Social Finance Brief

December 2022

Making Finance Work for Refugees
Vision Fund, Uganda

About this publication

The ILO documented the journey of few financial services providers (FSPs). The cases describe the actual decision-making process inside the FSPs as it evolves through the various "stages" of the journey to become inclusive of refugees and host communities. In each one of the cases, we focus on one or more of the stages (identified by the sections' titles) where the FSP think it has a good "lesson learnt" for the global FSPs community with regard to the outreach strategy design and implementation.

Key points

- VisionFund was present in nearby Gulu district in 2018, serving existing host community savings and farmer groups and household micro-enterprises but wanted to explore the feasibility of expanding services to refugees.
- Initially VFU management and Board was worried about the risks involved as well as the remoteness of the new potential target group.
- The expansion north was not an organic development strategy, but rather a specific effort aimed at serving poor refugee communities with financial services as an add-on to the development efforts of World Vision.
- In May 2019, after obtaining permission from OPM, VisionFund Uganda opened its first branch in Moyo town, serving the Palorinya refugee settlement.
- By December 2019, the Moyo branch was growing its clientele faster than any other VFU branch.
- VFU is tracking performance by product and by client segment and has been surprised to find that refugee and host savings groups have very similar behaviours, business ventures and financial capacities – and that most of their challenges are the same too.
- VFU very deliberately designed the introduction of the SGLL to refugees as a clearly defined pilot project with a separate structure, time line and success criteria outside of normal operations.

Background

VisionFund Uganda is a Tier IV microfinance institution that started in 1996 as MEDNET and rebranded in 2012. It has 23 branches and three contact offices across Uganda, serving over 39,000 clients holding a loan portfolio of Ugx 22 billion (USD 5.7 million) by end 2019. 45% of clients are women. VisionFund Uganda (VFU) is a wholly owned subsidiary of Vision Fund International, owned by the faith-based relief NGO World Vision, which has a network of 28 MFIs around the world providing access to credit, savings and insurance products to the most vulnerable households. Since 2014, the network has focused on supporting community savings groups through new lending practices.

World Vision and VisionFund International sit on the Board of VFU.

VFU's mission is to enable underprivileged households to increase their incomes and train clients to grow successful businesses using their income to support their children and families. Their main target group is poor and vulnerable families. VFU offers group and individual micro loans, as well as agricultural, school fees, and asset loans. Non-credit financial products include microinsurance and money transfer services. VFU links with World Vision staff to provide non-financial services, including training of group loan clients in agricultural skills, business start-up and savings group management. Since 2012, VFU has used the Progress out of Poverty Index (PPI) to target and track customers.

The West Nile region of Uganda borders South Sudan and hosts around 800,000 refugees, primarily from South Sudan. VisionFund was present in nearby Gulu district in 2018, serving existing host community savings and farmer groups and household micro-enterprises but wanted to explore the feasibility of expanding services to refugees. Assuming very low incomes and limited collateral, VFU decided to pilot a Savings Group Linkage Loan to existing, strengthened VSLAs and savings groups, applying the experiences of the WVI network in other African markets to the new target segment in Uganda.

1. Ideation phase (screening product and market ideas)

Membership of VSLAs and savings groups is widespread among refugees and hosts in Uganda. As an implementing partner for UNHCR's humanitarian assistance, World Vision Uganda and Caritas conducted a livelihoods needs assessment among refugees and hosts in two newer settlements in the West Nile in 2017. The study found a relatively low level of economic activity at the time in the new settlements. Among entrepreneurs, however, access to capital to expand businesses was a key demand. A quarter of both population segments relying on informal credit from family and friends, whereas savings groups provided financial services to 18% of refugee as the most available and preferred lenders of money, whereas formal FSPs were largely inaccessible in the settlements. VFU's initial approach was informed by its humanitarian sister-NGO World Vision, which emphasized concerns about transiency and low levels of financial literacy and economic activity (capacity), but also supported increased resilience through financial inclusion. The concerns were also reflected in the broader savings group literature at the time (albeit this has been modified over time, as reflected in emerging evidence from Northern Uganda[1]). VFU management and Board was worried about the risks involved as well as the remoteness of the new potential target group (see Box 1)

