

CENTENARY RURAL DEVELOPMENT BANK LTD (CERUDEB) - UGANDA

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This case study has been compiled by Caroline Pinder, Project Manager of EDIAIS, from documents provided by DFID and Centenary Rural Development Bank (CERUDEB), and one meeting with James MacDade in July 2001.

OVERVIEW

The Centenary Rural Development Bank Ltd. (CERUDEB) is a commercial bank that offers economically-disadvantaged Ugandans a full range of appropriate financial services including savings, credit and funds transfer services. CERUDEB serves over 250,000 Ugandan families, primarily in the rural areas of the country (83 % of loans are to rural inhabitants and 77 % of deposits), with a network of 16 branches throughout the country.

CERUDEB's target client groups include rural inhabitants, small-holder farmers, the economically-active poor and other disadvantaged groups, especially women. Their main reasons for using CERUDEB's financial services are the low barriers to entry including a minimum savings deposit balance of Ush 10,000 (US\$ 6) and a minimum loan amount of Ush 50,000 (US\$ 30). In addition to business loans, CERUDEB has instituted an innovative small-holder agricultural loan product. These credits are based on projected levels of agricultural production, have flexible repayment schedules and also take into account off-farm income.

A full impact study of CERUDEB's micro-enterprise loans was undertaken by HIVOS in June 1999. CERUDEB has acted on the recommendations contained in the HIVOS report, incorporating them into the organisation's new Business Plan for 2001-2005. This is evidence of the importance CERUDEB attaches to understanding the downstream socio-economic impact of their financial products; in particular, as a result of the HIVOS study, management is keen to understand how they can best address the needs of women clients.

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In addition to the HIVOS study, an evaluation of the small-holder agricultural loan product was undertaken in 1999 by MicroSave Africa, on behalf of DFID, who praised this initiative as one of the most innovative and successful credit products in East Africa.

CERUDEB management hope to learn from the Imp-Act programme the most appropriate indicators to use in future customer satisfaction surveys, and to build stakeholder/client perceptions into its routine MIS. In addition, it is holding focus group discussions with potential clients as part of its market research into new products.

CERUDEB is an example of a mainstream bank achieving both financial sustainability and targeting poor people. Obtaining the views of their client-stakeholders is seen as critical to achieving the right product, and clients views are obtained as part of routine market research and customer satisfaction surveys.

1 BACKGROUND

The Centenary Rural Development Bank Ltd. (CERUDEB) is a commercial bank that offers economically-disadvantaged Ugandans a full range of appropriate financial services including savings, credit and funds transfer services.

The origins of the Bank stem from an initiative of the Uganda National Council of Lay Apostolate in the early 1980's designed to promote the provision of a range of appropriate financial services to the rural population of Uganda. In 1983 the Centenary Rural Development Trust was registered as a financial institution and operations commenced in 1986. The Trust was transformed into a commercial bank in 1993. The Bank's current shareholders include: the Uganda Catholic Secretariat; the Catholic Dioceses of Uganda; the Development Finance Company of Uganda; Hivos-Tridos Fond; and SIDI, a French investment company.

Since 1993 the Bank has received considerable support from the donor community. Development partners who have funded various activities have included: Austrian Regional Bureau; the British Council; DFID; CGAP; CRS; DANIDA; the European Development Fund; FMO; the German Savings Bank Foundation; GTZ; MISEROR; UNCDF; USAID; and AFD. Currently CERUDEB receives technical assistance support from DFID; training funds from AFD; and support for agricultural lending activities from USAID.

2 OBJECTIVES AND ACTIVITIES

CERUDEB serves over 250,000 Ugandan families, primarily in the rural areas of the country (83 % of loans are to rural inhabitants and 77 % of deposits), with a network of 16 branches throughout the country.

