



► Social Finance Brief

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Making Finance Work for Refugees

UGAFODE's journey in serving refugees and host communities, in 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

- Initially, risks are perceived to be high, but deeply understanding the refugee market helped UGAFODE to build buy-in and spur the mind-set change.
- Like most FSPs expanding services to refugees, UGAFODE reviewed and adjusted policies, systems and documentation, but existing financial products were already well suited to many refugees.
- Recruiting refugees increased UGAFODE's outreach.
- Segmentation and clear differentiation from NGOs are important for FSPs. NGOs partners referred prospective clients, but UGAFODE retained final loan appraisal in-house, ensuring new clients understood that FSP services are not "for free."
- Refugee customers perform as well or better than nationals. UGAFODE has learned that not all refugees are great clients, but most refugee borrowers perform at least as well as nationals.

Background

The Uganda Agency for Development Limited (UGAFODE) began as an NGO in 1994 focused on group credit for women. In 2010, UGAFODE was incorporated as a company, transformed into a microfinance deposit-taking institution (MDI) with new savings products to balance credit operations, and was licensed as a Tier III MDI by Bank of Uganda (BOU) in 2011. The NGO divested from microfinance activities but retained an ownership share. Other owners include FEFICOL, ACCION and ACCESS

Africa. UGAFODE's mission is to transform the lives and livelihoods of people economically and socially by availing them with inclusive financial services that meet their expectations. Its target market is low-income micro-entrepreneurs and smallholder farmers. Rural customers represented around 70 per cent of the loan portfolio and 65 per cent of depositors in 2018. Women constitute about one third of the customer base.

UGAFODE has 6 urban and 11 rural branches across Uganda. After a governance crisis in 2016-17 which severely affected performance and staff retention,

UGAFODE served some 16,615 borrowers with a portfolio outstanding of Ugx 32.6 billion (US\$8.5 million), and had 73,700 saving accounts of which 54 per cent were active, totalling Ugx 15.2 billion (US\$4 million) by March 2018. UGAFODE's Portfolio at Risk ratio (PaR 30) after the regulatory monthly write-off was 5.9 percent, and it was only just returning to profitability. The Board adopted an ambitious strategic plan for 2017-21, aiming to increase the loan portfolio by Ugx 55 billion (US\$14.4 million) within 3 years, increase efficiency to cut costs, and increase deposit mobilization to lower its dependency on external debt financing, including by rolling out a mobile money product. UGAFODE was aware of the potential refugee market, but not really sure of how to proceed. The widely published Ugandan refugee fraud scandal involving UNHCR and the Office of the Prime Minister (OPM) also increased concerns.

1. Ideation phase (screening product and market ideas)

The Board directed the organization to look for new segments to meet the ambitious growth projections. The national market segment is fiercely competitive and saturated in some urban areas and did not offer potential for the level of growth set out in the three-year strategic plan. UGAFODE readily recognized that expanding services to the large potential market of unserved refugees as a segment of all low-income people in Uganda would align with its mission, but its motivation for inclusion of refugees was mainly financial and the early discussions were fraught with concerns. A series of market and internal developments got the process underway.

On the one hand, UGAFODE needed a new market frontier to achieve its strategic objectives. The directors guided the business development team to explore new areas that could attract partnerships and additional finance, and several investors kept hinting at the need to serve refugees – with more than a million refugees in Uganda, the market was there. Simultaneously, one of the urban branches reported that refugees were coming to receive or send transfers and that they asked to open savings accounts to safely store their funds - so the demand seemed to be there. The UGAFODE footprint across Uganda, including in areas with large and old refugee settlements, suggested that UGAFODE was well placed to explore the refugee segment further. As few financial services providers (FSPs) had engaged with refugees,

there was also understanding of the reputational gains (visibility with funders and investors) likely to arise from serving refugees as a first mover – “it helped to be seen as the courageous one.” On the other hand, the Board had strengthened Know Your Customer (KYC) and delinquency management procedures following the governance crisis, imposing stricter eligibility criteria and collateral requirements, and the UGAFODE management was worried about the general bankability and KYC compliance of this unknown customer segment (see Box 1). In contemplating how to lend to more refugees, UGAFODE initially thought this would require collaboration with the OPM and donor agencies to serve as guarantors for refugees, who were considered a high flight risk. The key concerns and perceived risks expressed by UGAFODE were the following:

- Lack of understanding of the real needs of the refugee market and no mapping developed to identify potential opportunities with current products
- Are the Refugee IDs issued by the OPM acceptable to BOU as KYC documents? Can we verify these IDs?
- Do refugees have sufficient collateral to meet our eligibility criteria for loans?

What if refugees abscond without repaying loans? How can we enforce the loan contracts?



► **Box 1: Initial perceptions of risks**

- ▶ Can refugees be bankable?
- ▶ Flight risk – what if the refugees return or run away across our porous borders?
- ▶ We don't know these people...
- ▶ Does the law allow them to open accounts?
- ▶ Do they own anything (collateral)?
- ▶ Can they be arrested if they do wrong?
- ▶ Anti-Money Laundering/Counter-Terrorism Financing – If our host clients have issues, this is surely worse among refugees
- ▶ Fraud – Many of them could be criminals?
- ▶ KYC – What IDs do they have? Is the Refugee ID acceptable? What about the Family Attestation? Can we verify refugees?
- ▶ Cultural bias and stereotypes: Sudanese have been framed as “difficult to deal with:” Rwandese are secretive, Burundians have an inferiority complex, and Congolese are shrewd business people,” etc.

In late 2017, the business development department drafted a concept paper to increase financial inclusion of refugees, and UGAFODE contacted the OPM to inquire about refugee finance, recognising the large potential market segment of unserved refugees in Uganda. The OPM was very supportive, but as MDIs usually do with new products and segments, UGAFODE needed clarification from the regulator on the eligibility of refugee to access financial products.

