

**MICROFINANCE CONSUMER FINANCIAL EDUCATION PROGRAMME**

**SUBMITTED TO**

**ASSOCIATION OF MICRO FINANCE INSTITUTIONS OF UGANDA (AMFIU)**

**BY**

**MUHWEZI MEDARD KICHEMU**

**JULY 2007.**

## **CHAPTER ONE**

### **INTRODUCTION**

#### **1.1 Background**

AMFIU together with partners have been focusing on MFIs consumer financial education. The program has been focusing on AMFIU member MFIs who are expected to conduct an intensive education and training of their customers. The program has adopted different communication channels to disseminate relevant messages all over the country. Currently the second phase of consumer financial education is being implemented in the country through both print and electronic media plus MDD and is hoped to end in September 2007. It's assumed that while AMFIU and partners are conducting the education from the national level, MFIs should as well be doing the same in their catchments areas, and directly with their customers whom they deal with in their day to day activities.

In an ideal situation MFIs are expected to take their customers through a step by step training before and during any transaction. This training should look at different aspects of like Loan management, Business management; Budgeting, Financial management and Savings management. It should also tackle issues of consumer rights and responsibilities and other topics that may be deemed necessary in promoting transparency between MFIs and their consumers.

The whole assumption is that consumer education increases transparency between the financial institutions and the customer; it also leads to maximized benefit between both the financial institution and the customers and minimizes conflict between the financial institution and the customer. A well trained customer understands his/her rights and responsibilities better, and is more likely to respect the contract made between him/her and the financial institution.

## **1.2 Statement of the problem.**

Many AMFIU member MFI offer different types of training aimed at educating their consumers. Some institutions have Training departments, while other hire Consultants to take their customers through consumer education exercise. These training vary in content, duration, methodology e.t.c. because consumer education is not yet harmonized in the micro finance sector. However, what is not yet documented is the nature of the training offered by the different MFIs, the curriculum used, the quality of the training, personnel responsible for training, the focus of the training and how the training influences customer knowledge, attitude, perception and practice in relation to financial relationship with the institutions. It's upon this back ground that this baseline tried to answer the following research questions:-

- Are AMFIU members MFIs conducting any consumer education/training?
- If they are, do who does the training?
- When is the training done, how and for how long?
- What is included in the training package?
- Is there a training curriculum or manual or any other materials used in the training process?
- Is the training customer focused or it does more of product promotion and marketing?
- Has this training influenced any behavior change among the customers?
- What are challenges and opportunities involved in consumer training?

Given the above and more other unanswered questions, AMFIU would like to obtain information pertinent to the issues raised that will guide the improvement of the Consumer Financial Education program.

### **1.3 Objectives of the study**

As derived from the terms of reference, the overall objective of the baseline study was to find out the Consumer Financial Education/training offered by AMFIU member MFI to their clients.

Specifically, the baseline study intended to;

1. Find out whether MAFIU member MFI offer any consumer financial education to their customers
2. Establish the number of AMFIU member MFIs that offer consumer financial education to their customers.
3. Find out whether MFIs have an established consumer financial education training manual/curriculum and to what extent is being followed.
4. Assess the quality of consumer financial education offered by different AMFIU member MFIs (who does it, the content, duration and methodology/approach used).
5. Determine the effectiveness of financial education offered by AMFIU member MFIs
6. Make recommendations for improved feature consumer financial education program by MFIs

## **CHAPTER TWO**

### **Methodology**

#### **2.1 Study design**

A participatory approach combining both qualitative and quantitative techniques of data collection, assessment and analysis was used.

#### **2.2 Area and population of study**

The baseline study was carried out in five regions of North, West Nile, Eastern, South West, Mid West and Central where AMFIU has member MFIs. Respondents of the study included; MFIs Managers, Training Officers, Credit/Loan Officers and Training institutions where they existed. In addition, at two Key Informants were interviewed in each of the MFIs sampled and reported to be conducting consumer financial education.

#### **2.3 Sampling**

Stratified random sampling technique was employed to select the 20 AMFIU member MFIs from the six regions (stratum) of North, West Nile, Eastern, South West, Mid West and Central. The sampling process ensured that each of the stratum is represented in the sample depending on how many MFIs members are in each.

In each member MFIs selected at least two interviews were conducted: one with the Manager, and another interview with a staff responsible for training. In addition to the MFI staff, at least two MFI consumers were purposively selected and interviewed as Key Informants in institutions that reported to be conducting consumer education.

#### **2.4 Data collection**

Data was collected using a number of techniques including the following;

**Semi-structured Interviews;** This was used to interview MFIs Managers, Credit/Loan Officers, and Training Managers. These were interviewed using a

semi- structured interview schedule that comprised of questions seeking both qualitative and quantitative data.

