as it launched its new image as a bank separate from the Uganda Post Office. The most successful brands are Nile Banks and Crane Banks. Most people can know or can recognize the tag lines for both banks.

UMU are also beginning to think about re-branding their organisation including upgrading the appearance of their offices, their signage etc. Clearly this attention to corporate image is essential if they are to be successful at mobilising savings. Other MFIs seeking to become Microfinance Deposit-taking Institutions under the new Act will also have to work on corporate brand and image. Most persons interviewed feel that PRIDE Uganda appears to be the best branded Micro Finance Institution. This is mainly because of the big investment they have made in standardized signage especially bill boards as part of the recent change in name from PRIDE Africa to PRIDE Uganda.

Conclusions

The conclusions are categorized along the 8Ps of marketing discussed above. This is preceded by a section focusing on competition.

Competition

There is growing competition especially driven by the entry of Orient Bank and UCB/Stanbic. Crane Bank is likely to enter the micro-lending market in the near future. This trend is likely to continue over the next year and is likely to change the financial landscape tremendously. Like most MFIs, these new entrants are looking at the low-income salary earners market as a low-risk, highly profitable market segment.

Furthermore, there is growing evidence of direct and indirect substitution of traditional MFI working capital loans with salary loans. This is likely to force some MFIs to lose part of the working capital market as well.

There are concerns within the MFI industry that the new entrants might contaminate the market with poorly appraised individual loans to persons previously accessing group loans from MFIs. MFI should prepare mitigating strategies just in case. Staff of some MFIs especially in the Mukono has raised these concerns and Masaka areas where UCB/Stanbic is reportedly aggressively attracting clients from group based MFIs by offering them individual loans. However, the salary-based lending strategy of UCB/Stanbic is likely to be less risky than many MFIs fear.

Related to the above, there is a need to pay closer attention to the SACCO movement in Uganda, which is, once again, the focus of several project. These include one by WOCCU focusing on both employee based and rural SACCOs. If these SACCOs become successful, then the competitive environment, particularly for salary loans category will change still further. Since SACCOs offer loans at lower rates of interest and with more flexible repayment schedules, they could become the financial service providers of choice for many households. Although SACCOs tend to be plagued with governance and management problems they still have the potential to become significant players in some markets. The potential of SACCOs to cause market disruption is high, particularly in the short run, because they are likely to be major outlets for Microfinance Support Centre Ltd funding in support of the rural outreach plan.

Product

MFI should continue to scrutinize their products to make sure they match clients' ever changing needs and expectations. NGO-MFIs in particular (especially those offering group-based lending products) need to look at refining their loan terms, the frequency of payment and the grace periods to respond to the changing marketplace and competition.

Product branding and communication for savings products will be particularly important for MFIs looking to become Microfinance Deposit-taking Institutions. The branding and communication is important not only for differentiation in a market dominated by commercial banks, but also because of the need for clients to see the difference and get assurance that the voluntary savings deposits they place with these institutions are "untouchable". These "transformed" MFIs will have to work very hard to clearly differentiate voluntary from compulsory savings or to drop the compulsory savings requirements entirely.

