

UMU, Uganda – Summary Sheet

Imp-Act is a global action research programme designed to improve the quality of microfinance services and their impact on poverty.

This summary sheet provides an overview of UMU's work with the *Imp-Act* Programme, detailing the process of developing a social performance management system that responds to their institutional needs, as well as the needs of their clients and other stakeholders.

The summary reviews UMU's organisational context, research objectives and activities, findings and lessons learned as they relate to the key messages of the *Imp-Act* Programme.

These key messages are:

MFIs are improving the lives of many of their clients.

A concern with both social and financial performance enables MFIs to improve the lives of poor people.

Experience of *Imp-Act* partners shows that MFIs are managing their social performance cost-effectively.

Impacts of microfinance go beyond clients.

Further information about UMU and the *Imp-Act* Programme is available at the end of the summary.

UMU (The Uganda Microfinance Union) is one of Uganda's leading microfinance institutions. UMU currently serves 73,000 loan and savings clients, of whom 60 per cent are women. UMU believes it is not only the poorest of the poor who benefit from microfinance; consequently it reaches out to a clientele of poor and not so poor people.

UMU's participation in *Imp-Act* resulted from UMU and Pact's joint MicroAssess initiative, which aimed to create a microfinance programme that would enable financial sustainability to be balanced against a broad social agenda. The objective was to equip UMU with the means to monitor the impact of programme services on its clients, and assess and improve its own performance in a cost-effective way. UMU aimed to:

- Develop a more holistic and systematic manner of IA
- Fully integrate IA into the daily operations of UMU
- Create a type of microfinance which responds to clients' needs

A two-phase project was conducted; phase one focusing around an organisational self-assessment led by Pact, using an organizational capacity assessment tool. The second phase entailed the development of an impact monitoring system, building on UMU's existing system of tracking clients.

Table 1: UMU Key Indicators

	Dec 2000	Dec 2001	Dec 2002	Dec 2003
Active loan clients	7,565	10,084	21,207	28,625
Loan portfolio (US\$)	0.8m	1.6m	3.5m	6.3m
OSS (%)	98	110	120	126
FSS (%)	105	111	101	104
PAR >30 days (%)	0.5	0.7	1	4

Source: UMU, MiX Market

Background

UMU was founded in 1997 as an attempt to put theory into practice by academics, practitioners and students of Brandeis University in the USA. They sought to find ways to provide quality financial services to micro-entrepreneurs and low-income people in Uganda, especially in rural areas. At the core of its lending methodology is a group collateral and incentive system but within a flexible system, which does not require groups to meet. Its branches perform functions that look similar to those of a bank branch with tellers receiving savings or loan repayments. UMU is financially sustainable and its rapid expansion has involved setting up branches (14 by mid-2003), some in remoter parts of Uganda. It is now preparing itself for transformation to a Microfinance Deposit-taking Institution (MDI) under the Act passed in 2003.

Objectives Under Imp-Act

UMU's initial objectives with the *Imp-Act* work were to: 'equip UMU with the means to monitor the impact of programme services on its clients, and assess and improve its own performance at meeting its client's changing needs in a cost effective manner.' The plan was to do this by integrating participatory assessment tools developed by PACT's MicroAssess initiative into UMU's existing systems in two phases. First through a self-assessment process which would enable UMU and its branches to 'better understand and improve its relationship with its clients' and, second, to 'adapt and expand impact monitoring methodologies in order to create a direct link between client satisfaction and socio-economic growth and the performance of the institution.'

Activities

Phase One: Organisational self-assessment

MicroAssess involves an organisational capacity assessment tool, which was the first exercise UMU undertook. The methodology involves a process of adapting the tool to the circumstances of the organisation through discussions with a cross-section of staff. It covered 11 performance areas: change management; client services; savings and credit design; planning; human resource management; financial management; Management Information System (MIS); institutional linkages; outreach services; socio-economic impact and programme efficiency. Each area entailed asking open questions to develop a discussion, followed by questions that were scored on a scale of 1 to 5 indicating the extent of agreement of the staff with an indicator statement. PRA (Participatory Rapid Appraisal) -type exercises were also used to facilitate the discussion. The assessment was carried out at UMU's (then) six branches and Head Office. Scores were then consolidated to give overall rankings for each branch – along with a consolidated analysis for the organisation as a whole.