▶ Box 1: Initial perceptions of risks

- Bankability - are refugees not too poor and aid-dependent to be served? Do they own anything (collateral)?
- Mobility and flight – won't they run away without repaying?
- If they mostly generate income from farming that's a doubly risky proposition…
- Stereotypes and lack of familiarity – we don't know these people…but they represent high risk!

VFU participated in the UNHCR and SIDA-funded feasibility study of the Bidibidi settlement in July 2018, which again confirmed a large, unmet demand. VFU was looking for growth opportunities, but it is headquartered in Kampala and did not at the time have a branch in the West Nile. World Vision and other NGOs were very keen to see VFU engage with the savings groups already formed among both refugees and hosts to boost livelihoods and income of families and Office of the Prime Minister (OPM) and UNHCR were supportive. Not least, VFU secured grant funding from World Vision USA, which convinced a somewhat reluctant Board and Senior Management to test out the potential market opportunity. However, there were still many unanswered questions:

- Can we expand and manage a branch in the remote northwest?
- Do we need a new or adjusted product?

[1] The NGO Seed Effect which formed 250 savings groups among South Sudanese refugees in West Nile in 2017 concluded that "they're operating equally – even in performance, results, what they're choosing for share value and interest rate, there's really no difference between the refugee groups and host community group. https://mangotree.org/files/galleries/SEEP_State-of-Practice_Savings-Groups-and-the-Dynamics-of-Inclusion_20181210.pdf Case study 20, p. 47.

- Do the refugees have the financial capacity to become good clients?

In late 2018, VisionFund conducted a 3-months assessment to ascertain the capacity of existing refugee and host savings and farmers' groups based on their records and savings cycles in four districts in West Nile facilitated by UNHCR and the OPM. VFU assessed 215 groups representing some 6,700 members, analysing their savings and lending activity, sources of income and livelihood activities and thus opportunities and challenges for financial inclusion. VFU also reviewed the presence, quality and liquidity of mobile money agents in each of the study locations, which were selected based on where World Vision was already implementing humanitarian and development projects and had identified and supported savings groups. The assessment identified business opportunities for VFU's financial services, especially in more remote areas of the West Nile, where competition from formal financial institutions was low and suggested than an adjusted group loan would be the way to start.

2. Outreach strategy and targeting

VFU is headquartered in Kampala and had 22 branches across Uganda, including in Gulu, but it did not have a branch in the West Nile. It was clear that an expansion to the north was not an organic development strategy, but rather a specific effort aimed at serving poor refugee communities with financial services as an add-on to the development efforts of World Vision. "This was not business as usual," but a one-year grant-funded pilot test of a specific product to a new customer segment with relatively modest targets of reaching up to 140 groups or disbursing USD 100,000 in loans (whichever came first) before a review of viability.

VFU designed the pilot project for the expansion to be as insulated as possible from normal operations and internal standard procedures in the relatively rule-bound FSP network, enabling slightly more freedom to experiment and "adjust as we learn." Based on the assessment, the basic parameters were set:

- Geographically, VFU would target areas in the settlements where World Vision (or other I/NGOs) was already supporting groups of refugees to facilitate screening, referral, and partnerships;
- Registered Savings Groups (VSLAs, ROSCAs) would be the target unit of choice, as they appeared stable, were supported by I/NGOs, saved regularly and had experience lending with interest to each other and importantly, had at least some records of their activities. To mitigate perceived risk, VFU required Savings Groups to have been operating for at least two years (cycles) with a stable membership, have procedures in place and documented track records;
- The Board approved the pilot funded by the initial grant from World Vision USA, which was supplemented by a USD 160,000 grant from Agricultural Business Initiative (aBi) to set up the new branch in Moyo. VFU applied for grant support tied to borrowing from the SIDA-funded Financial Inclusion of Refugee project implemented by Grameen Credit Agricole Foundation and Financial Sector Deepening Uganda (FSDU) provided a 2-year portfolio guarantee, convertible to equity if not expensed to cover losses.