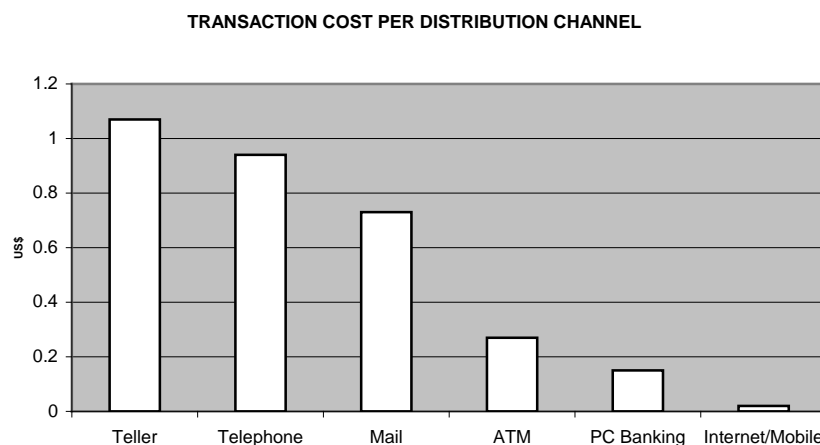
Price

Conventional wisdom in the microfinance industry suggests that clients are not price-sensitive and are more interested in prompt, reliable service. This is less so in East Africa where the effective interest rates charged by MFIs are very high by comparison to most of the rest of the world. This is one of the reasons why lower cost, salary-based lending is making such in-roads into the MFIs' traditional portfolio. MFIs should consider incentives like prompt-repayment rebates for clients paying their loans on or ahead of time and lower pricing of larger loans to retain good clients. Faulu and Centenary Bank is already leading the way in this strategy and appear to be getting good results.

As the competition for savings clients increases, it is reasonable to assume that there will be some degree of pressure to pay more on larger savings balances and to reduce ledger/transaction fees. International and Uganda experience suggests two guiding principles for the latter:

1. Clients dislike ledger fees but are willing to pay transaction fees in return for rapid, high quality service; and
2. The costs of high-transaction banking can be cut radically by adopting appropriate technology (see graph from Ketley and Duminey, 2003).

Banks are already acting the on latter through ATMs. But the potential of mobile phones (and their embedded smart SIM cards) to cut costs remains untapped. Several companies are already beginning to look at this in South Africa and, if successful, the technology will probably be available in East Africa in the next 3-5 years. This has huge implications for outreach (see Place below).



Promotion

Growing competition especially in the salary lending market segment demands that MFIs use more direct marketing than before. This means that staff must be trained in direct marketing strategies. Since the target clientele is different, MFIs will need to develop and communicate appropriate selling strategies. The development of such strategies calls for a good understanding of the challenges most employers face when staff request for advances against their salaries. For most companies, demands for employee loans represent a liquidity drain and an administrative problem. This is a recurring problem that MFIs and banks can address by presenting a good proposal to the Finance Department of the targeted employers.

Place

In view of the growing competition in the urban areas MFIs should begin to examine options for expanding into the rural market despite all its challenges. The challenge for now is to get more efficient and cost effective service delivery strategies for rural areas. This includes MFIs (and indeed banks) exploring opportunities for providing mobile banking services to deepen outreach into more remote areas (as is being done in Kenya by Equity Building Society – see Coetzee et al. 2003). Similarly, as discussed above, mobile phone technology might provide a cost-effective way of taking financial services deeper into the rural areas. Finally, Uganda’s Rural Outreach Plan may provide opportunities for MFIs to begin to provide wholesale lending and support services to rural community based MFIs in order to bring financial services closer to the customers. The normal record-keeping problems that face such community-based MFIs might be overcome through partnerships where the MFI offers assistance with the back office operations using computerized MIS.⁵ However, computerisation of records will not overcome issues driven by poor governance and management. Back office support to the community based MFI will give the wholesaling MFI good quality information on the governance/management issues and inform lending and portfolio management decisions.

For MFIs and banks offering savings services, opening hours are an important component of “place” or access. As competition increases, so the demand for extended opening hours or systems that extend

⁵ Options for affordable computerized MIS systems are increasingly available on the Uganda market.

opening hours (such as ATMs), will also increase. Those who remember Greenland Bank recount how its extended opening hours made it the bank of choice for thousands of market traders.

Positioning

At the moment most MFIs are perceived to be “opportunistic and uncaring”. Successful MFIs will have to position themselves to be seen as business partners interested understanding customer needs and responding to them. MFIs will need to work hard towards shedding the image of being “vultures” preying on the clients’ financial illiteracy.