CERUDEB's Mission is:

"To provide appropriate financial services, especially microfinance, to all people in Uganda, particularly in rural areas and in accordance with the law"

The Bank's strategy for achievement of this Mission, as stated in their Business Plan for 2001-2005, is:

"In order to build on the successes realised to date, and to enable the Bank to better meet the financial service needs of the economically-active poor, rural inhabitants and other disadvantaged groups in Uganda, the Bank faces several challenges and opportunities during the Business Plan period 2001-2005. These include:

- Maintaining a focus on serving the poor and rural inhabitants
- Increased use and integration of new technologies to increase efficiency and reduce operational costs, while enhancing our ability to make financial services available to our target client groups
- Rigorous control of operational expenses

- Developing new services and products that meet the financial needs of our core client groups, while ensuring acceptable levels of profitability for the Bank, and
- Continued attention at all levels of the Bank to ensure the highest possible asset quality levels for existing and new loan products

As at May 31, 2001, CERUDEB had 250,585 deposit accounts with a global value of Ush 58.6 billion (US\$ 34 million). The Bank has also extended over 18,000 loans to small-businesses with a value of over Ush 20.1 billion (US\$ 11 million). With respect to financial performance, the results for the full-year 2000 were the most successful in Centenary's history, with profits of Ush 3.07 billion (US\$ 1.8 million), an increase of 115 % from year-earlier levels. Total assets for year-end 2000 were Ush. 63.5 billion (US\$ 36.3 million).

CERUDEB's target client groups include rural inhabitants, small-holder farmers, the economically-active poor and other disadvantaged groups, especially women. Their main reasons for using CERUDEB's financial services are the low barriers to entry including a minimum savings deposit balance of Ush 10,000 (US\$ 6) and a minimum loan amount of Ush 50,000 (US\$ 30). While many NGO-based microfinance institutions (MFIs) may offer similar small credit amounts, in general they are prohibited by Ugandan banking legislation from collecting voluntary savings deposits; also their current accounts often do not extend credit for agricultural purposes, nor do they possess the financial strength or branch network of Centenary.

In addition to business loans, CERUDEB has instituted an innovative small-holder agricultural loan product. These credits are based on projected levels of agricultural production, have flexible repayment schedules and also take into account off-farm income. These loans, which average Ush 500,000 (US\$300) have been very successful (arrears for these loans on a one day past due basis were 2.3 % as at 31 December 2000, compared to an overall arrears rate for the Bank as a whole of 2.97 % for the same reporting date).

The Bank also makes larger loans to commercial farmers, which has also experienced a low arrears rate and successful market acceptance.

3 APPROACH TO IMPACT ASSESSMENT

CERUDEB is a member of the East African group of Imp-Act¹ partners (see www.imp-act.org), and is keen to understand its customers needs and business operations. CERUDEB regards impact assessment as a market research tool, and intends continuing to conduct client satisfaction surveys which will contribute to policy making about products and service delivery.

A full impact study of CERUDEB's micro-enterprise loans was undertaken by HIVOS in June 1999, the conclusions and recommendations of which are shown in the table below.

¹ Imp-Act is a global programme sponsored by Ford Foundation to assess the contribution made by micro-finance institutions to poverty alleviation. See www.imp-act.org.uk, or contact Anton Simanowitz at IDS, Sussex University, for more information