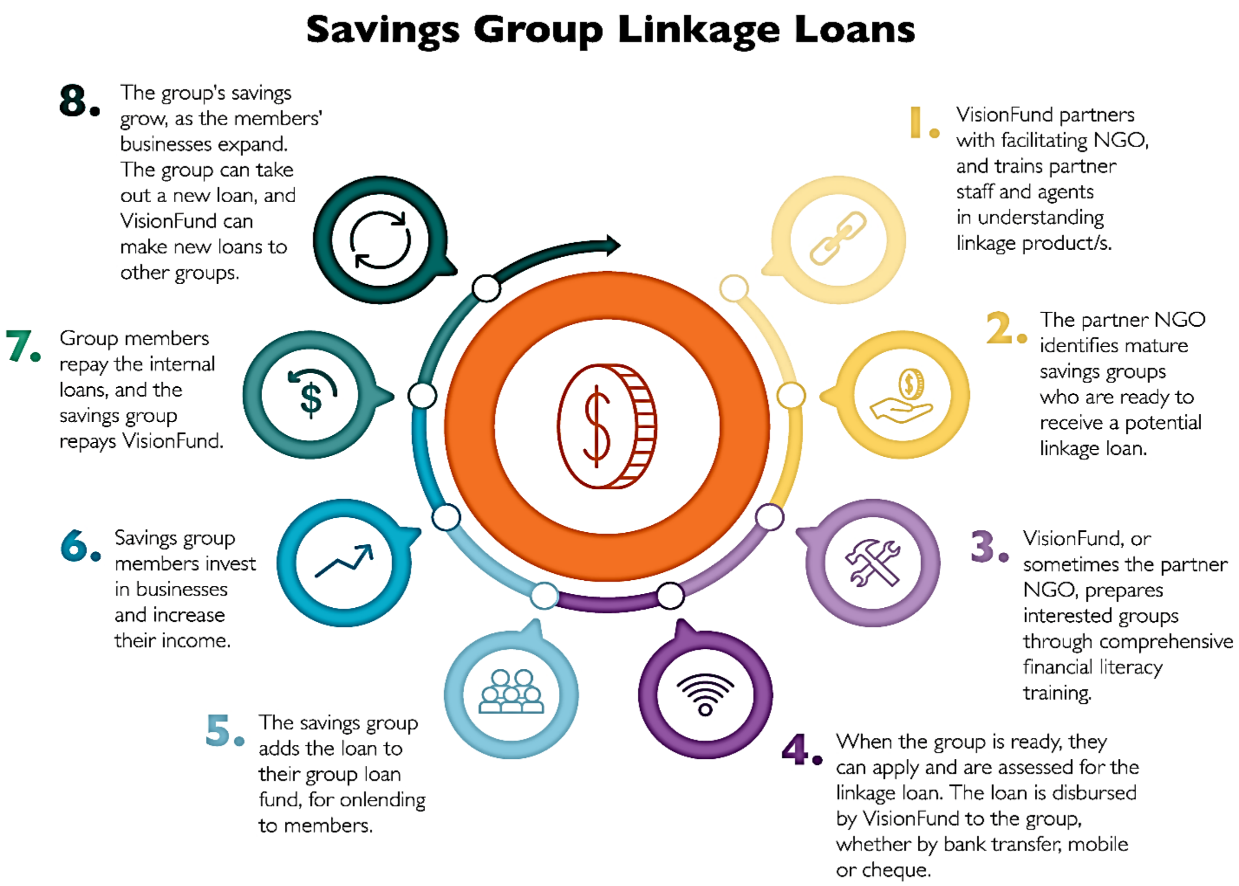
In May 2019, after obtaining permission from OPM, VisionFund Uganda opened its first branch in Moyo town, serving the Palorinya refugee settlement. The branch is staffed by newly trained field officers who were recruited from both host and refugee communities, so they understand local needs. To avoid the appearance of favouring either community, most of the savings groups targeted are comprised of women from both the refugee and host communities and have been formed and/or supported with non-financial services (NFS) by World Vision or other I/NGOs.