One strategy might be to get loan officers or specialist teams to offer short trainings on managing personal finances especially debt. These are likely to be more valuable than traditional business planning and accounting courses. There is a strong perception that most MFIs are interested in enslaving their clients to debt since this is where the profits are made. There is an urgent need to develop and roll out financial literacy training – Citibank has funded the Washington-based NGO MicroFinance Opportunities to start work on this. Ugandan MFIs should seek to join or at least learn from this initiative.

As discussed above, those MFIs that are proposing to transform will need to reposition themselves to project an image of institutional stability so that clients can entrust their savings to them.

Physical Evidence

As part of their work on corporate image and position, several of the MFIs proposing to transform into Microfinance Deposit-taking Institutions will need to work extensively on the physical evidence offered at their branches. Mobilising deposits requires the client to trust the institution, and it is therefore important that the branches reflect this. Striking a balance between creating intimidating, opulent branches and creating branches that assure the clients that they are dealing with a stable, professional institution that will be there for them in the long-term, is not easy. But it is immensely important.

People

It is very clear that customer care and speed of service are becoming the most important considerations for clients choosing between MFIs. As a matter of priority, MFIs should make investments in improving customer care. This can be achieved by examining and re-engineering processes (see below) to improve the speed and quality of customer service, through implementing customer-focused staff incentive schemes and, of course, traditional training for staff. MFIs should therefore also consider investing in establishing customer service desks in their branches – to provide advisory services and to keep tellers focused on completing transactions as quickly as possible. In a competitive environment this could be “the difference that makes a difference”. This is especially important since a significant proportion of the target market segment is financially illiterate. The help desks at Uganda Microfinance Union and Standard Chartered Bank provide very good examples of the value of a help desk even to a predominantly literate clientele.

Process

MFIs should invest in reviewing systems and processes in the banking hall and back office in order to develop strategies to increase speed of service delivery. Speed of service is one of the biggest complaints from most clients interviewed. As has often been documented, throughout the world, moneylenders continue to attract clients in spite of their high interest rates simply because of the fast service they offer. Centenary Bank has already demonstrated how this can be done through its “Automatic Loan” which offers clients with a good track record fast loan processing. Periodic mapping of internal processes with a view of improving efficiency will be a strong differentiating factor for MFI and the improvements in the speed of service will increase client retention.

The competitive environment in Uganda has meant that lower- income clients, particularly those living in the towns and cities, have a huge range of choice when they look for a financial services provider. The Ugandan market place has changed significantly in the last two years. With banks entering the MFIs’ market segments, and some MFIs looking to offer savings services, this range of choice will continue to

grow. As a result, with competition, the lower income clients are demanding, and getting, better quality services at more affordable prices. The survival of banks and MFIs in this market place will depend on them identifying market segments where they have comparative advantage or services and products where they can establish competitive advantage.

The days of product-driven MFIs are numbered as more and more banks and MFIs are responding to the demands of their clients and moving towards a market-led approach. The winners in the Ugandan competitive market place will be those financial service providers with a strategic marketing focus ... and the clients they serve.

References:

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Appendix 1: Example of Competition Matrix – For Others Please See the *MicroSave* Website www.@MicroSave.net

Note: This Competition Matrix is built on interviews/brochures/mystery shopping etc. during the months of January-March 2003 – Terms and conditions may have changed