**Key Informant Interviews;** These were conducted with representatives of the MFIs consumers selected from the MFIs that reported to be conducting consumer education.

**Review of documents;** relevant documents like policies and procedures, brochures, IEC materials and others were reviewed. These were used to provide data on the training content, methodology and other aspects of training. They also provided secondary data to back up primary data collected from respondents.

## **2.4 Data processing and analysis**

Basically raw data included both qualitative and quantitative responses. Qualitative data was cleaned, re-written and summarized according to identified trends, contexts, themes and emerging impressions. Quantitative data on the other hand was edited, coded and tallied manually since there were few quantitative questions. These were analyzed interpreted to satisfy the study objectives.

## CHAPTER THREE

### Findings

#### 3.0 introduction

A total of 20 MFI were interviewed during the survey from the six regions and twelve districts of Kampala, Wakiso, Mbale, Soroti, Lira, Oyam, Bushenyi, Mbarara, Ntungamo, Kyenjojo, Kabalore and Nebbi.

**Table 1; Distribution of MFI by region and district**

<b>Region</b>	<b>District location</b>	<b>No. of MFIs interviewed</b>	<b>MFI interviewed</b>
Central	Kampala, Wakiso	5	PRIDE, FINCA, CERUDEB, CMF, and Kiwafu SACCO
Mid west	Kyenjojo, Kabarole	3	HOFOKAM, Kijura SACCO and PEARL
South Western	Bushenyi, Mbarara, Ntungamo	4	Kyangenyi, Success, Ruppe, and RUSCA
Northern	Lira, Oyam	3	Oribcing SACCO, Blue Fox, and Alut Kot SACCO
Eastern	Mbale, Soroti	3	TERUDET, CIDI and MED NET
West Nile	Nebbi	2	Pakwach Nam and Nyaravur Farmers SACCO

Responding institutions were further classified according to categories as SACCOs, MDI, credit institutions, companies and Banks as presented in table 2 below.

**Table 2; Distribution by category**

<b>Category</b>	<b>Number of institutions</b>	<b>Names of institutions</b>
SACCOs	8	RUSCA, RUPEE, Kiwafu, Alut Kot, Pakwach, Nyaravur, Kijura, ORIBCING
MDIs	2	FINCA, PRIDE
Credit Institutions	8	CMF, PEARL, HOFOKAM, Blue Fox, CIDI, TERUDET, Kyangenyi, Success
Companies	1	Med Net
Banks	1	CERUDEB

Table 2 above shows that there were more SACCOs and Credit Institutions in the sample than any other. This was because there are more SACCOs and credit institutions that are district based compared to other categories.

Responding institutions were also asked to mention the type of products they offer to their clients. It was found that most of the products offered by the institutions do not differ as presented in table 3 below.

**Table 3; Products offered by the institutions interviewed**

<b>Institution</b>	<b>Products offered</b>
RUSCA	Savings account, commercial, school fees and asset acquisition loans
Success	Savings account, commercial, school fees, asset acquisition and solidarity loans
Ruppee	Savings and credit services
Kyangenyi	Savings and fixed deposit account, collection account for institutions; Commercial, school fees, asset acquisition and solar loans
TERUDET	Savings account, commercial, salary, agriculture and school fees loans
CIDI	Salary loans, agriculture loans, individual loans
Med Net	Individual, community/group, and agriculture loans
FINCA	Savings, business, asset, salary, school fees loans
PRIDE	Individual, group and salary loans
CERUDEB	Different account products, business, agriculture and salary loans
CMF	
Kiwafu SACCO	Individual and group loans
PEARL	Salary, individual, group, agriculture and village phone loans
HOFOKAM	Savings, solidarity, individual, salary and agriculture loans
Kijura SACCO	Savings, individual, agriculture, solidarity, salary and village phone loans
Pakwach Nam SACCO	Savings and loans
Nyaravur Farmers SACCO	Savings, individual and group loans
Oribcing SACCO	Savings, individual, group and asset loans
Blue Fox	Savings, individual, group , agriculture and business loans
Alut Kot	Savings, individual, group and asset loans

All institutions were asked to mention whether they conduct consumer financial education. This was after defining for them what consumer financial education is. The responses are summarized in table 4 below.