FROM REPORT ON "MICRO ENTERPRISE IMPACT ASSESSMENT" CARRIED OUT FOR CERUDEB BY HIVOS* IN JUNE 1999

1 CONCLUSIONS

- CERUDEB has performed well in servicing the micro-enterprise sector and its credit provision has a positive impact on its clients.
- CERUDEB does reach its target group: the 'economically active poor'. However, the 'poor' of course is a relative concept - therefore it might be more appropriate to say that CERUDEB reaches an echelon of micro-entrepreneurs (both poor and less poor) who have no access to regular financial institutions. As the bank's reputation and procedures become more familiar and the market becomes further penetrated, it is likely relatively more poor will be reached.
- The average client is in his thirties, has at least completed primary education and has been in business nearly six years. The average client's household counts eight members and his business is likely to be a one room rented shop. The majority of clients can be categorised as rural based, even though a lot of the small businesses are located in urban or trading centres. The target group in general does not have access to (formal) financial services elsewhere. Nationwide, 68% of CERUDEB 's clients are recurrent customers.
- CERUDEB to some extent must make a trade-off between two conflicting goals: 1) bank viability and sustainability and 2) serving the 'economically active poor'.
- There are no indications that CERUDEB might move away from the current clientele or loan sizes. There is a strong commitment to the economically active poor and small deposits and loan sizes at all levels in the organisation. The delivery mechanisms are specifically developed to cater for this target group and these products. Services are delivered in a very cost-effective way - no 'extra' costs are involved in serving these groups. The smaller loan sizes (under Ush. 500,0000) are relatively expensive to administer, but this is 'cross subsidised' by the larger loan sizes.
- The demand is high, and not likely to be a constraining factor for CERUDEB's expansion. Because of the huge unmet demand for loans, many eligible potential clients do not (yet) receive loans. CERUDEB has chosen to opt for ensuring bank viability and sustainability in its loan procedures. The major bottleneck for the economically active poor is that there is too much demand and insufficient financial institutional capability to provide a much larger supply.
- Although in principle CERUDEB does not discriminate between men and women, only 22% of borrowers are female (and 40-50% of depositors). The minimum requirements that have to be fulfilled in order to qualify for a loan, form a constraining factor for women (especially the collateral requirement).
- CERUDEB has no potentially threatening competition and operates in a market niche. It is one of three banks that have an extensive nation-wide branch network. However the

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other two banks (UCB and Co-Operative Bank) cater for a much higher segment of the market and are presently in a state of turmoil (Co-Operative Bank was closed down by the Bank of Uganda in May 1999). Micro Finance Institutions are generally much smaller, cater for a lower income segment of the market than CERUDEB and have the disadvantage that they cannot take on savings.

- The vast majority of loan amount is spent on the business, especially to buy stock or materials. However, sometimes parts of the loan are also used to cover household or medical expenses, school fees etc.
- There is overwhelming statistically significant evidence that business owners in Mityana and Arua have experienced overall positive impacts related to their being clients of CERUDEB's micro-enterprise credit services. These positive impacts include the specific impact factors of favourable changes in the amount of business, income from business, change in enterprise assets and change in household assets. These all increase (more than in the case of non-clients) over successive loans.
- Women clients have significantly greater positive overall and specific impacts relative to comparable female non-clients than do male clients over comparable male non-clients.
- It may be implied that these positive impacts have positive ramifications on other social and economic impacts.
- Locational differences exist between Mityana and Arua, which reflect the very different social and physical geography and the relative newness of Arua branch. Arua clients are doing less well than Mityana clients, as measured against the Composite Impact indicators, but nonetheless they are still indicating positive change overall.
- Clients are highly satisfied with CERUDEB's savings and credit services, an indicator of a financial institution that is conscientious about the needs of its clients.

2 RECOMMENDATIONS

- The main recommendation is for CERUDEB to continue its current program of careful expansion of small deposit taking and micro-enterprise credit provision. Sensitisation campaigns might be successful instruments to attract more eligible customers to existing branches.
- A further recommendation is that CERUDEB become more aggressive in lending to women, and explore progressive modifications to evaluating women's eligibility for loans.
- Some discrepancy was observed between CERUDEB's policies and procedures (e.g. concerning minimum requirements for loan eligibility) as advocated at national (head office) level and the interpretation of some of these policies and procedures at branch level. Often this meant a 'stricter' interpretation than required. It is therefore recommended that CERUDEB communicates its policies, procedures and criteria clearly to the branches.
- Although CERUDEB currently does not have any competition in its market, some micro-

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finance programmes are rapidly expanding and might become potential competitors in the future. It is recommended that CERUDEB start/expand information campaigns (in the local languages) informing potential customers of the advantages of its services.