Loan Product Analysis - Matrixes - MFIs in Kampala General					
Individual/Salary Loans	Uganda Women Finance Trust	Uganda Micro-finance Union	PRIDE	FAULU	MED-Net
Product (Design)					
Purpose (Agriculture, Personal, Business, any)	Agriculture. Personal, Business, Trade and Commerce, Services etc	Agriculture. Personal. Business, Trade and Commerce, Social Service, Transport.	Agriculture. Personal. Business. Trade and Commerce.	Personal. Business Trade and Commerce. Agriculture. etc	Agriculture, Personal. Business. Trade and Commerce.
Collateral/ Guarantees	<p>Individual salary: Employer guarantee Additional chattel or legal mortgage for a loan of Ush.3million and above. 20% of the loan amount must be in a UWFT account. Guarantor's written letter, post-dated cheques, undertaking by employer to pay salary through UWFT. A letter signed by the Chief Accounting Officer and a letter signed by the District Education Officers in case of teachers.</p>	<p>Individual salary: No objection letter from employer i.e. guarantee and 20% of the loan value as security on the account. Insurance whenever a loan is obtained. Individual business: Principal collateral required for micro corporate and development loans is vehicle logbooks or land titles. Small loans need no formal collateral.</p>	<p>Individual salary: Employers no objection letter (i.e. company approval to borrow), 3 endorsed post-dated cheques as security, confirmation to pay Pride by the employer. Individual business: Formal collateral e.g. land title, vehicle logbooks, post-dated cheques, guarantors and any other valuable asset.</p>	<p>Individual: Post dated cheques covering the full amount of the loan plus interest. Developed land with in radius from the city in own names or assets like buildings. Vehicle logbooks. Guarantor with a cheque account. Loans are secured with collateral to a tune of 120% of the face value of the loan required.</p>	<p>Individual salary: 20% of loan value as security on account, guarantee letter from the employer of head of institution confirming payment of salaries to MedNet. Individual business: 20% of loan value in MedNet account. Land title in borrower's names. Car log book in borrower's name or both. An asset as security. Post dated cheques</p>

Loan Product Analysis - Matrixes - MFIs in Kampala General					
Individual/Salary Loans	Uganda Women Finance Trust	Uganda Micro-finance Union	PRIDE	FAULU	MED-Net
Duration of loan	4-9 months for individual getting Ush.500,000. First loan must be 4 months.	6 - 12 months	12-18 months depending on the loan size. But if the loan is Ush.12.6 million the maximum is 18 months. 6-18 months for the salary earner.	6 - 12 months	6-12 months for business individual loans and 6 months for salary loans.
Repayment Periodicity (weekly, monthly)	Fortnightly and monthly	Monthly	Monthly	Monthly for individuals with bigger loans. Also weekly and bi-weekly if you wish.	Monthly
Grace Period	None	None	None	None	None
Loan Size (Amount)	Ush.500,000 to 5million	Minimum Ush.100,000 to maximum Ush.4.5Million. Salary earners, qualify for 2 times their net monthly pay.	Minimum Ush.1.5million to maximum Ush.12.6 million. For salary loan Ush.300,000 – 10million depending on the salary and repayment period	Ush.800,000 – Ush.2million for a beginner maximum is Ush.10million. Graduation from one loan to the next can only take place by a maximum of Ush.2 million.	Individual Ush.2 – 5million, salary loan: 3 times your net monthly pay.
Access Requirements (registered business, attendance of sensitisation meetings etc, cash	Individual Salary: Latest pay slips, no objection letter from employer. Individuals should be preferably graduates from the group approach.	Individual salary: A letter of undertaking from the employer, latest payslips, appointment or confirmation letter, a registration fee of	Individual salary: Must be a salary earner provide a copy of the company profile, must earn more than Ush.300,000 must be employed on a	Individual: Cashflow business plan, have a bank account in own names, have a business in own names, must be visited by the FAULU Loan officer.	Businesses: Operate account in their own names. Individuals: Operate an account in own names Institutional guarantee