In July 2019, the first linkage loans were made to savings groups in the Palorinya settlement, after they were identified and trained by staff. By December 2019, the Moyo branch was growing its clientele faster than any other VFU branch maintaining a 0% PaR(30), and senior management began to take notice. As at March 2020, Moyo branch had 519 loans outstanding, 123 of which were Saving Group Linkage Loans, and 85 of these were to groups of refugees. The second VFU branch in Yumbe was ready to start when the Covid19 lockdown was put in place in Uganda. While FSPs are except from the lockdown, VFU has postponed the official launch of the new branch. VFU expects to open up satellite offices in Arua and Adjumani districts in 2020-21.

3. Product strategy and sequencing

VisionFund Uganda offers individual and group loans for business, agriculture and consumption (education). For the pilot, however, it was decided to introduce an adjusted version of the 4–11-month Savings Group Linkage Loan (see Figure 1) offered to vulnerable rural populations elsewhere in Africa. This loan product is disbursed into the group fund of the savings group, rather than to individual group members. The loan, which is priced at 36% p.a. flat in Uganda, does not require collateral, compulsory savings or group guarantees to VFU, and member cashflows or businesses are not assessed, as it is managed by the savings group according to their normal lending criteria and processes. The core risk mitigation measures are therefore to select strong groups able to manage and repay loans, and to provide smaller loans during the first cycle.

Business Development Services and training to their NFS service menu, e.g., to help clients diversify agricultural production and trade. VFU tracks income (interest payments) generated by field officer against costs (salary



Targeting Savings Groups formed, trained and or supported by World Vision or other development or humanitarian NGOs in the settlements enabled VFU to screen and identify stronger groups that were registered at sub-county level, had at least 2 years of experience and had kept records of their performance. Loan size and repayment capacity was assessed on the basis of the group's savings volume, member retention, repayment consistency and value of latest share-out and averaged USD 900-1000/group. In addition, VFU field officers trained village agents (e.g. partner NGO staff or Saving Group leaders) in basic financial literacy for them to incorporate compulsory financial education in the group meetings.

A new Savings Group Linkage Loan (SGLL) product manual was developed 'on-the-go' based on learnings from the pilot. The VFU financial literacy materials consist primarily of visual aids and messages relayed during the normal group meetings, so the training carries little transactional costs to clients. However, VFU required external funding to finance the costs of the training of staff and village agents as trainers. If more funding was available, VFU would add

and overhead for branch and FSP operations) but has not integrated the cost of NFS into these calculations, so the FSP is not yet able to calculate or track 'total cost per client,' including NFS.

While the eligibility criteria and terms of the pilot of SGLL are identical for groups of hosts and refugees, hosts have access to additional VFU loan products, if they can meet the eligibility criteria – an option not (yet) available to refugees; as VFU perceives most refugees unable to meet its collateral requirements, which would require Board approval to change. This has raised questions among some refugee clients, suggesting that VFU may wish to open up other products on equitable terms for all residents of their areas of operation. Currently, VFU is considering a slow and sequenced introduction of additional products to refugees – possibly adjusting collateral requirements downwards, pending Board approval.
VFU is tracking performance by product and by client segment, and has been surprised to find that refugee and host savings groups have very similar behaviours, business ventures and financial capacities – and that most of their

challenges are the same too. An exception is perhaps that some refugee settlements are better funded than the surrounding rural areas and infrastructure, such as mobile phone networks, function better in the settlements. This has made delivery easier (see Delivery strategy below). Contrary to early fears, VFU has also found refugee clients, the majority of whom are women, often looking after a number of children, much less transient than expected. Most female clients are looking to school their children in Uganda, which offers better education options than South Sudan.