The OPM agreed to send a letter to BOU in October 2017, requesting their “no objection” to FSPs serving refugees. Specifically, the OPM sought guidance from BOU on UGAFODE’s use of the Refugee ID card as an acceptable personal identification document for KYC purposes. BOU – which had just published its National Strategy for Financial Inclusion – responded in November 2017 that it had no objections to enhanced financial inclusion nor to the provision of financial products targeting refugees and asylum seekers. However, BOU required FSPs to “officially seek BOU’s approval to pilot onboarding and implementing or rolling out” such products. The OPM relayed this response to UGAFODE in January 2018. An internal legal review by UGAFODE of BOU’s response

identified no legal or regulatory constraints to serving refugees but suggested that a Board paper be made prior to a submission to BOU, if a new ‘product’ was to be developed. At this time, the news of a major fraud scandal involving the registration and reporting of refugee numbers broke in Uganda, and the UGAFODE Board put the initiative on hold due to reputational risk concerns. They did, however, remain supportive and the CEO asked the Business Development and Growth unit (BDG) manager to develop the business case for the inclusion of refugees in existing products, as opposed to developing a new ‘product’ in line with emerging good practices.

UGAFODE met with the [Diagnostic market study](#) commissioned by UNHCR and SIDA through Grameen Agricole Microfinance Foundation in April 2018, and also applied to participate in the June 2018 [Design Sprint](#) for financing refugees organized by Financial Sector Deepening Uganda but was not selected. While keenly interested in developing a plan for the inclusion of refugees, the BDG unit needed technical support to elaborate its draft concept note into an actionable strategy on financial inclusion of refugees. Through its investors, UGAFODE was included in a [Diagnostic study and action planning project](#) funded through the Dutch NpM Platform for Inclusive Finance which took place in mid-2018. During this project, several cross-department interviews and meetings took place and the management was presented with a market overview and a brief assessment of UGAFODE’s “refugee readiness” resulting in a consulted action plan for how to engage with refugees who presented an obvious opportunity for deposits, credit and the money transfer services launched by UGAFODE.

The refugee verification exercise resulting from the fraud scandal in early 2018 provided proof that the market segment was huge, and the diagnostics published in mid-2018 further documented socio-economic profiles and demand profiles. The action planning process helped UGAFODE managers think through the processes, and an interrogation of the management information system (MIS) revealed that UGAFODE actually already had refugees on their books, even if they were not specifically tracked. By mid-2018, UGAFODE piloted a trial joint liability group loan to a group of Congolese business people in Kampala, which was “surprisingly very successful”. This group was interviewed by the staff to learn how UGAFODE’s products would better fit their needs. The staff also rekindled personal contacts with NGOs providing non-financial services and small business grants to refugees in Kampala, notably Interaid and the Jesuit

Refugee Services (JRS), to facilitate the meeting with potential clients, segmentation and marketing. UGAFODE consulted further with the OPM and UNHCR and received positive feedback everywhere, which boosted its confidence. In hindsight, the actions that triggered UGAFODE’s engagement with refugees were:

- The Bank of Uganda “No Objection;”
- The documentation of the potential refugee market by independent and credible sources early on;
- An exposure trip to the NpM Conference in Holland, meeting all the different global stakeholders;
- The promise of technical assistance from funders and extension of the KIVA crowdfunding instrument to also cover refugee borrowers to share the perceived risk burden¹;
- The positive and supportive encouragement from partners and stakeholders, including the OPM, NGOs and investors and the “first mover opportunity” (timing); and
- The buy-in and positive encouragement from the Board and senior management which appreciated the enthusiasm of the BDG unit and approved the recruitment of refugee interns as outreach officers early on.

2. Market development and segmentation – planning and strategizing

The mid-2018 action planning exercise with external technical assistance helped UGAFODE put together a 10-step preparatory process for its expansion (see Table 1).² The process was kicked off with an internal feasibility study to clarify a strategy to be approved by the Board and UGAFODE would then on-board refugees through outreach (marketing) from branches, and in partnerships with InterAid, and possibly other NGOs, starting in Kampala. If all went well, a sales centre (mini branch) would then be established within one of the rural refugee settlements. During the 8-12 months pilot project, UGAFODE set a cautious target of a minimum of 120 group loans and 60 individual loans disbursed to refugees.



¹ UGAFODE has been a KIVA partner since 2009, and has accessed a credit line to specifically cover refugee lending on Kiva.org, where any risk is transferred from the FSP to the individual online lenders. So far 17 refugee clients have been funded via KIVA.org. See more at www.refugees.kiva.org

² See Social Performance Task Force: Serving Refugee Populations: The Next Financial Inclusion Frontier - Guidelines for Financial Service Providers, March 2017 <https://sptf.info/images/Guidelines-for-FSPs-on-serving-refugee-populations-March2017.pdf>

► **Table 1: UGAFODE action plan in preparation for serving refugees**

Step	Action
1	Conduct a Feasibility study in a branch of Kampala and one upcountry branch with support from the OPM and the Kampala Capital City Authority, including guidance on segmentation and a draft Strategy.
2	Seek Board approval (Board paper) with a Strategy informed by the feasibility study.
3	Establish an internal champion team, led by BDG unit as project owner, and including pilot branch managers and supervisors to coordinate and communicate the Strategy internally.
4	Request formal BOU approval (no objection) to include refugees in existing products and request the OPM's permission to operate in 1-2 settlements
5	Join/interact with Livelihoods Sector Technical Working Group, InterAid, JRS, DRC, other I/NGOs
6	Review and adjust Operational policies, procedures, systems and documentation
7	Develop/adjust and translate marketing materials (product brochures)
8	Add staff with language skills (interns) to call centre (and possibly pilot branches)
9	Conduct a Pilot in 4 branches (3 in Kampala+1 rural), adjusting the staff incentive scheme targets and Key Performance Indicators (KPIs) for the pilot branches (8-12 months)
10	Review results of Pilot and adjust parameters for roll-out, including possibly via sales centres in refugee settlements.

The external Diagnostic studies conducted in Uganda in mid-2018 which included UGAFODE provided general data and analysis on the refugee market from the perspective of an FSP and gave UGAFODE confidence that the market was there. But it was less clear how the FSP should interact with the market and find the segment of refugees who would best benefit from the products and services UGAFODE could offer.

Action plan step 1

In October 2018, the business development department embarked on an internal feasibility study of the refugee market, both in urban Kampala and in two rural settlements in the North-west (Bidi-Bidi) and the South-west (Nakivale).³ The feasibility study analysed the key opportunities available to UGAFODE, recommending that UGAFODE piloted the expansion of existing products to refugees, starting with self-settled refugees in Kampala.