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Loan Product Analysis - Matrixes - MFIs in Kampala General					
Individual/Salary Loans	Uganda Women Finance Trust	Uganda Micro-finance Union	PRIDE	FAULU	MED-Net
flow, business plan, tax clearance certificate etc)	Saved with UWT for at least 1 month. Must operate within a radius of 25km from UWFT branch Must have a project that is financially viable which must have been in existence for at least 6 months.	Ush.10,000 and access requirement. Individual business: Resident within 15km from the nearest UMU office. Save at least 20% of the loan value, provide 4 passport size photographs, 2 referees, business plan, cash flows, registration certificate of a company for larger loans.	permanent basis, provide payrolls or payslip. Individual business: Must have graduated from earlier small groups, must have good repayment record, must be above 18 years, should have in business for 2 years, business must be in one physical place. Business must be registered.	Guarantor with a cheque account, business must have been in place for at least a year.	salary must be in a group of three working in the same institution or organisation. Borrowers must be guaranteed by the institution, must have a constitution with a chairperson, treasurer and secretary. Borrowers should preferably be on the payroll, must provide the latest payslips, proof of latest monthly payments by head of institution, they must be salary earners.
Price					
Interest rate	2.5% per month	3-4% per month	25% per year	3% per month	4% per month
Method of charging interest (flat, declining balance)	Flat rate	Declining balance.	Flat rate	Flat rate	Flat rate
Application fees	Ush.5,000 loan application form plus Ush.500 as ledger fees	Ush.2,000 purchase of loan application form the figure doubles as the loan doubles.	Ush.3,000 registration fee.	Ush.3,000 registration fee.	None

Loan Product Analysis - Matrixes - MFIs in Kampala General					
Individual/Salary Loans	Uganda Women Finance Trust	Uganda Micro-finance Union	PRIDE	FAULU	MED-Net
Appraisal fee	None	None	None	None	N/A if any Expense born by the borrower.
Commission fee	2% of amount approved.	2% of loan value	2% of loan value.	2% of amount on individual loans.	2% of the loan value.
Monitoring fees	Expense/cost is met by the borrower.	Expense born by the client	None	None	N/A if any Expense born by the borrower.
Insurance/Other fees	1% insurance on value approved In case of Accidental Death Ush.1.2million is paid to the bereaved family plus settling outstanding loan balance, Permanent Disability AIG pays outstanding loan balance to UWFT. Accidental death of a husband AIG Pays Ush.600,000 accidental death of any of the 4 registered children AIG pays Ush.300,000	1% insurance on value approved. In case of Accidental Death Ush.1.2million is paid to the bereaved family plus settling outstanding loan balance, Permanent Disability AIG pays outstanding loan balance to UMU. Accidental death of a husband AIG pays Ush.600,000 accidental death of any of the 4 registered children AIG pays Ush.300,000	1% insurance on value approved. In case of Accidental Death Ush.1.2million is paid to the bereaved family plus settling outstanding loan balance, Permanent Disability AIG pays outstanding loan balance to Pride. Accidental death of a husband AIG pays Ush.600,000 accidental death of any of the 4 registered children AIG pays Ush.300,000	2.25% of the loan as insurance.	0.5 % of the loan amount.
Compulsory Savings	20% of the loan value.	20% of the loan value, and initial savings of Ush.10,000	None	None	20% of loan value for both.

Loan Product Analysis - Matrixes - MFIs in Kampala General					
Individual/Salary Loans	Uganda Women Finance Trust	Uganda Micro-finance Union	PRIDE	FAULU	MED-Net
Late payment penalties	Fee of Ush.10,000 per day	Fee of Ush.5,000 per day A higher rate of interest on arrears, and a red mark indicating securing a smaller loan than before.	Sale of assets for an individual business loan and none for salary.	Individual suffers the legal process i.e seizure of assets.	1.5% per month on installments in arrears.****
Pre payment incentives	Access to a bigger and follow-on loan faster	None	Bonus of 10% savings for a year if you leave.	Interest computed for the period funds are held. .e pay in a short time less is charged.	None. May only help you secure a bigger loan.
Promotion					
Marketing information	Notices in the Banking hall. Brochures, detailed information from the Manager	Credit orientation 2 hour's seminar held once. Brochures, notices seen in the Banking hall	Sensitisation seminars for prospective clients, brochures are available at the reception, supervision staff gives information at will.	Sensitisation seminars at the branch, information provided by the officer, brochures available.	Brochures, notices at MedNet offices, more information from the Manager/Loan officer
Advertising	Sign posts at UWFT Offices, T-Shirts desk and wall calendars, also on vehicles	Sign posts at UMU Branch offices, wall and desk calendars.	Sign posts at Pride's established branches and along highways	In Magazines, the Micro Finance Banker, Signposts at FAULU offices.	MedNet Vehicles, signposts at Med-Net offices, desk and wall calendars, T-Shirts

