

# Building Microfinance in Uganda

Contributed by Mike Croslow

The average annual income in Uganda is \$310.00, which means the average Ugandan earns less than \$1.00 per day. What can we do that will make a significant difference in the lives of the poor in Uganda? It is a proven fact that microfinance empowers people, and gives those living in poverty the opportunity to help themselves. We believe microfinance is the best way to make a long-term impact on poverty in Uganda and across East and Central Africa.

Microfinance provides a mechanism whereby the poor can receive small business loans to start or expand their own small businesses, and begin the process of moving out of poverty and into productivity and prosperity. The amazing thing is that the poor repay their loans!

"Microfinance creates and expands opportunities for the poor." Mike Croslow

How do we do this and do it successfully? Many well-intentioned people have dabbled in loaning money to the poor with mixed results. However, we must establish a Christian microfinance outreach that is more than a good missions project requiring perpetual funding to survive. I believe our goal must be to build something that not only successfully empowers the poor, but is designed to achieve self-sustainability. For this to happen, our operations must reflect a commitment to following established business principles that have been proven to work in the microfinance industry, which are called "best practices". In the start-up phase, we will be working closely with two leading microfinance consultants based in Uganda who have been instrumental in the strategic and operational planning of many successful microfinance programs in Africa. In order to impact as many lives as possible it is very important to achieve self-sustainability as quickly as possible. This is facilitated by donor-support in the critical start-up phase.

Over the years, successful microfinance operations have established certain guiding principles that enabled them to achieve long-term sustainability and expand their outreach, resulting in their effectively serving more people. We have incorporated these proven guiding principles into our start-up strategy in Uganda, which is as follows:

1. **Group Loans.** Beginning in an area where we have already established relationships, we conduct public meetings where we inform the local population of our intention to provide microfinance services in their community. This begins the process of mobilizing those interested in obtaining loans into borrower groups of five members. These borrower groups provide the structure in which we are able to enter into loan agreements with the group members.
2. **Small Amounts.** Initially, the loans are small. Even a loan of \$50.00 can have a huge impact and enable a village entrepreneur to start or expand his business.
3. **Group Guarantee.** Because the individuals we will be loaning money to have little to offer for collateral, the group as a whole will guarantee the loans. In other words, if you want a loan, you have to be a member of a group, and then each person cross-guarantees the loans of their fellow group members. This creates peer support, but also peer pressure and provides a powerful incentive to repay the loan.
4. **Short Terms.** The loans are for a short term, usually four to six months. One benefit of this is the ability to recycle the money into new loans more quickly.
5. **Frequent Payments.** Frequent payments help the borrowers from falling behind. The payments are actually made in bi-weekly group meetings in which all business is conducted in front of all group members. Microfinance repayments rates are traditionally over 95%.

6. Future Loans. Once the entire group has repaid their loan, they qualify for a larger loan. The potential for future loans helps motivate the entire group to repay on schedule, and the availability of more and larger loans enables them to grow their micro-enterprises.

An important part of our vision is to integrate spiritual transformation with the obvious physical and social benefits of microfinance. To qualify for a loan, the group members are required to come together on a regular basis to learn about the loan process and receive education in basic business skills. As we grow we will also provide additional classes dealing with important topics such as healthcare and other family-related issues. Because we are empowering our church members and their neighbors to move out of the bondage of poverty, we anticipate a high receptivity to these classes.

Microfinance has proved to be a powerful tool that expands and even creates opportunities, especially for women. Vail Croslow and Susan Okware, wife of one of our bishops, have already made plans to mobilize the women in our local church network into "vision" groups, and actually help them start or expand their small businesses to earn the money they so desperately need to support their families. We believe partnering with local churches will prove to be an effective way for our microfinance institution to impact entire communities, as well as strengthening and empowering the churches.

We will open our first branch office and begin microfinance services sometime in mid-2009. Mike Croslow will personally be on-site and oversee all operations in Uganda. Our long-term goal is to build a microfinance model in Uganda that we can duplicate in other developing nations with high levels of poverty.

By partnering with the poor, we can stop poverty from passing to the next generation!