Overall the results indicated that staff felt UMU had high capacity and performance in four areas:

- Savings and credit design – UMU's products are well-tailored to the needs of their clients
- Financial management– although with some disagreement
- Outreach – UMU was reaching under- and un-served areas of Uganda
- Planning – but identified the need for this area to be strengthened.

Areas of low capacity performance:

- Information management;
- Human resource management: staff felt the need for the growing workforce to be better managed in terms of training, remuneration, motivation and performance appraisal;
- Clients' services: the result in this area was not obvious and remains a puzzle as it measured staff perception of client demand and satisfaction with services;
- Socio-economic impact: staff felt there was no demonstrable proof that services were having the impacts desired and this required detailed study.

The exercise was carried out in early 2002 but the results took time to be consolidated and in particular to be fed back to branch staff – taking up to a year. Shortage of capacity to analyse the data delayed the findings of the assessment. The exercise has not yet been repeated, although the Research Department is in the process to adapting the tool to be more widely relevant to the organisation, with an aim to carry out the exercise with four regional branches.

Findings from Phase One

PACT's conclusions from their review of the assessment were:

- For a self-assessment to be successful there must be full open and well-communicated commitment by senior staff based on a complete understanding of the assessment process and staff responsibilities. This means ensuring that sufficient time is invested in feeding back and acting on the results in order that the forum created for staff to express their opinions is a meaningful one. The lack of time and capacity of UMU to do this during a period of rapid growth meant that the exercise did not reap full benefits in this area.
- Careful consideration should be given to the choice of tool ('off the shelf' or specially designed) based on the MFI's available resources and the intended use of the assessment results. Any tool design or selection process should include ample time to ensure that the tool reflects the organisation's core values and priorities, there were certain of UMU's core values (quality, innovation and flexibility) and priorities, such as expansion, that were not adequately reflected in the indicators used in this case.
- Both external and internal facilitation have advantages and drawbacks. Given both sufficient staff time and financial resources, an ideal approach would be shared internal and external facilitation with clearly assigned co-ordination and leadership responsibilities.
- MFIs with highly centralised management structures are likely to gain less from cohort analysis data, since they have less scope for decision-making. Nonetheless, cohort analysis in a centralised setting can provide valuable information related to branch level learning needs, ensure candid responses from branch staff and position the organisation well to fully benefit from cohort analysis in the case of future decentralisation.
- MFIs must be adequately prepared to use the results of the assessment. Such preparation may include clear assignment of responsibility for follow-up action, targeting of information at key users and training of users to draw routinely on the results.
- While either choice is acceptable, MFIs should clearly state whether their self-assessment is intended as a senior management decision tool or as a human resource management tool. In the case of UMU at a time of rapid growth many of the concerns arising from the process concerned HR management. This decision will dictate the indicators included in the tool, level of staff participation and the structure of the results.
- Re-assessment bring an additional dimension of information to the assessment results and should be planned for from the outset of the first round of the assessment so that necessary steps for institutionalisation can be taken.

Nevertheless, the UMU senior management believe the exercise was a useful one since it helped them to make decisions, confirming their understanding of performance in particular areas. In particular the need to expand head office capacity for human resource management and to upgrade capacity in financial management were stressed, and implemented. Senior management stress that, with a rapidly growing organisation, it is necessary to consider both staff and client's needs and this evaluation process is a means of doing this. In particular they see an exercise such as this as indicating to staff the type of culture they want to create in the organisation, that is, one where there are forums for staff to express their views and which are taken seriously. They plan to undertake the exercise again this year (2004).

Phase two: Development of an impact monitoring system

The core activity in client assessment has been efforts to develop an impact monitoring system. UMU already had a system of data collection from clients at entry and after four loans or after reaching a threshold loan size of Ushs (Ugandan Shillings) 500,000 (US\$285). These forms are called 'verification' and 're-verification' forms. UMU's lending methodology involves clients forming themselves into groups of five members, but groups are not required to meet on a regular basis and UMU staff members do not attend group meetings. The group exists for guarantee purposes and UMU use their now infamous 'red spot' as a means of creating discipline in their clients; red spots are put on the borrowers record for late payment and also affect the ability of other group members to get new loans. After applying for a loan, a field officer visits the business and home of clients when they first apply, as well as after the 4th loan cycle.

