

A MICROFINANCE RETROSPECTIVE

... Studying the Past
Looking to the Future ...

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WED, JUNE 4, 2014

Forward

USAID programs throughout the world are supported by a cadre of professionals referred to as Foreign Service Nationals (FSNs). FSNs are locally hired experts in technical areas, such as health, education, and economic growth, and operational areas such as contracting, financial management, and human resources. USAID could never have achieved everything it has in the field of microfinance without the dedicated individuals who chose to support the development of microfinance in their countries through their work with USAID. Their technical and managerial oversight kept USAID programs on track, ensuring technical excellence and program continuity. I had the pleasure recently of sitting down with one of USAID's FSN stars, Jacqueline Wakhweya, while she was in Washington, DC, for training. While we munched on roti at a noisy outdoor café, Jacqueline told me her story about the 15 remarkable years of USAID's microfinance achievements in Uganda.. -- Anicca Jansen

Transforming Microfinance in Uganda

By Jacqueline Wakhweya

An accomplished and versatile private sector development specialist, Jacqueline Wakhweya has over 15 years of experience designing, developing, managing, and monitoring the delivery of finance and business development services (BDS) to low-income households engaged in enterprise in Africa. She is co-chair of the Private Sector Donor Group (PSDG,) composed of 18 donors that support the private sector, coordinates and harmonizes bi-lateral and multilateral programming of aid under the Government of Uganda's Competitive and Investment Climate Strategy, and heads the advisory team of the 235-member Uganda Foreign Service National (FSN) Savings and Credit Cooperative (SACCO). Additionally, she is USAID/Uganda's Economic Growth Office Private Sector Competitiveness Initiatives Unit Leader and was chair of the FINSCOPE steering committee for two

consecutive terms. FINSCOPE is a national survey of the demand and use of financial services carried out biennially that is currently applied in six African countries including Uganda. Wakhweya has an MBA from Heriot-Watt University, Edinburgh, and a BA in Economics and Political Science from Makerere University, Kampala.

Breaking even, turning a profit

When I joined USAID in 1996, I'd heard about microfinance. Coming from the Central Bank of Uganda, I was skeptical. We were skeptical. Small loans were US\$1,000. But, US\$30 loans? What's that? I was not convinced that we could safely lend to people with no collateral, with unlicensed businesses, and get the money back. But the FINCA Village Bank model was very focused on women, and I realized it was a different kind of bank.

In 1996, Uganda was coming out of war and conflict. The financial system was broken. I was recruited as a project manager because of my finance background. Looking back, I came in skeptical. I think I was a little naïve too, "wet behind the ears" on finance issues.

The first USAID/Uganda microfinance project was supported by the Displaced Children and Orphans Fund. The goal was to reach orphans and people affected by HIV/AIDS. At that time, the biggest challenge for the USAID Health Office was helping vulnerable children and households headed by women. They needed economic activities.

On the edge of a new frontier

For somebody coming from a formal banking background, there were, what I would call, "learning experiences." One was the corporate culture, the changing of attitudes, and how we perceived the client. The client didn't come to us; we went to the client. I thought that was refreshing because at the end of the day, the customer really is king. The way traditional banking is structured, the customer is treated like the bank is doing them a favor.

It's the customer's money, that's the reason we exist. But we tended not to treat the customers that way. In my experience, it was like we tried to make their lives so difficult—yet it was their money they put into the bank. The most refreshing thing I think about microfinance is that it changed that relationship—you as the banker, as the service provider, would go to the customer and find out what their need was and then craft a solution. And that's how village banking started.

Each one, teach one

My third culture shock (the first was the size of the loans and second was the way we approached clients) was what the clients would teach us. One day I was in a market in Bugembe, Jinja district, located close to the source of the River Nile, talking to the women. Of course I come from a traditional investment banking background with all the stuff that you learn in business school, so I asked, "Where are your books? Where are your receipts? And tax returns?" And these women looked at me, and then one of them asked me a question that changed my perception about microfinance clients. She asked me, "Have you ever run a business?" Here is a woman who sells tomatoes, sells cabbage. She's put her kids through school. She's sent her eldest son to India. And here I am asking her where her books are, where was her balance sheet and audited accounts. I had no idea that she was hoping to find a kindred spirit in me to qualify a negative response to my question. My answer was a very embarrassed, "No." She was silent. It dawned on me that I didn't know squat about what I was doing. It didn't matter if I had a prestigious university degree. It just didn't matter. Have I ever run a business? And, from that day it

taught me to listen, to listen to the client, and to listen hard and good before opening my mouth about what was right and what was wrong.