- The urban UGAFODE branches in Kampala had all registered some inquiries and applications from refugees, which they escalated to head office, not having received guidance on the acceptance to serve refugees. However, one group of Congolese micro-entrepreneurs who had also established an informal ASCA (mbuto), was provided with a joint liability group loan on a trial basis, which was “surprisingly very successful.” Focus group discussions with these and other refugees already in the UGAFODE portfolio during the feasibility study confirmed that there was a

larger market than expected, that was under-served, and that UGAFODE would therefore be able to “cherry-pick” among the urban refugees. In addition, the feasibility study found that “word of mouth” marketing would likely attract more refugees, especially among the well-organized and cohesive Congolese community;

- Having received permission from the OPM and UNHCR to visit settlements, the feasibility team visited the very large and relatively new refugee settlement of Bidi-Bidi in the Northwest, hosting some 220,000 primarily South Sudanese refugees, most of whom had arrived in 2016 – and came back unconvinced. They found small retail businesses but relatively low levels of sales, and many households seemed not yet settled. The biggest concern was the proximity to the open border; “who can stop refugees from leaving Uganda?”
- The team also visited Nakivale, the oldest (established in 1960) and most diverse settlement in the Southwest, some 50km from the nearest UGAFODE branch. Nakivale hosts around 120,000 refugees from DRC, Burundi, Rwanda and Ethiopia, the majority of whom have been displaced for longer than 5 years. The team found established enterprises linked into vibrant agri-business value chains and no competition. Refugees met there complained about the long and costly trips to banks in nearby towns and lamented the lack of an FSP in the settlement. They expressed frustration with the many non-financial support services (NFS) initiatives in the camp, and confirmed they were saving and borrowing from VSLAs and a refugee SACCO, but that

³ Refugee settlements in Uganda, especially the older ones, resemble rural villages/trading posts rather than “camps.”

loans were too small for their business needs. These findings shifted the focus of UGAFODE from the Kyaka II settlement initially proposed in the action plan to Nakivale as a possible venue for a “mini-branch”.

The feasibility study confirmed a large market of refugees, as well as a need to segment this market to target the refugees most likely to benefit from UGAFODE’s services and generate a return on investment. UGAFODE defined its refugee target market as economically active self-settled urban and, later, settlement-based refugees. In addition to the standard criteria, the main additional segmentation (eligibility) criteria for refugees included location (residence close to UGAFODE’s branches, displacement phase (minimum of 24 months in Uganda), legal documentation (Refugee ID), and level, type and growth potential of their economic activity.

Action plan step 2

The Board reviewed the study with its recommendations and approved the implementation of a pilot project to financially include refugees in December 2018. The pilot project was conducted from January – October 2019 led by the Business Development Department. The target was to close 2019 with 1,240 new savings accounts totalling Ugx 200 million (US\$54,200) and have Ugx 250 million (US\$67,775) outstanding in loans to refugees, while confirming the business case for including refugees by:

1. Exploring Know KYC requirements for refugees by using the OPM refugee ID;
2. Testing UGAFODE’s readiness to serve refugees; and
3. Implementing the diagnostic study action plan’s recommendations for UGAFODE.

Action plan step 4

Once approved by the Board, UGAFODE sent a copy of the feasibility study to BOU, and received a formal “no objection approval” for the Pilot of Financial inclusion for refugees on 12 December 2018.

3. Outreach strategy

Action plan step 4

UGAFODE had maintained close contact with the OPM since the start of the process, and the OPM was supportive of the pilot project. While UGAFODE had been able to verify the refugee IDs via an email system, this

often took several days, and spelling mistakes on the Refugee IDs often led to “false rejections”. During the pilot, the OPM agreed to provide a dedicated verification officer to UGAFODE to speed up the verification process. As a result, UGAFODE only identified 6 invalid or forged refugee IDs, which were duly reported. By August 2019, UGAFODE signed a formal MoU with the OPM to ensure the effective financial inclusion of refugees in Uganda, with the OPM also referring potential customers to UGAFODE. UGAFODE also worked with the manager of one of the credit reference bureaus in Uganda, CompuScan, to get the OPM-issued IDs included in their system of credit reporting, as [MDIs are required to report](#) and verify the status of all loan clients to the bureau.

Action plan step 5

UGAFODE joined the [Ugandan Livelihoods and Resilience Sector Working Group](#), co-chaired by FAO, UNDP and World Vision to explore additional partnership opportunities to enhance refugee livelihoods through the provision of financial services. The monthly meetings exposed the FSP to a number of new partners and familiarized the FSP staff with the livelihood aspects of the official Uganda Refugee Response Plan. The October 2019 meeting focused on Microfinance for Refugees, whereas the November meeting discussed Income Generating Activities (IGAs) for Refugees.

► Examples of UGAFODE outreach events

- Congolese community engagements
- Financial literacy classes at Jesuit Refugee Services
- Outreach to other segments on days allocated by InterAid Uganda

Led by the Business Development Department, UGAFODE HQ staff met with I/NGOs supported by UNHCR in Kampala, JRS and InterAid, which provide non-financial (vocational and livelihoods) training to refugees in Kampala. The I/NGOs provide a range of support services including business management trainings, in-kind assets supply, small seed grants for urban refugee participants post-training, among others. However, a number of refugees were in need of more capital to grow their businesses. Therefore, UGAFODE staff was invited to address refugee participants at the InterAid training

centre⁴ to introduce its products and services, and gauge interest and concerns. This direct meeting was instrumental in generating internal buy-in – the individual stories told by the refugees had a great impact on staff and spurred the “mindset change” in UGAFODE towards becoming a fully inclusive FSP. In May 2019, [UGAFODE and InterAid signed an MOU](#) to guide InterAid’s referral of potential clients to UGAFODE, and ensure NFS participants were provided with information about microfinance options.