Given this existing mechanism for data collection, the objective was to revise it in order to make it more effective in capturing good data for monitoring purposes. However, despite the fact that this was already part of the system, it took time for field officers to acclimate to the re-designed form since they found it a little longer and more difficult to complete than the original one. The form has gone through a number of alterations attempting to ensure that information that the field officers find useful is also captured. The new design has also resulted in a new loan application with less now being asked from the client. This has taken some time but field officers and clients now seem much happier with the form and feel that it assists them with their work. Field officers at the pilot branch (Kayunga) give the advantages as:

- They get more reliable information when they carry out the interview themselves. In particular, there are a number of ways that the information can be cross-checked within the form, which ensures more reliable information. They felt that the order of the questions was such that they could tell whether the client was being inconsistent in their answers.
- This detailed and complete information collected gives them a better ability to assess the client's debt capacity.
- In their view, the interview also demonstrates to the client the organisation's seriousness about lending and helps deter clients who are not serious about repayment.
- The form gives a much better overall picture of the client to others in the branch who review the loan application, including the branch manager.
- However, field officers felt that successful clients were more likely to give good feedback in the client satisfaction section of the form than those that were more concerned about getting the next loan. In response, the client satisfaction section has been separated from the impact monitoring form. This tool has also been upgraded to cover most of UMU's other financial products and services users. This form is anonymous and is filled out independently by the respondent in order to reduce biases and enhance the quality of information it generates.

Clients prefer the new form because:

- The loan officer collects the information from them in a private interview. Previously when they had to fill in the loan application form themselves they might have needed to get the help of others, which meant revealing private information to others.
- They also felt that it helped them to consider their own financial situation and ability to repay a loan, and that it allowed them to explain their situation to the officer.
- Clients did not find the interview too long (between 15 and 30 minutes) or feel uncomfortable answering the questions, and thought that the field officers conducted it well.

A database for the impact data collected has been created and was used for the initial report for the Kayunga sample. At first, UMU seriously lacked capacity to make use of impact information. Realising this, management hired research staff to carry forward the impact monitoring programme and inform decision-making for all stakeholders. All branches have integrated the use of impact monitoring forms into their usual operations of administering UMU's second largest loan portfolio – the Working Capital loan. Thus, impact data collection is an on-going process at all UMU branches, and it is envisaged that each UMU branch shall have a randomly-selected sample of Working Capital clients whose impact data shall be analysed for client profiles and to track socio-economic trends in their lives as they continue using UMU's financial services over time.

Findings from Phase Two

The findings from the first round of monitoring data suggested that UMU clients were better off than national data on a number of indicators but that a roughly similar proportion were below the consumption poverty line. Specifically:

- 58 per cent had attended, but not necessarily completed, secondary school, which is notably higher than the national figure of 13 per cent;
- Clients housing conditions were found to be better than the national average with 97 per cent having iron sheet roofs (57 per cent nationally; 87 per cent in urban areas), and 73 per cent having burnt brick walls compared to 40 per cent nationally (72 per cent in urban areas);

- UMU client households were found to eat meat, chicken or fish slightly less frequently compared to clients of other Ugandan MFIs surveyed by USAID.¹
- 29 per cent of clients applying for loans were found to be below Uganda's consumption poverty line - compared with 35 per cent nationally.² However 81 per cent were found to be below the food poverty line and this inconsistent result suggests particular problems with data collection on the value of food produced and consumed with the potential for significant under-reporting in this area. This problem is also likely to be exacerbated by the fact that this data was collected at the loan application stage. Generally, however, the estimates of food expenditure are less than those of the aggregate consumption.
- Livestock was cited most frequently as the household's most valuable asset. Female clients did not generally own the most valuable asset in the household, but when they did, the average value was much less.
- Overall, the client profile was similar to that found for other Ugandan MFIs. The follow-up data needs further examination to assess its implications.

