



Quarterly Informal Information Exchange Meeting

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Why Introduce Individual Loans?

Client Demand

- Retain customers whose needs are evolving beyond the capacity of group loan methodology

Competition

- capture new client markets
- Improve services and compete more effectively through individualised products

Financial Incentives and Sustainability Objectives

- Potential to generate higher profits through larger loans



Uganda: MFIs Also Motivated by **DELIVERY Issues**

- Breakdown in the Group Loan (GL) methodology
 - Groups not functional: cross guarantee not working
 - Loan staff chasing individual members
 - MFI staff regard GL product onerous and ineffective
- Fraud is significant
 - Fictitious groups and group leaders diverting members' funds
 - Staff members implicated



First Preliminary Finding

- Individual Lending (IL) is launched as a **problem solving measure**.
 - individual credit relationships to enable tighter controls through better client analysis/information
- In Uganda, IL is introduced in the context of both **external (market) pressures**
 - client demand/ competition
- and **internal (institutional) pressures**
 - a strategy for strengthening portfolio performance



Second Preliminary Finding

- As in other parts of the world, Ugandan MFIs **underestimated the complexities** of delivering an individual loan product



Main Challenges in Introducing an Individual Loan Product

Product delivery level

- What does it take to undertake solid **credit analysis**?
- No longer rely on group screening, monitoring and enforcement of loans.
- **New type of business altogether.**



Main Challenges in Introducing an Individual Loan Product

Operations level

- **Market research** + piloting for effective product design and delivery
- Product policies and procedures for **monitoring product costs and risks**
- **Staff incentives and accountability** with realistic performance benchmarks
- **Strategic alignment and marketing of products**



Main Challenges in Introducing an Individual Loan Product

Institutional level

- Adequate **MIS, internal controls, management structure**
- Appropriate institutional **delivery model, staffing, systems**
- **Market-oriented organisational culture with strict compliance to regulations**
- **Leadership** – a product champion



Main Challenges in Introducing an Individual Loan Product

Human Resources level

- IL staff/managers make or break product implementation: thorough **screening and comprehensive training** to ensure capacity exists
- **Strategy for on-going training needs:** integrating new staff and continuous strengthening of others
- One staff for all loan products? Ensure **skills, competencies and rewards are appropriate per loan product**



Summary

Like many MFIs internationally, Ugandan MFIs launched IL without adequate preparations

- Initial IL product developed through minor modifications to the existing GL methodology
- Challenges of risk management were underestimated or overlooked
- No market analysis to underpin product design and inform product alignment in business planning



Result:

MFIs learned to swim in the deep end

- Poor product design and staff capacity has led to reliance on collateral-based lending rather than proper credit assessment
- Shortcoming in IL risk management and loan enforcement undermined portfolio quality
- Faced combined challenge of reforming IL product, policies and processes while building institutional capacity and implementing new systems
- MFIs have had to fill in the gaps along the way (and are still...). MIS is a crucial example



Result: Forgotten GL and its clients

- Focus on IL as core product (esp. with transformation) has left GL sidelined and in dramatic decline
- Despite expectations of graduating GL clients to IL, only a small percentage are able to meet IL eligibility criteria (credit assessment and collateral requirements)
- Shift focus to new, more profitable target markets: net loss in lower income clients served
- Is there a continued role for GL in the business models of Ugandan MDIs?



Conclusion

- In the midst of transformation, consolidating the IL product has been compromised...



.... And yet, the quality of credit operations has never been more important as MDIs intermediate their clients deposits.