The pathfinder

One of the reasons USAID has been so successful in Uganda is that it was the first donor in this space. It started out working from the health angle, HIV/AIDS, and moved into economic growth and livelihoods.

The second reason for USAID's success was that it recruited banking specialists like myself and gave us the opportunity to learn about the industry. I got training as a project manager. I also got exposed to new ways of doing business. It brought a hands-on focus to what we were doing.

Doing business unusual

A third reason for USAID's success is a very interesting one. In 1999, USAID got authority to manage credit guarantee facilities, the Development Credit Authority (DCA). Uganda was one of the first countries to manage a multi-institutional DCA. We had seven participating commercial banks with small and medium enterprise loan portfolio guarantee facilities. Of these banks, five were international banks (Barclays, Standard Chartered, Stanbic, Citibank) and two were local banks (Centenary and Nile Bank). The interesting thing was that the microfinance institutions (MFIs) like FINCA, which were NGOs at that time, got their first break with a line of credit from these banks, covered under the DCA. So we got FINCA, Uganda Microfinance Union, Uganda Women's Finance Trust, and a couple of others that were the first recipients of USAID's DCA guaranteed loans. These MFIs borrowed those funds from a large commercial bank (wholesale) and were able to use that money (retail) to lend. Our success was where the two programs, microfinance and DCA, dove-tailed.

I think a fourth reason why we had a successful program in Uganda was technical assistance. We had a DCA facility that was capitalizing these NGOs, and we had technical assistance that was contracted to help the financial institutions (the MFIs) design appropriate products. The MFIs were actually NGOs at that time; they were not even licensed to take deposits. The technical assistance worked on the borrower's side and worked on product development for financial institutions. They also worked on the enabling environment. In all, we had a succession of three USAID technical assistance projects over 15 years that helped create a robust microfinance industry in Uganda. These were, in order: PRESTO: Private Sector Enterprise, Support, Training and Organizational Development (DAI and sub-contractor Management Systems International), followed by SPEED ONE: Support for Private Enterprise Expansion and Development and Rural SPEED (both managed by Chemonics).

One of the things these three projects did especially well was creating an enabling environment for the licensing of microfinance deposit-taking institutions. Remember, nobody in the Central Bank had ever regulated MFIs. There were emerging trends, especially from Bangladesh and Latin America, focusing on NGOs that had transformed, but we clearly did not have regulation that would support transformation of NGOs into deposit-taking institutions. So I would say the fifth reason we had success was that we also focused on policy and regulations. We worked with regulators at the Central Bank to draft a law for microfinance deposit-taking institutions. We sent regulators to Boulder, Colorado, and many other courses to expose them to different regulatory environments.

USAID was very central to creating a forum where we had GIZ, the European Union, and other donors coming together to share best practices and lessons learned. We got connected to the Consultative Group to Assist the Poor (CGAP) and MIX Market, the data hub where MFIs and supporting institutions share information. As donors we felt that it was very important to have the regulators (the Central Bank)

and the legislators (parliament) understand the sector and not over-regulate it because we needed innovation to be able to thrive.

At the same time, we worked on capacity building. USAID identified five NGOs and prepared them for transformation by building their systems and ensuring that they set up good corporate governance structures and recruited the right people.

I am proud to say that the three banks that transformed were recipients of USAID technical assistance, regulatory and supervisory support, and also capital. They received initial capital, starting when they were still NGOs, both operating capital and loan capital guaranteed through USAID's DCA. They did not default but increased the comfort level of banks to lend to these non-entities, or what the banks would call "unknowns."

Usually when a company came into a bank, it wanted to see a certain familiar structure. But an NGO is an NGO. An NGO probably doesn't have the same corporate structure as a company, so just having USAID technical assistance there to help the banks, the banking sector, and the regulators understand this unknown entity helped to establish credibility. Otherwise, I don't think the banks would have touched the NGOs with a 10-foot pole.

The three banks are FINCA Bank, Uganda Finance Trust (it started out as Women's Trust, but now it is UFT), and Uganda Microfinance Trust Limited, which was bought up by Equity Bank Kenya recently. I think for me, this was the best indicator of success because when bigger banks start buying off a small business like that, it shows that there is something there. I think that was the biggest indicator that this was profitable.

In a nutshell, I think that the biggest accomplishment was transforming the thinking on what microfinance was. I have come to be a believer. Many people like me who were from the banking sector came to believe in, breathe, and live microfinance in spite of the skepticism at the beginning. Remember at the beginning it was like, "Oh that's just a women's thing, US\$30 loans, and they can't break even, and you know poverty lending..." Now it is a whole industry.