
Microfinance Q & A

1. Who are typically clients of microfinance institutions (MFIs)?

The typical microfinance clients are low-income persons, predominantly women, who do not have access to formal financial institutions. They are self-employed, often household-based entrepreneurs engaged in small businesses.

2. What is the present role of microfinance in Uganda?

Microfinance has been internationally recognized for its contribution to the economic and social development of the poor in Uganda. The government of Uganda believes microfinance is a key to private-sector development and has taken measures to create what is known as an "enabling environment" for microfinance consumers and suppliers in Uganda. In August 2007, the 3rd Annual Microfinance Summit was held in Kampala, Uganda with 500 delegates from 41 countries.

3. What percentage of the population in Uganda could benefit from microfinance?

Out of a total pop. of 31 million, 62% of the population is not served by any financial institution. 5% of the total pop. are presently being served by microfinance institutions. There are hundreds of thousands, if not millions, who could benefit from microfinance services in Uganda.

4. What interest rate is charged?

The interest rate must reflect the costs of delivering financial services to the poor, and must be sufficient to promote financial sustainability, as well as factoring in the inflation rate of the nation. The rate charged by an MFI will be far less than the percentage local money lenders charge.

5. What is the length of the loan, and when are payments made?

Typically, the length of the loan will be six months. Payments are made every two weeks.

6. What is used for collateral when loaning to the poor?

In group loans every member cross-guarantees the loan of the other members. No subsequent loans can be considered until the total group loan is repaid, therefore there is strong incentive for repayment. This results in what is known as "social collateral". Individual loans require some form of collateral and/or guarantors.

7. What is the expected repayment rate?

A repayment rate over 98% is not uncommon in microfinance institutions in Uganda. A group defaulting on a loan is

extremely rare.

8. Is microfinance just another form of charitable giving to the poor?

No. Microfinance offers a hand-up, not a hand-out. It is a completely different mentality than charitable giving, in that it is an employment-based solution to poverty. Charitable giving can be beneficial in certain situations for short-term alleviation of human suffering, however the facts prove that long-term charitable aid creates more problems than it solves. Because microfinance empowers the poor to help themselves, rather than creating dependency, many experts believe it represents the single most powerful development tool for addressing global poverty in history.

9. If one of the goals of microfinance is to become a self-sustaining organization, what is the role of grants and donor-funding?

Microfinance has as its aim to work with and empower the poor, therefore is a social institution, rather than strictly a profit-based institution. Donations and grants help create an initial facilitative infrastructure for the microfinance institution, particularly at the start-up level. Utilizing best-practices, sustainability should be reached within 36 months. After that, grants and donor-funding can be utilized to increase the scope and scale of outreach.

10. What do you do with the money when it is repaid?

This is the beauty of microfinance. The money remains in the loan portfolio of the microfinance institution and is re-used time and time again. Over a period of ten years, a loan could make a long-term impact on up to 20 families.

11. What is, and how do I calculate, the cost-per-life ratio for Uganda?

According to historical industry data, the loan amount needed to make a long-term impact in any given nation is the equivalent of the average annual income of that nation. That figure in America would be \$44,000. In Uganda that figure is \$340.00. If we make a loan of \$340.00 and it is repaid over a six month period, then that would mean we could loan that same \$340.00 twenty times over a period of ten years. If each individual loan represents a family impacted, and if we say the average family in Uganda is five people, then that would mean that twenty families, or 100 people are impacted. Therefore, if over a ten year period, one loan of \$340.00 is able to impact 100 Ugandan people, then the cost-per-life ratio in Uganda is \$3.40 per person! Can you imagine any other methodology that can even begin to show this kind of return on your investment?