- CERUDEB's programme of computerisation has clearly had positive operational effects. CERUDEB should aggressively explore the options, when they become available, of computer networking their branches. This would both facilitate and quicken the loan process and also provide the Kampala office with more extensive and current records.
- The records on clients' income, household and enterprise assets, and sales, as collected at branch level for each loan assessment procedure, contain a wealth of information. It is recommended that CERUDEB explores options to develop the computer networking system in such a way that this information might be used for more regular (in-house) impact and client satisfaction assessments.

** Report by G Galle, M Duursma and L Eturu, for HIVOS*

The HIVOS report was based on a customer survey and focus group discussions.

CERUDEB has acted on the recommendations contained in the HIVOS report, incorporating them into the organisation's new Business Plan for 2001-2005. This is evidence of the importance CERUDEB attaches to understanding the downstream socio-economic impact of their financial products; in particular, as a result of the HIVOS study, management is keen to understand how they can best address the needs of women clients.

In addition to the HIVOS study, an evaluation of the small-holder agricultural loan product was undertaken in 1999 by MicroSave Africa, on behalf of DFID, who praised this initiative as one of the most innovative and successful credit products in East Africa. MicroSave Africa is the East Africa regional advisor-organisation responsible for implementation of the Imp-Act programme. In its Business Plan CERUDEB has taken note of other recommendations made by MicroSave Africa²; for example, the Business Plan notes that the ability of savings systems to meet human needs fall into three categories: life cycle needs, emergencies and opportunities. In response to this analysis CERUDEB states its commitment to provide an appropriate service to its customers:

"During the Business Plan period efforts will be made to further enhance the security and convenience of savings deposit services through the introduction of ATMs and other advanced technologies, such as the use of fingerprint technology, designed to increase convenience for our customers, reduce operational costs, and reduce the incidence of fraud. We will also seek support from our development partners to raise the public's awareness about the desirability of establishing and correctly maintaining savings accounts and credit relationships."

² Stuart Rutherford for MicroSave Africa, quoted in CERUDEB's Business Plan 2001-2005

And with regard to credit methodologies and products:

"New products will be selectively developed after market research and internal return calculations have been made, and the appropriate credit policies and procedures developed."

Again, in response to the need to meet the twin challenge of achieving financial sustainability whilst also meeting the needs for small loans by poor people, CERUDEB, as part of its improved management information system (MIS) will be introducing "hand-held technologies which have the potential to increase the efficiency and accuracy of our credit operations, as well as providing a cost-effective means to capture important client-level information."

Customer Satisfaction Surveys at Branch Level:

CERUDEB will be introducing a bonus system for Branch Managers based on the results of customer satisfaction surveys which will be carried out on an ongoing basis at all branches. The aim is to raise awareness amongst staff of the importance of meeting clients' needs and demands, encourage them to learn from their clients and to respond accordingly with changes in local policy and delivery mechanisms. Branch managers will, in turn, be encouraged to share with each other their experience of customers needs and responses to changes in service delivery. CERUDEB management hope to learn from the Imp-Act programme the most appropriate indicators to use in these customer monitoring activities.

In addition to the ongoing customer satisfaction surveys, and the collection of client data through the Financial/MIS, CERUDEB management have recently started to hold focus groups to present ideas for new products, and to gain existing and potential clients' reactions to these. For example it has recently held discussions around the introduction of housing improvement loans, and plans to do more focus discussions around insurance products, in particular drought insurance for smallholders.

4 CONCLUSION

CERUDEB sees impact assessment as an ongoing and internal form of market research. Although in the past it has focused on financial information and sustainability issues, in it's new Business Plan it recognises the importance of understanding customers' needs and business environment, and it intends to build stakeholder/client perceptions into its routine MIS.

5 ADDITIONAL DOCUMENTS AVAILABLE FROM CERUDEB:

- Summary of methodology, indicators and questionnaire used by HIVOS
- Customer satisfaction survey form used in CERUDEB branches