UGAFODE outreach event in Uganda



UGAFODE outreach event in Uganda

UGAFODE also reached out to refugee communities through other channels:

- Meeting weekly, **the Congolese community in the Nsambya district of Kampala** provided a platform for UGAFODE to market its products and services, and register customers interested in opening a savings account. Later in the process, UGAFODE contracted refugee interns to help manage the relationships with the new customers under an MoU with the Community;
- Mobilizing and supporting South Sudanese refugees in Kampala, **the United South Sudanese Urban Refugee Community** also encouraged members to avail themselves of UGAFODE’s financial services;
- UGAFODE held a one-day Focus Group Discussion with **the Congolese Christian Churches in Uganda (CCCU)** executives, with the objective to promote UGAFODE’s visibility and to raise awareness on its products. Through this meeting, UGAFODE learned that many refugees are mobilized in these faith-based congregations and have already established VSLAs. As a result, UGAFODE was able to offer safe storage for the VSLA savings, while offering loans to some VSLAs. Some of the religious leaders were also trained as trainers in financial literacy for their congregations;
- On the other hand, UGAFODE had to realize that it was not immediately able to serve one of the largest sub-segments of urban refugees in Kampala. **Meeting with the Somali community**, it was clear that they wanted Shariya-compliant financial products that UGAFODE was not offering. However, several were interested in the financial literacy sessions offered through InterAid, and a few Somali extension workers employed by Interaid were interested in savings accounts;
- UGAFODE also found **refugee-owned non-profits and companies** in the urban market providing goods and services to both refugees and host communities, including schools, clinics and pharmacies, livelihood up-skilling and rehabilitation centres, as well as hospitality and entertainment, advocacy and empowerment services. Many were interested in financial services, and all were willing to keep brochures and materials on display for their customers; and
- In the generally welcoming environment in Uganda, UGAFODE was able to conduct **public marketing and promotional campaigns** that enhanced UGAFODE’s

⁴ Interaid trains refugees from different nationality communities on different days at their Centre, so UGAFODE met Congolese, South Sudanese, Somalis, Eritreans and Ethiopians, Rwandese and Burundian refugees on different days.

brand image and made the refugee communities aware that the FSP was accepting refugees as customers (see Section 6 on the Marketing and Communication strategy). The marketing campaigns were successful in getting the message out – so much so that UGAFODE’s call centre began to receive calls from refugees and their interlocutors in rural settlements, asking for UGAFODE to expand its services outside of Kampala. Several rural branches were also eager to join the pilot.

UGAFODE learned a lot during the initial months of pilot outreach:

- **Customer segmentation is important and FSPs must differentiate themselves from NGOs.** Staff noted great interest among some refugee participants in NGO NFS, while others expressed a certain level of expectations for free services like the NGOs provided. Some refugees questioned why loans should be repaid as they thought UNHCR was funding UGAFODE and the money thus “belonged to refugees.” Staff had to explain in detail and repeatedly how a sustainability-oriented FSP like UGAFODE differed from grant-funded humanitarian organizations, and continues to need to distinguish itself from humanitarian partners;
- **Trust is paramount.** Refugees were as price-sensitive as other clients. Some refugees feared that their savings deposits with UGAFODE might be reported to UNHCR and disqualify them from further humanitarian aid, whereas others worried about whether their personal data would be shared with governments. UGAFODE needed to be extra transparent with tariffs and fee structures, and emphasize confidentiality and data safety to build trust;
- **Internal buy-in is not immediate.** UGAFODE staff perceived refugees to carry high risk, especially loan applicants. They feared flight through abscondment or resettlement and did not believe refugees had sufficient collateral. Internal staff trainings on perceived risks was an important mitigator;
- **Language barriers are real and two-way.** Many refugees in Uganda are multi-lingual, but prefer their home language (e.g., French, Swahili, Lingala or Arabic). Some staff learned the hard way that refugee clients often understand English or Luganda even if they may not speak it, and will complain if not treated courteously. Branch and senior management had to discipline judgemental frontline staff speaking disparagingly about refugees in their presence. In particular, rejected loan applicants needed a full, transparent and considerate explanation. These

findings were fundamental to the proposal submitted to the Board and approved in May 2019 to allow for the recruitment of refugees as sales and marketing interns (see Section 9 on Human Resources Management and cultural changes).

4. Product strategy and sequencing

To develop its product portfolio, UGAFODE has received technical assistance and training from MEDA, IDEO.org and 17Triggers, funded in part by UNCDF’s MicroLead programme. It currently offers a suite of 6 savings products (and a staff savings account) and 4 types of loan products through its 17 branches, on-boarding new clients with an ordinary savings account. Mobile and electronic transfers are available for customers between branches, including Direct Debit services for schools to collect tuition fees from customers. In addition, UGAFODE offers payments and domestic remittance services as an agent for Western Union, Xpress Money and MoneyGram. As an MDI, UGAFODE can only cash out incoming remittances in Ugandan Shillings. UGAFODE has a credit-life insurance policy with CIC Uganda writing off outstanding loan balances in case of customer’s death or disability, which also pays out a burial benefit at a cost of 0.65 per cent of the loan amount. Staff provide basic financial and digital literacy training as part of UGAFODE’s outreach efforts and at the monthly meetings with group borrowers.

The Board had directed the FSP to explore new market segments and to focus on growth and profitability, notably in UGAFODE’s traditional rural market, but did not prescribe a product mix. The Business Development and Growth Department (BDG) drafted an initial concept paper on UGAFODE’s expansion to serve refugees in early 2018. It foresaw onboarding of refugee depositors, starting with ordinary savings accounts to self-settled refugees that were already coming to UGAFODE branches in Kampala to send or receive transfers, and a gradual and careful introduction of primarily group loans, expected to require collaboration with the OPM and donor agencies [to serve as guarantors](#) for refugees who were considered a high flight risk. The CEO was instrumental in shifting the focus from “a special refugee product which might not be sustainable” to a business case for “financial inclusion of refugees in UGAFODE’s existing product portfolio,” which enabled the FSP to gradually include the new customer segment in existing products on equal terms and conditions.

Recent market studies⁵ had produced no evidence that new products would be needed (see Table 2), and special products could have been understood by existing

Ugandan clients as special treatment of refugees, which could have increased the competitive tension for access to services.