**Table 4; does the institution conduct consumer financial education?**

<b>Institution</b>	<b>Yes</b>	<b>No</b>
RUSCA	√	
Success	√	
Ruppee		√
Kyangenyi	√	
TERUDET		√
CIDI		√
Med Net	√	
FINCA	√	
PRIDE		√
CERUDEB		√
CMF	√	
Kiwafu SACCO		√
PEARL	√	
HOFOKAM	√	
Kijura SACCO	√	
Pakwach Nam SACCO	√	
Nyaravur Farmers SACCO		√
Oribcing SACCO		√
Blue Fox	√	
Alut Kot		√
<b>Total</b>	<b>11</b>	<b>9</b>

From table above, only 11 out of 20 (55%) institutions interviewed reported to be conducting consumer financial education compared to 9 (45%) who said they do not. An in-depth look at institutions that purportedly reported to be conducting some consumer education revealed that what most of them referred to as consumer education was actually explanation given to clients about services offered by the institution, and terms and conditions for borrowing and payments. This was further echoed by different clients that were interviewed from the same institutions, where almost all reported that they were taken through explanations about what the institutions offer, operating an account, eligibility for loans, guarantor/security and the implication of failure to pay back. None of the clients reported to have been taken through other topics like financial management, budgeting, investment, savings and others. It was revealed that none of the institutions interviewed had a training department; instead training is done by credit/loans officers who deal with clients directly, while in few institutions other officers like managers and customer care officers were mentioned to conducting the training.

### **3.1 Availability of training curriculum**

None of the institutions that reported to be doing consumer financial education neither had a training curriculum nor a training manual. A few that provided what they referred as curriculum turned out to be lending policies/procedure/guidelines. These spell out on the eligibility of loan beneficiaries, lending products and terms and loan repayment.

#### **Table 5; Do you have a training curriculum?**

<b>Institution</b>	<b>Yes</b>	<b>No</b>	<b>Comment</b>
RUSCA	√		What was shown as a curriculum was a document describing the services offered, procedures for opening an account, loan application procedures, terms and conditions for loan payment.
Success		√	
Kyangenyi		√	Although they responded that they have a training manual and curriculum, they could not produce any when asked to avail us with a copy
Med Net		√	
FINCA	√		What they provided was a brochure describing requirements for loan application and repayment schedules.
CMF		√	
PEARL		√	
HOFOKAM	√		They reported to have a training curriculum but couldn't avail any document when asked to give one.
Kijura SACCO		√	
Pakwach Nam SACCO	√		What was provided was a document containing lending procedures and guidelines
Blue Fox		√	

From the table above, its evident that though some institutions reported to be having a training curriculum, none of them were referring to their operational

procedure for account opening and loan applications. This implies that none of the institutions interviewed had a training curriculum. This was also applicable when it came to the question of training manual.

Regarding whether the institution has a training department, no institution mentioned to have a training department. All the institutions that reported to be conducting consumer education said that it's the Loans/Credit Officers that conduct the training. In all the institutions, it was reported that this training is normally done either in groups or individuals depending on how the clients have come. When a individual comes seeking for a loan, s/he can be taken through the process as an individual, while when they come as a group they are take through the session as a group.

### **3.2 When does the training take place?**

This was asked to clients from institutions that reported to be doing consumer education. Results show that most of the training is done when clients are processing loans or when they are in the process of trying to save with the institution especially during the savings mobilization by the institutions. The responses are presented in the table below.

**Table 6; when does consumer education take place?**

	<b>Number of institutions</b>	<b>%</b>
When you are opening an account	8	73%
When you are processing a loan.	11	100

*N.B Multi response allowed*

### **3.3 Topics covered during the training**

Besides the period when the trainings are conducted by the institutions, a question on the topics covered was asked to both institutions and the clients.

Results from the institutions and the clients didn't differ much and the findings from both are presented in the table below.

**Table 7; topics covered during financial consumer education**

<b>Institution</b>	<b>Topics covered</b>
RUSCA	Savings, Loan utilization, risk management, business management, loan repayment, documentation
Success	Savings, group management, loan application, loan payment
Kyangenyi	Products offered by the institution, account opening, Terms and conditions of loans, repayment schedules, loan utilization, loan security/guarantor
Med Net	Loan utilization, loan repayment,
FINCA	Savings, terms and conditions of loans, simple book keeping
CMF	Savings culture, loan etiquette, group guarantee and business growth
PEARL	Savings and business management
HOFOKAM	Group development, savings and credit management, simple business skills development, cash flow analysis, income generating activities
Kijura SACCO	Savings, book keeping
Pakwach Nam SACCO	Savings, book keeping, financial management and borrowing
Blue Fox	Savings, borrowing, loan management

A look at the topics covered by various institutions from the table above suggests that while some institutions are attempting to do consumer financial education, the focus is still narrow and limited to very few topics. Most of what institutions focus on is actually savings mobilization, product promotion and

loan payments leaving out crucial topics like Loan management, Business management; Budgeting, Financial management, investment and Savings management.