Exit forms have also been designed and are used by branch customer care officers, completed when a client comes to close an account. However, exit forms capture only voluntary closure of accounts, which is the minority of account closures, given UMU's methodology. The majority are closed by management after having shown no activity for approximately 11 months. While this therefore captures information from those who make a clear decision to leave, it is only partially representative of those who do not borrow again. Currently, quarterly exit reports are sent to the Research department for further review and consolidation. Concurrently, the new client satisfaction survey captures client perceptions of UMU's services.

Organisational Change

UMU has registered tremendous growth over the last three years. The reason behind all this has been the dynamic leadership of UMU Executives and staff. They have been able to empower the staff to try out new progressive ideas and innovations. Furthermore, they have capitalised on their wealth of experience in the banking and microfinance sector, coupled with their association with numerous networks. These networks have been very instrumental in propelling UMU's growth from the side of technical and financial assistance. The Research and Product development Department staff has increased from 3 to 5. The new staff have been undergoing intensive training to enable them handle the multiple tasks in the department.

Changes in Policy

There is no doubt, the integration of the impact work into the daily operations of administering UMU's largest loan portfolio (WCL) has tremendously improved the quality of information collected for impact work and the loan appraisals. The concurrent collection of this data is cost-effective, timely and reliable. This method has been extended to all UMU branches and the old forms phased out. Additionally, client satisfaction and exit survey tools were introduced, which shall generate information on an ongoing basis from each service centre.

Changes in Practice

- Integration of the impact monitoring indicators into the loan application processes.
- Clients no longer complete the loan application forms themselves.
- Clients independently fill out the customer satisfaction survey tool. The tool has been translated into the most widely spoken business language.
- Institutional impact assessment to be carried forward with more collaboration with the Human Resource department. This tool is going to act as staff's own internal audit to assess UMU's working practices.

¹ See Barnes, C., Morris, G., and G. Gaile (1998) An Assessment of the Impact of Microfinance Services in Uganda: Baseline Findings USAID/AIMS

² See Appleton, S (2001), *Changes in Poverty and Inequality in Uganda* in "Uganda's Recovery: The Role of Farms, Firms and Government" edited by Ritva Reinikka and Paul Collier, Fountain Publishers, Kampala.

Changes in Products

- The working capital base loan has been increased from Ush.50,000 to 100,000 and the access process refined and strengthened.
- All UMU financial products and services delivery processes are to be evaluated through the client satisfaction and exit survey tools.
- Socially-oriented loan products like the Back-to-school loan and the Home investment loan have been introduced.

Institutionalising Social Performance

- Changes in practice and products at UMU enjoy the support of senior management, hence the processes of pilot testing, product refining and rollout has been generally smooth.
- Reports from the branches where the tools have been implemented indicate a positive shift from the initially resistant attitude of some staff. The clients have embraced these changes in an equally positive manner.

Remaining challenges

UMU's main challenge is now to make more effective use of the information it is collecting through the monitoring forms. It is embarking on a project to design and develop a data warehousing system that can integrate the data from these forms with the MIS.

Imp-Act

Imp-Act is a global action research programme designed to improve the quality of microfinance services and their impact on poverty.

The *Imp-Act* programme promotes the development of reliable social performance management systems, which include impact assessment. These systems reflect and respond to client needs, as well as the priorities of microfinance institutions (MFIs) and their stakeholders.

Imp-Act is also working to improve understanding of how MFIs can sustainably work with very poor and excluded people, as well to consider wider impacts, beyond those on individual clients or their families.

Imp-Act is a collaboration between 30 MFIs in 20 countries, as well as a team of academics from three UK Universities (IDS Sussex, Bath and Sheffield). *Imp-Act* was initiated, and is funded by, the Ford Foundation.

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Further resources on UMU:

- MiX Market Profile for UMU:
www.mixmarket.org/en/demand/demand_show.profile.asp?token=&ett=1012
- More information on UMU's work with the *Imp-Act* Programme:
www.ids.ac.uk/impact/africa/umu.html

This summary sheet is a joint publication between **UMU** and **Imp-Act**.