► **Table 2: Demand among refugees and corresponding financial products offered**

Demand among refugees	UGAFODE products
Savings products/terms: Safe storage, easy access Small balance Liquid, affordable (interests and fees)	Ordinary Savings Account, 3.5 per cent per annum interest Fixed Deposit Account, 8-11 per cent per annum interest Target Savings Account Group Savings Account, 5 per cent per annum interest
Credit for: Group business Individual business (MSME) Consumption/emergency Agriculture Education/school fees	Micro Business Individual/Group loan Small Business Loan Asset Acquisition Loan Small and Medium Enterprise Loan Salary Earner’s Loan Agricultural Loan School Development Loan School Fees Loan
Payments/remittances: Mobile/electronic From/to the East African Community and the Horn of Africa	UGAFODE Mobile Super-agent for MTN and Airtel Mobile Money Agent for Western Union, MoneyGram, Xpress Money from Kampala and Mbarara branches (MTS)
Insurance (health, theft, fire)	(Credit-life policy compulsory with credit)
Non-financial services (financial education, household budgeting, life skills/social networking)	Financial literacy and business development trainings in partnership with NGOs and for formed loan groups

All UGAFODE clients must open an ordinary (transactional) savings account. This product was initially marketed to clients as an opportunity to get loans, which partially explains the high 53 per cent of savings accounts being inactive, as subsequent loan applications were rejected. The GroupSave product aimed at VSLAs and registered community-based organizations (CBOs) would meet a demand among the many refugees who were already members of savings groups, and would like to deposit their funds more safely and earn interest.

UGAFODE’s three branches in Kampala began serving refugees referred by the OPM, the new INGO partners as well as refugees who approached UGAFODE hearing from community members that the FSP was “open for refugee business.” UGAFODE onboarded new customers with a savings account like any national client, and also promoted their junior savings account, enabling refugee parents to save for (the education of) their children. The

main challenges in the process of opening savings accounts included:

- The OPM Refugee ID was added to the MIS and application process as acceptable ID documentation, but it still needed verification for KYC purposes and that took 2-3 days in the beginning. The MoU with the OPM shortened this process, but misspelling of names on Refugee IDs could still delay onboarding. Therefore, account opening and credit process flows for refugee customers was centralized to increase turn-around time;
- A number of UGAFODE policies needed adjustments to make the onboarding of refugees more efficient. For example, UGAFODE’s policy discouraged the onboarding of pre-existing groups and required groups to present a CBO certificate issued by local authorities, a constitution, and a Board resolution to open a

⁵ E.g.: <https://www.findevgateway.org/paper/2018/07/assessing-needs-refugees-financial-and-non-financial-services-uganda> and https://www.inclusivefinanceplatform.nl/wp-content/uploads/2019/04/npm-diagnostic-study-uganda-final_0.pdf

UGAFODE account, and the names and personal ID numbers of three signatories for group accounts.

Credit provision was much more cautious. UGAFODE accepted referrals from partners but was careful not to outsource segmentation, and to retain full control over the loan appraisal process. UGAFODE had already learned expensive lessons from on-boarding national savings clients with the promise of future loans (resulting in a high proportion of dormant accounts by rejected applicants). The loan application process is relatively costly and rejected loan applicants could quickly damage the FSP's reputation among refugees, so all frontline staff were trained to be extremely clear and transparent in their interaction with refugee clients during onboarding, and to segment carefully to identify loan applicants among the onboarded savers who were more likely to be approved by the credit committee. Loan officers were admittedly stricter on refugees than on national clients, visiting homes and businesses several times, and getting references from other refugee customers and suppliers to the applicants. Some of the challenges faced in lending included:

- **Stereotypes and preconceived ideas among staff:** Loan officers were sceptical that refugees had the necessary collateral for individual loans and feared they would abscond without repaying loans. Some staff learned the hard way that refugee clients often understand English or Luganda even if they may not speak it and will complain if not treated courteously. Branch and senior management had to discipline judgemental frontline staff speaking disparagingly about refugees in their presence.
- **Patience and staff time allocation:** Loan officers needed more time to explain all terms and conditions to concerned first-time refugee borrowers, and to assess their, often informal, micro-enterprises. In particular, rejected loan applicants needed a full, transparent and considerate explanation.

During January – October 2019, 1,069 refugees opened a savings account with UGAFODE, depositing some Ugx 88.2 million (US\$23,900), whereas UGAFODE had disbursed 123 mostly group loans to refugees worth Ugx 165.6 million (US\$44,890). PaR(30) in the refugee portfolio remained 0 per cent, (PaR(1 day) varied between 1.5-2 per cent)

against an overall PaR(30) of around 3 per cent for all clients. Overall, UGAFODE staff have learned that not all refugees are great clients, but most of the refugees that become borrowers perform as well as or better than nationals.

5. Delivery strategy – channels and rural expansion

UGAFODE's savings products are managed by a Savings Manager at the BGD, supported by 31 sales/marketing officers, who provide customer training/information on both savings products and UGAFODE Mobile. Loan officers appraise loan applicants, whereas the Channels department manages the UGAFODE Mobile accounts reconciliations. To facilitate access and onboarding of refugee customers, BDG sought Board approval in May 2019 to hire Sales and Marketing interns among the refugee communities, which led to the recruitment of 10 interns by June 2019 and significantly increased the uptake (see Section 9 on Human Resource Management and cultural changes).

The mobile banking channel, UGAFODE Mobile, was launched in 2013, enabling customers to transfer money into and out of their savings account using MTN and later (2016) Airtel mobile money agents. UGAFODE is now a super-agent for the two mobile network operators (MNOs) with a maximum float of Ugx 4 billion (US\$1.1 million). Urban branches act as agents for UGAFODE, and can intermediate with Airtel/MTN master agents to swap float⁶ for cash (at a fee), enabling branches to disburse loans in cash, if e.g., the necessary buffer cheques from head office for disbursement via commercial bank branches are delayed. Some MTN master agents provide advice to UGAFODE clients on how to operate mobile money.

UGAFODE soon learned that “all customers want a mobile money account.” It is easier to transact and save customers the often long and expensive travel to a branch. Refugees were no different, and many were familiar with mobile money already – although not everyone had their own phone, SIM card, or could easily understand the UGAFODE Mobile app, which is in English language only. But in 2019, UGAFODE hit a stumbling block, as SIM card issuance to refugees was halted:

⁶ Float is the balance of e-money, or physical cash, or money in a bank account that an agent can immediately access to meet customer demands to purchase (cash in) or sell (cash out) electronic money (GSMA, 2010).