As of March 2020, the Moyo branch has disbursed 123 SGLL loans totalling USD 115,825 to savings groups, including 85 refugee groups with some 1,870 members, of whom 79% are women. Several of these groups have completed their first cycle of the 4-11-month loan, and taken a second loan. For repeat groups, VFU has increased the maximum loan size from Ugx 4 million (USD 1,050) to Ugx 6 million (USD 1,575), which has been welcomed by some groups. VFU is investigating if some of these higher capacity groups – or members of these groups – might be eligible for the standard individual VFU loans but the pilot management team believes that this would require easing of the VFU collateral requirements. The entire Moyo branch portfolio, including the SGLL portfolio, posted a PaR (30) ratio of 0% in March 2020.

So far, the pilot project, scheduled to end by December 2020, has yielded important learning for VFU:

- The small scope of the insulated and grant-funded pilot and the low-risk SGLL product minimized the perceived risk to VFU but Management and Board interest peaked when the new branch demonstrated high growth and excellent repayment performance by December 2019. The busy pilot project team had to produce analysis and 'how to' documentation of the successful pilot, and provided pilot updates at the bi-monthly "town hall meetings" for all VFU staff – in hindsight, the internal communication and information sharing should have started earlier to build buy-in;
- Targeting existing savings groups supported by NGOs as entry points facilitated screening, referral and the development of a pipeline;
- Initially, plans and efforts were focused on training clients and frontline staff to deliver, monitor and report on the product - however, the need for adjustment of procedures and back-office staff training was much higher than anticipated;
- The SGLL with inbuilt NFS and mobile delivery (see below) has been well received and refugee saving groups have performed as well as nationals – but excluding refugees from other products available to hosts can generate tension and will need to be addressed.

4. Delivery strategy – digital delivery

The refugee settlements in the West Nile are relatively far from towns and cover large swathes of land – potential customers often don't have their own transport hence a consistent complaint is the time and cost they have to incur to access finance. With the vast majority of refugees having access to a mobile phone and the relatively good coverage in most areas, VFU realised that they had to deliver the product digitally to avoid requiring customers to come to the branch in Moyo town.

While the branch provides back-office services, field officers are typically stationed in the settlements and rural areas and only come to the branch once a week. Field officers can register SGLL applications on their mobile phone and send them to the branch for processing and approval by the branch-based credit committee. Upon approval, the branch releases the loan amount to a specific and separate mobile money wallet (SIM card on a cell phone) registered to the Savings Group and the group can cash out the loan at their nearest CICO agent. Similarly, groups can repay their loan instalments by depositing cash at their agent. There is thus no need for the clients to come to the VFU branch.

NGOs working with the Savings groups helped the Group leadership register and activate the Group SIM card, which was typically kept in the Savings Box. Until mid-2019, the Ugandan KYC regulations required refugees to have a valid Refugee ID to register and activate a SIM card but in August 2019, the Uganda Communications Commission (UCC) issued a more enabling directive to MNOs, stating that in addition to the Refugee ID, an OPM-issued attestation letter is also formally recognised by the UCC as a valid form of ID for the purpose of SIM registration. Savings Group leaders (Chairperson, Treasurer and Secretary) are registered with either document to the Group SIM card with three 'locks' (PINs) and the SIM card is stored in the groups' Savings Boxes. Refugees and hosts were initially querying the cost of mobile money transfers, as the government has instituted a tax on withdrawals in addition to the agent fees. However, once discussed with the groups, most agreed that these costs are still much lower than the cost of 3 group members travelling to the VFU branch.