Looking at the topics various institutions mentioned to be covering during the training, one finds that topics on loan terms/condition and payment appears more often than any other topics.

Institutions were further asked to describe in details what they talk about under the topics mentioned, the frequently mentioned were; loan terms and conditions, difference between personal money and loan money, record keeping, multi borrowing, loan security, guarantors and loan insurance. Others mentioned were group dynamics and implication of loan defaulting.

All the institutions that reported to be doing education reported that there are some topics they emphasize on, and the frequently mentioned was loan repayment.

### **3.4 Duration of the training**

The duration of the training was found to be varying with some institutions reporting to be conducting trainings ranging from 30 minutes to 2 hours depending on the number of clients or the nature of transaction. In situations where it's a group, the training may last longer compared to when it is an individual being handled. Like wise the training may take longer when an individual or a group is in the process of loan application and shorter when opening an account.

### **3.5 Evaluation of consumer education activities**

The study found that no single institution has a formal way of evaluating their training programs. A few that were mentioned were; monitoring the loan recovery rates and the influx of clients seeking for services. However, this may not reflect a clear picture on the impact of the training.

### **3.6 Budget for consumer education activities**

No institution reported to have a separate budget for consumer financial education. Instead it was reported that training activities are integrated in other activities like saving mobilization and credit. Apart from MED NET which reported to be providing meals and materials occasionally to their clients during the training, no other institution reported to be providing such, likewise their clients do not meet those expenses and the reasons advanced were; trainings normally last for a short time, training is done concurrently when clients come for other services while some training take place within the vicinity of clients homes where they do not need meals or transport.

On whether institutions have ever received any assistance of some sort from any organization to cater for consumer education program, only MED NET and RUSCA reported to have received support from World Vision and SUFFICE respectively towards consumer education.

### **3.7 Challenges of consumer education by MFIs**

- Literacy rates; in rural areas clients cannot read and write and becomes very difficult to deal with such a population because their absorption capacity is low.
- The concept is not well understood by most MFI a reason why there is a mix up in the content.
- The cost of consumer education is high if it is to be done in a formal manner and tackling all the recommended topics becomes a

problem. Some institutions wonder on who would meet the expenses incurred to train thousands of clients.

- The attitude of clients towards the training; people come and what they want is money and nothing else. Therefore taking them through the training is seen as time wasting on their side
- Lack of supplementary IEC materials that are in the local languages that people can read and understand.
- Some institution reported fear that once clients get a lot of information, they are likely to run a way to another institution because of the competition in the micro finance sector.
- Lack of staff that are technically able to handle the topics since some institutions do not have enough staff due to various factors.
- There is no legal framework under which consumer education can be carried out. Some institutions wonder what would happen to those MFIs that don't comply with the standard set because transparency may be compromised by some institutions.

## **CHAPTER FOUR**

### **Conclusions and recommendation**

- While some institutions report to be doing consumer education, in actual sense there is no consumer financial education being conducted. What some institutions take to be financial education is actually explanation about the services offered by the institutions and loan conditions and payments.
- Consumer financial education is not well conceptualized and understood by most MFIs a reason why there is a mix up in the content and methodology. This is attributed to the lack of a consumer financial education curriculum.
- The issue of cost is still an impediment to consumer education. Every institution wants to maximize profit and therefore see no reason of setting aside funds for consumer education.
- Lack of technical capacity in consumer education affairs also hinder the implementation of the program, this could partly explain why the concept is not well understood by most institutions.
- Some institutions perceive consumer education as a disadvantage to their businesses thinking that by taking client through the process, some clients may end running away from them to other providers.

### **Recommendations**

- AMFIU and partners should help in guiding MFI on what is consumer financial education to help member institution conceptualize it better.
- To move the process better, AMFIU should begin by sensitizing MFI about the rationale of consumer financial education to dispel some fears held by the member MFIs.

- AMFIU together with member MFIs should come up with a training curriculum spelling out the content of financial consumer education. This should be followed by developing training manual spelling out the methodology to carry out the training.
- AMFIU could consider training of trainers at regional levels who would in term train other MFIs staff in a cascading manner as the process will enable member institutions to have technical capacity to carry on consumer financial education.
- AMFIU together with partners in the microfinance sector should lobby for the legislation of consumer financial education so that it becomes a law because self regulation has its own problems.
- AMFIU could continue providing capacity to member institutions including budgeting to ensure that consumer education is catered for in institutional budgets.
- Monitoring and evaluation systems need to be developed to enable monitoring of the proposed activities.