A valid cell phone number in the name of the customer is a KYC requirement. However, until mid-2019, the OPM Refugee ID card was the only ID accepted for a refugee to register for and activate a SIM card, and it often takes months to get. This had led many refugees to apply workarounds, like registering multiple SIMs on one ID card, buying SIM cards on the black market, or registering a SIM card using the credentials of a friend. Wanting to crack down on this perceived “fraud”, a Uganda Communications Commission (UCC) directive in mid-2019 stopped MNOs from issuing SIM cards on the basis of refugee ID cards altogether. This obviously limited UGAFODE’s enrolment of refugee customers onto the UGAFODE Mobile banking platform, and resulted in less than expected deposits from urban refugees in Kampala. With advocacy support from GSMA and UNHCR, the UCC issued a more enabling directive to MNOs in August 2019, stating that SIM cards can be issued to refugees who hold a valid refugee ID issued by the OPM, but – in its absence – [an OPM-issued attestation letter is also formally recognized](#) by the UCC as a valid form of ID for the purpose of SIM registration. However, it took time for UGAFODE to adjust its internal eligibility criteria to also accept Attestation Letters as personal IDs, even if valid attestation letters have a unique identifier and is printed on secure paper.



The plot allocated in Nakivale settlement

Action plan step 10

Seeing good uptake and no major difficulties in serving urban refugees in Kampala, UGAFODE fast-tracked its expansion into the rural settlement of Nakivale in South western Uganda, where access to formal financial services has been a challenge for years, despite the SACCOs, VSLAs and CICO agents in the settlement.

The MOU signed with the OPM in August 2019 stated that “Government through OPM will support UGAFODE in any way possible,” and the OPM Commissioner allocated a

vacant plot of government land to UGAFODE to set up its branch – but – as is usually the case in Uganda – UGAFODE received no documentation of this allocation. UGAFODE knew they had to act fast to secure the plot by erecting a fence and a rudimentary structure on the plot to avoid losing it through reallocation for other uses – a rather risky investment for the FSP. Presenting the progress of the pilot project to the Board, BDG requested approval from the Board of the new mini-branch in October 2019, presenting a budget of Ugx 319 million (US\$87,400) for the set-up and running of the mini-branch for 12 months, projecting profitability by end of year 1 with a portfolio of 4,410 savers and 3,265 borrowers. UGAFODE received a capital grant from SIDA through [Credit Agricole Microfinance Foundation's Financial Inclusion for Refugees Project](#) to finance the new rural [mini-branch](#).

While UGAFODE obtained permission from the OPM to open operations inside the settlement, permanent structures are not permitted, so the branch had to be built from prefabricated containers as designed by an architect. UGAFODE needed to obtain approval by the Bank of Uganda of the new branch as per the MDI Regulations, and BOU inspected the new structure in February 2020 to verify that cash safeguards were in place, etc.. Then staff needed to be recruited for the new venue, which was difficult, as living conditions and amenities in the settlement are limited (see Section 9 on Human Resource Management and cultural changes). Despite all the difficulties, the new mini branch opened its doors to customers on 1 March 2020, and 300 new accounts were opened during the first 3 weeks, while the new branch received a large number of loan applications.



The Nakivale mini branch at opening in March 2020

UGAFODE’s roll-out to rural refugees from the mini-branch is off to a good start. The FSP is still working on refining the mobile banking channel to enable more refugees

access their accounts through their mobile phones to save, withdraw, repay loans, pay bills and much more. This will reduce their costs of transport to access the branch service and consequently ensure convenience and security. Further, UGAFODE is looking to introduce Points of Sale (POS) and Inter-switch platforms to deepen outreach and financial inclusion. To support this effort, UGAFODE has submitted a grant proposal to the African Development Bank's [Africa Digital Financial Inclusion Facility](#) (ADFI) to digitalize the Financial Inclusion for Refugees Business Case.

6. Marketing and communication strategy

UGAFODE's products are being push-marketed by the call centre and through "pitch camps" at branches and radio adverts. Since 2017, UGAFODE has translated key product brochures into two local languages, but is predominantly operating in English. The UGAFODE Mobile application is in English language only. UGAFODE has explored the option of a multi-lingual platform, but it was rejected due to cost (US\$12,000).

Informed by the feasibility study and the strategy, UGAFODE designed its marketing strategy to focus on direct outreach (marketing) to refugees and Ugandan host communities from branches, "word-of-mouth" referral from existing customers, and partnerships with the OPM, InterAid, JRS and other I/NGOs and local CBOs working with refugees. With its tagline "We Listen, We Care", UGAFODE emphasized its tailored product range and services to differentiate itself from other providers in its below-the-line (BTL) marketing, fostering direct relationships with potential customers among the target segment of economically active refugees and Ugandan hosts.

The BTL promotion included door-to-door marketing, mobile marketing with UGAFODE's branded van, and publicity through organized customer days and participation in public events as part of its corporate social responsibility activities, like the annual World Refugee Day Rally.



UGAFODE at the 2020 World Refugee Day rally

UGAFODE planned to cross-sell savings and credit products to existing refugee remittance customers and employ mobile outreach for loan disbursements and repayments.

UGAFODE realized early on that language barriers were real, especially for the in-house call centre staff, which has both marketing and complaints-resolution functions. It has become a priority to ensure that call centre staff are able to converse in French, Kiswahili, Lingala and Arabic. At the same time, it was clear that direct marketing to refugees would be much more effective if conducted by refugee community members themselves.



UGAFODE poster for World Refugee Day

Action plan step 7

During 2020, marketing materials were being updated and translated for the new mini branch in Nakivale and for

other refugee customers. UGAFODE added a budget for marketing and communications in their GAMF grant proposal for the new mini branch, including brochures and flyers in French, Lingala and Kiswahili as well as broadcasting of radio advertisements. They also procured posters, banners, a large tent and a PA system for marketing events.