VFU was already offering products via mobile delivery channels, but digital literacy levels and thus uptake among refugees was a concern at first. However, mobile money is already well established in Uganda and most refugees are familiar with the channel from humanitarian cash assistance or remittances. As at July 2019, the first 12 Savings groups had tested the digital delivery channel and new groups were onboarding the mobile wallet every week. An unforeseen pain point was the adjustments needed to the internal onboarding process and documentation to enable VFU deliver and track group linkage loans. "Every application form started with a first and family name and a birthday – which didn't work for the SGLL." Revising the paperwork and training headquarter back-office staff unfamiliar with the new product took more time and effort than expected but the SGLL has now been incorporated in the MIS and procedures for the pilot. The next challenge will be to integrate the pilot procedures into the standard VFU Operations.

> *"We thought the digital channel, or the product roll out would be the problem, that clients might not take it up, not be interested, not understand it, etc. In reality, we spent the most resources making sure that the front-line field staff were trained up well."*

Going forward, VFU is considering options to digitise the savings boxes of the groups to increase the safety of their sometimes considerable cash reserves as well as their records. Apps for digitizing savings group records exist but this additional cost only really makes sense for a deposit-taking FSP. VFU issued an Expression of Interest to Fintechs to identify solutions to this issue and received 40 responses, of which 5 potentially addressed VFUs' specific issue. VFU has recently selected Ensibuuko to help increase digitization of the savings groups in the West Nile.

5. Organisational structure and change management

VFU very deliberately designed the introduction of the SGLL to refugees as a clearly defined pilot project with a separate structure, time line and success criteria outside of normal operations. This allowed for a 'learning laboratory' enabling innovative testing of ideas with separate and more flexible decision-making processes less encumbered by the policies and procedures governing an otherwise relatively rigid, policy-driven organisation.

The pilot was structured with a Steering committee including product and fintech specialists from VisionFund International, the VisionFund Uganda Board as well as World Vision Uganda. Implementation was headed by the former Fundraiser for VisionFund International in Uganda, now Refugee Microfinance Program Manager, who initially recruited two "West Nile assessment staff" – one promoted internally and one external – to head up the pilot with the express expectation that they would take on the eventual positions as Regional Manager for West Nile and Branch Manager for Moyo respectively. Rather than contracting external TA, this team conducted the 3-month VFU assessment, and all the learning generated from there has thus been retained in the institution. This team, reinforced with new staff recruited for the Moyo branch, made up the pilot 'champion team' and were given leeway to "run with" the grant-funded pilot project, exempted from standard policies and procedures.

Creating such an "innovation laboratory" enabled to do things differently allowed VFU to be client-centric in the structuring of the new branch, product and outreach models – but integrating the lessons learned back into the core VFU business might be challenging. Changes were introduced only within the pilot project, which enabled VFU to try out new things and in new ways while safeguarding the rest of the organisation, but it also isolated learnings in a separate space from the normal operations. The pilot project team is looking forward to the formal pilot evaluation to transfer lessons learned to the whole organisation and enable adjustments, revisions, and improvements as a basis for approvals of roll-out.

One of the biggest challenges for the pilot project team was to convey to the rest of the organisation what the pilot project was about, what was being tested and how, why rules would be applied differently within the pilot and how the organisation will eventually learn and profit from it. At the time of the market assessment in late 2018, the project team were convinced of the business case, having analysed the financial capacity of both host and refugee groups. When the assessment findings were presented, VFU management began to buy-in. The Business development team responded rather enthusiastically, whereas the Finance team and the back office, including MIS, Audit, Risk and ICT, were most concerned about risks. It was only when the first success stories were shared from the pilot project that the full Board bought in. Among VFUs' investors, half were very supportive and wanted the organisation to move ahead with serving refugees – the other half were much more risk averse.