Loan Product Analysis - Matrixes - MFIs in Kampala General					
Individual/Salary Loans	Uganda Women Finance Trust	Uganda Micro-finance Union	PRIDE	FAULU	MED-Net
Place					
Outlets/Branches	Located in the suburbs away from the city centre on Buganda Road- Head office.	Several locations out of the city centre, i.e. Kamwokya, Kasangati and Nakawa market	Various locations in Kampala and its suburbs including Owino Market, Kabalagala etc.	3 branches in Kampala suburbs, Bakuli, Kamwokya, Owina and Teller point on Entebbe road.	At the outskirts of Kampala (Kavule) and Mukono
Positioning					
Slogan/vision	Economically Empowering Women.	Micro Finance With A Difference Built in order to allow the low income help themselves	Pride is Enterprise.	Enabling people to succeed through small business loans.	We serve and value people
Corporate Image (generated through client interviews)	Perceived to be a women's bank offering a wide range of services mainly loans to women	Flexible and customer responsive innovative and of high quality	Efficient and militaristic credit machine with zero tolerance for non payment	Flexible and customer responsive with less access requirements.	A Christian customer caring micro finance institution run professionally and sustainably.
Product Image (generated through client interviews)	Have various products to offer	Multiple products with various names but serving the same purpose.	Good for business because it responds to business cash flow and convenient for salary earners.	Customer responsive products including lending for development purposes like education.	Have various products to offer, lends for development.
Physical evidence					
Are application forms clear (language)	Clear language aided by officer	Clear	Easy forms to complete.	Very clear	Clear

Loan Product Analysis - Matrixes - MFIs in Kampala General					
Individual/Salary Loans	Uganda Women Finance Trust	Uganda Micro-finance Union	PRIDE	FAULU	MED-Net
Do they provide a clear loan repayment schedule	Yes. At the time of disbursement.	Schedule provided.	Yes. During training.	Yes at the time of training/disbursement.	Yes. At disbursement
Do they provide a copy of the loan agreement	Yes	Yes.	Yes	Yes. At disbursement.	Yes. At disbursement
Customer service/ Help desk	Straight to the manager who gives you all information required. Loan officers always available (excellent handling of clients.)	Helpful well informed but extremely busy to get all data required.	Well-trained supervisors who help in depth discussions.	Helpful and fairly conversant/refer to loan officer	Available and helpful but attendant not well versed with technical issues, refer to manager or Area Loan Officer
Process					
Application to Disbursement Time (Institutional perspective)	One (1) week even for first loan if all requirements are met	1 - 3 days	Three weeks training for individual business loans broken down as follows: Application and fact finding: 1 week, 2nd week: to evaluate your assets as security, 3rd week is disbursement, for salary earners as soon as requirements are lodged in.	1 week they also talk of very quick disbursement	2-3 days if all security is in order and discharge process.

Loan Product Analysis - Matrixes - MFIs in Kampala General					
Individual/Salary Loans	Uganda Women Finance Trust	Uganda Micro-finance Union	PRIDE	FAULU	MED-Net
Discharge process – time and process it takes to get collateral back after final payment	As soon as the loan is paid (1 day)	In case of land titles you keep them yourself – so zero days	3 days, Zero days for salary loans	3 days	1-2 days.