Action plan step 8

UGAFODE's management approved the recruitment of 10 refugee interns (five Congolese and five South Sudanese by October 2019) who were stationed at the three urban UGAFODE branches in Kampala. This immediately helped address language barriers and increased the onboarding of new refugee customers. The interns showed resourcefulness and had the networks to get the message out to their communities, and many refugees felt more comfortable asking questions in their own languages to interlocutors that they trusted. As of March 2020, UGAFODE had 16 sales and marketing interns employed, who are all former refugee clients (see Section 9 on Human Resource Management and cultural changes).

7. Organizational structure

Eager to turn around the organization after the 2016-17 crisis and make UGAFODE profitable, the ambitious management team had asked the organization to engage in a number of new product and procedural developments, which staff were trying to respond to. There was not a lot of excess capacity within the departments to engage in the Financial Inclusion of Refugee pilot project, which was anchored in BDG.

Action plan step 3

To ensure that the inclusion of refugees and other foreign-born residents (FBRs) got the managerial and staff attention required in the busy FSP, and that buy-in was built, a Financial Inclusion Champion Team was formally established. The Manager for Business Research and Development (BGD) was assigned as the Lead Champion and Project Owner under the BDG Unit, in charge of the planning, operationalization and supervision of the pilot phase. BDG coordinated closely with the pilot branches, as well as with Credit, Operations, Marketing, ICT/MIS, Risk, and Channels. At various times during the pilot project,

the Champion engaged with Legal as well (see below). The Champion reported monthly to the UGAFODE Senior Management Team (SMT), and the Board received quarterly updates.

While the pilot project remained with BDG, the process of handing over the refugee portfolios in the urban branches to Operations got underway in late 2020, and the Nakivale mini branch is being handed over to the Southwest Regional Manager. Meanwhile BDG is beginning to scope for the next steps of expansion, including other settlements in Mid- and Southwest Uganda.

8. Internal policies, processes and procedures

Like most FSPs expanding services to refugees, UGAFODE needed to review and adjust operational policies, procedures, systems and documentation more than they needed to design new products. Overall, the adjustments needed to UGAFODE's Credit Policy were minor, but fundamental (see Table 3) to enable the FSP become "refugee-ready" and to clarify to frontline staff how they would expand services to the new segment.

Action plan step 5

UGAFODE benefited from a planned internal policy review by the Legal Department to review the policies and the related procedures through a "refugee-friendly" lens and was able to present proposals for adjustments for Board approval in October 2018. These adjustments ensured that UGAFODE became more "refugee-ready". Once the core policy changes were approved by the Board, Operations reviewed the entire suite of procedures and documentation required from customers (eligibility forms and check lists, loan appraisal and approval forms, and loan contracts) to ensure that UGAFODE's new "refugee-inclusive" focus would not inadvertently exclude foreign-born residents from the FSP's services.

► **Table 3: UGAFODE's recommended main policy adjustments**

Current policies requiring adjustments	Formulation	Recommended revision
Individual loan policy	"The applicant should either be a Ugandan citizen or should have permanent residence status in Uganda."	"The applicant should either be a Ugandan citizen or should have permanent or temporary residence status in Uganda, the latter 6 months longer than the proposed loan term."
Group loan policy	"UGAFODE Group Methodology is targeted to low income Ugandans."	"UGAFODE's Group Methodology is targeted to low-income residents in Uganda"
Group loan policy	"UGAFODE shall not accept already existing groups and associations in their entirety to form into SGs or Groups as these shall be assumed to have been formed for different purposes."	"UGAFODE shall not in general accept already existing groups and associations in their entirety as they may have been formed for different purposes, but following due diligence of proposed group members, UGAFODE may accept existing groups if members meet UGAFODE's eligibility criteria," ⁷

Initially, UGAFODE managers were uncertain on whether Refugee IDs were acceptable as KYC-compliant documentation of personal identity. This was not a policy issue but rather a procedural uncertainty, as the UGAFODE Group lending policy allowed for "Identification: Have some form of identification (passport, social security, driver's license, business permit, local council identification card, others)." These policy alternatives to the national Ugandan ID had not been communicated sufficiently clearly within UGAFODE, however, and management provided guidance to clarify that the Refugee ID was acceptable for KYC purposes.

- In the MIS, the client registration page has a dropdown menu of types of ID and ID number. The dropdown menu for "type of ID" included 'national ID', national social security fund (NSSF) certificate, VAT certificate (for enterprises), taxpayer identification number (TIN), financial card, business license number, security services ID card, and "passport." Refugees without a passport would therefore be rejected in the UGAFODE MIS. ICT department staff were asked to add Refugee ID to the 'Types of ID' available in drop-down menu;
- Given that many refugees in Uganda have had to wait up to 3 years for their Refugee ID to be issued, UGAFODE could have added national IDs from all four EAC States and OPM Asylum Seeker Attestation letters, as well as valid passports from any country in conjunction with a valid visa/residence permit or a work permit to their list of acceptable personal identification

documents and proof of legal residency in Uganda, but this was deemed too risky during the pilot phase;

- If refugees have a SIM card in their own name, they are in effect already verified due to the requirements for MNOs to only activate SIM cards for refugees with a valid Refugee ID or Attestation letter. Thus, UGAFODE could have added SIM card in own name to their list of acceptable alternative personal IDs.

UGAFODE Microfinance Limited (MDI)
We Listen we care

Notice of Updating Customer information

UGAFODE Microfinance Limited (MDI) hereby notifies all its customers to come and update their account information. This exercise will take place from **1st September to 31st October, 2019.**

Visit any of our branches with;

- **A National Identity Card for Ugandans**
- **A Refugee Identity Card for Refugees**
- **A copy of the Passport and a Resident Permit for Non Ugandans**

You are hereby requested to cooperate so as to serve you better

For more information call Toll Free: **0800223900**

MANAGEMENT

UGAFODE's inclusive notice to customers on the need to present IDs for account verification

⁷ The policy assumption that groups may have been established for 'other purposes' is not very valid in an environment where refugees are excluded from access to formal finance. UGAFODE upheld its right to screen and do Customer Due Diligence for all group members as well as its policy on only one family member per group. However, the onboarding of existing groups (e.g., VSLAs) would benefit both refugees and UGAFODE, as such groups would already have a level of financial literacy.