Opened in May 2019, Moyo branch now has a branch manager, 8 field officers and 2-3 credit officers to manage the non-SGLL loan portfolio have been recruited. With 519 loans outstanding, it is not yet breaking-even but at 9-10

SGLLs per field officer, the revenue covers the direct salary costs of the staff. A second branch in Yumbe, close to the large Bidi Bidi settlement, is ready to start operations and is set up similarly to Moyo. Looking forward, VFU expects to expand into Arua district and then Adjumani. For Arua, where competition in the urban areas is fierce, VFU is considering establishing a satellite office housed at the World Vision offices but managed from Yumbe branch and field officers only come to the branch once per week.

6. Human resource management

UGAFODE's products are being push-marketed by the call by the pilot project and this had not been foreseen. The pilot had not envisaged much work needed to train, adjust and refine policies, procedures and staff processes at headquarter level – but this step ended up requiring a lot of work.

The Pilot project team wanted to recruit local staff at the new branch in Moyo, starting with 8 front line staff, four of whom were refugees themselves. With an eye on eventually branch sustainability, they targeted candidates with a different, less academic skills level for the SGLL than was standard for credit officers providing other credit products, because the SGLL credit analysis and assessment is less complex, and does not necessarily require an academic degree. The salary was therefore also projected to be lower than that for credit officers. Further, for the smaller loan size and portfolio of the SGLL, the standard VFU incentive scheme did not work, and also needed adjustment.

Presenting the brief to the VFU Human Resources department, however, it quickly became clear that such adjustments would be too difficult to incorporate in existing HR policies and recruitment procedures. The new positions were "too different" from existing practices. Instead, VFU resolved to create an entirely new position of "field officers" with its own advertisement, interview and recruitment process, different qualifications and requirements, new job descriptions and a separate salary scale and incentive system linked to outreach and promotion. The additional work that these changes required of the HR department had not been foreseen and was a major lesson learned. Once tested for Moyo branch, the new procedures needed Board approval to be formalised. When this step was completed, however, the staffing of the second SGLL-focused branch in Yumbe was much faster and easier. An outstanding problem is the design of an appropriate carrier development path for field officers, many of whom do not have the minimum academic qualifications required to be appointed/promoted to credit officer and supervisors.

Upon recruitment, the new VFU field officers underwent four weeks of in-house training on the new product and its terms, conditions and procedures. With little of any prior microfinance experience, the field officers also needed training in group facilitation, customer service, monitoring practices, financial record keeping and not least in training to be able to assist the savings groups and provide the ongoing Training of Trainers (ToTs) to group leaders on basic financial literacy based on new materials. Field officers also needed to understand the mobile money channel well enough to be able to explain it to groups, and register new applications on their phones. VFU sought assistance from World Vision and other NGOs that supported the savings groups, e.g. to help group leaders register a group SIM card. The front office training efforts snowballed a bit, as VFU realised even CICO agents in the settlements, familiar with humanitarian cash assistance, needed training to understand the loan disbursements and repayment processes. On average, it took 1-2 months for a new field officer to be fully onboarded and start developing his/her own SGLL portfolio.

The adjusted procedures and practices developed for the SGLL in the pilot project in Moyo needed collaboration with the headquarter back office which manages ICT, MIS, finance and data analysis for verification and audit purposes. The pilot project team met initial reluctance to change, as these departments had not been involved nor particularly well informed about the pilot project from the start. It required more resources, time and effort than anticipated to get everyone on board. In hindsight, the pilot design process could have involved a broader group of cross-department staff, and internal communication about progress could have been initiated earlier.

> *"It was good that a "pilot playground" was carved out, which could hire staff and implement procedures without following the standard processes – otherwise we would not have been able to try out the changes to recruitment, salary and incentives and would have been less client-centric than the pilot allowed us to be. It has been a steep bot exciting learning curve!"*

While it was an arduous process, the successful pilot has generated excitement in VFU for the expansion to refugees and host communities across the West Nile.

About "Making Finance Work for refugees and host communities"

This case and the others from the same series have been developed in the framework of the management course "Making finance work for refugees and host communities". It targets managers of FSPs that currently serve or consider serving refugees and host communities with financial services. Click here for more info.

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