Refugee IDs and Attestation letters are authenticated against the OPM's Refugee Information Management System (RIMS), but Ugandan FSPs do not have electronic access to interrogate this database. In the beginning, UGAFODE as an MDI had to send email requests for verification to the OPM via a Tier I bank and the response often took days.

- Under the MoU signed with the OPM, this cumbersome process was streamlined, and the Channels department can now submit requests directly to the RIMS manager and receive replies much faster. When UGAFODE upgraded its core banking system in 2019, its mobile banking app was linked to the same payments aggregator as the OPM's, which significantly increased the speed of verifications, including for Refugee IDs which may have spelling mistakes.

Address verification was another concern among staff. In the past, UGAFODE had used a Local Council (LC-1) letter to onboard Ugandans without a national ID, but significant fraud with LC-1 letters made the Board stop this procedure.

UGAFODE management provided additional guidance and training for its staff on alternative address verification methods for urban and rural settlement refugee populations respectively. In addition to physical verification of residence by UGAFODE staff, the FSP decided that LC-1 letters could still be used to verify address and duration of stay for urban refugee clients. For refugees residing in settlements, there are equivalent structures of Refugee Welfare Councils (RWC1-3) and block-leaders, who report to the OPM Settlement Commander (LC-3 equivalent), and who are able to validate refugees' address and duration of stay,

In order to monitor the results of the pilot project and inform subsequent roll-out, UGAFODE needed to be able to track the refugee segment of the portfolio by product, branch, and performance (PaR and retention). This required MIS adjustments and additional staff training:

- The client registration page in the UGAFODE MIS included a field for 'country' (of origin). The page also has a 'nationality' field, but this field had been disabled. When the MIS was interrogated in August 2018, it returned a list of 700 customers from system start registered by 'country', the majority (646) from Kenya. Inquiring about current savings account holders, some 18 FBR savings accounts appeared, 10 of which were of Kenyans. By the disabled 'nationality' field, the system

inquiry returned only 13 accounts, including clients from The Bahamas, Fiji, Moldova, Madagascar, Pakistan, Yemen and Zimbabwe. Disabling the nationality field and not paying much attention to country of origin had resulted in inaccuracies;

- UGAFODE reactivated the "nationality" field and trained data entry staff on the importance of accurately capturing this information. While UGAFODE recognizes that nationality is not a useful indicator for potential customer performance, it is important for reporting, internal analysis and monitoring.

To avoid unpleasant surprises and an 'uneven playing field' for client segments, UGAFODE confirmed with its portfolio underwriter CIC that foreign-born clients would be covered in the credit-life insurance policy on the same terms and conditions as national clients.

UGAFODE issues a unique client ID number only to customers who open an ordinary/transactional savings account, and all revenue generated from subsequent services can be tracked by client ID. Other financial services (savings products, payments) accessed by the client can also be tracked. However, UGAFODE's NFS costs (staff time, materials, printing, transport/fuel) are not tracked to client IDs. These costs are captured and can be analysed in the system by loan officer or branch but are not linked to clients. UGAFODE therefore does not know its on-boarding ratio (account holders/NFS and marketing event participants) nor the total cost/profit per client.

- UGAFODE is considering whether it would be feasible to assign a client ID at first service encounter (whether non-financial or financial) with new potential clients and track this identifier through the client's journey with UGAFODE (opening savings account, joining UGAFODE Mobile, applying for loan, accessing NFS, etc.) to determine the total cost and compare it with the total revenue generated from credit products to determine the total profitability per client.

9. Human resource management and cultural changes

As of March 2018, UGAFODE had 275 staff, 70 (25 per cent) of them at the head office in Kampala. Partly as a fall-out from the governance crisis and partly due to poaching in the competitive industry, UGAFODE had a staff turn-over of 27 per cent in 2017, recruited a new Executive Director in 2018, and lost its Credit Manager in 2019. The Senior

Management Team (SMT) comprises the CEO, CFO (also overseeing Administration), the ED and the company secretary (Head of Legal department), as well as the heads of Credit, Risk, Business Growth and Development (BDG), Audit, ICT and Operations, from which the new department Channels has recently split. New projects, including serving refugees, rests with BDG.

In mid-2019, the SMT approved the recruitment of 10 refugees as marketing and sales interns (5 Congolese and 5 South Sudanese by October 2019), and as of March 2020, UGAFODE had 16 sales and marketing interns employed, who are all former refugee clients (see Section 6 on Marketing and Communication strategy). Job advertising was public as for all staff, and applicants from Rwanda, South Sudan and the DRC were interviewed, based on their CV. Most applicants were young and ICT savvy, but they often did not have the (documentation of) their educational/academic qualifications normally required by UGAFODE. This has also prevented UGAFODE from formally hiring the new recruits as e.g. loan officers, despite their excellent performance.

The new interns were trained in-house for 2 weeks, and shadowed experienced sales and marketing officers for another two weeks, supervised by BDG and the managers of the three urban branches where they were stationed. BDG also ensured that the new interns participated in staff meetings, and meetings with and presentations to external stakeholders to ensure they were informed about the entire UGAFODE strategy. Overcoming language barriers, the interns are able to establish a higher level of trust with the new client segments faster than Ugandans. Being former clients, they can speak from personal experience, which further builds trust.

- UGAFODE considers that the recruitment of these new staff significantly impacted the success of the pilot project. The FSP is currently looking for ways to provide sponsorships for at least three interns to enable them to obtain the academic diploma necessary for them to be hired as loan officers.

The GAMF grant for the mini branch in Nakivale financed the establishment minus the staff costs, which was absorbed by UGAFODE. The Human Resources department advertised internally and externally for the Nakivale positions, which initially included a branch manager, 2 banking officers (for savings), 2 loan officers (appraising both group and individual loans), a teller and 3 sales and marketing staff, the latter all refugees from the settlement. Recruitment of core staff was difficult, as the accommodation options and amenities in the settlement are very basic.

- UGAFODE appointed a former supervisor as Branch Manager, and added a 'hardship allowance' to the salary package for staff to offset these challenges;
- Due to the huge demand in Nakivale, there are plans already at the end of month 1 to increase the number of sales staff and loan officers.

The ILO would like to thank Lene M.P. Hansen for documenting this experience as well as UGAFODE's management and staff for sharing their inputs, experiences and views.

All images in this report are provided by UGAFODE.

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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