AN EXPLORATORY EVALUATION OF THE BRIGHT KIDS ENTERPRISES MICROLOAN PROGRAM

Lessons Learned for Microloan Programs' Future Success in Entebbe

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Program Background

Bright Kids Enterprises (BKE) has been operating its micro-finance program since 2014. Housed out of Bright Kids Uganda Children's Home founded by Madam Victoria Nalongo Namusisi, it began its initiative in Uganda 's central Entebbe/Kisubi region, providing loans to local businesses, primarily to poor women operating small shops, selling crafts, and running restaurants. Its goal was to provide financial assistance to individuals by providing easier access to financial services in return for clear business planning and a mutually reached repayment plan.

However, BKE in the Entebbe/Kisubi region has experienced numerous cases of inconsistent repayment and widespread default. BKE has attempted to address this using a variety of strategies. The first issue that was addressed was infrequent or inadequate contact with participants to remind them of their impending payments and troubleshoot business hardships faced by new business owners. Up to this point, Madam Victoria was herself acting as the loan coordinator among her many other responsibilities. A separate coordinator was hired to work full time at the BKE facility to track payments, contact participants, visit them at their place of business, and offer solutions to challenges they faced. Other strategies were employed by the coordinator to boost successful participation and cultivate of positive relationships with borrowers such as a monthly financial incentive, giving money to those who kept the best financial records and consistently monitored their business's progress. This temporarily yielded increase in repayment and regular attendance at meetings.

In 2015, BKE brought its desire to empower impoverished communities to the northern village of Barlonyo. Barlonyo lies almost in the center of where much of Uganda's civil unrest has taken place and remains a place of refuge for those displaced by the armed conflict. The model being utilized in Barlonyo, however, is fundamentally different from the BKE group. It follows the Grameen Bank model, a group centered micro financing system that depends on group liability instead of the offering of collateral by the individual. Its success relies upon the social pressure and security of joint financial responsibility, as well as prioritizing close, in person service to loan recipients. Following this group model, as opposed to the individual model implemented in Entebbe, as well as providing financial literacy training, has sprouted extremely positive and consistent results.

Later that year, there was a disruption in the operation of the program which caused repayment rates to fall and default rates to increase. It was discovered that there were discrepancies in program repayment records, account balances, and participant complaints. The coordinator was suspended and an investigation was conducted to ascertain the sources. The investigation revealed that the coordinator was falsifying repayment and financial records, with the help of the accountant at that time, to take funds for personal gain. Both employees were dismissed but were not replaced immediately due to capacity and hiring practices. This has led to disruption of valid financial records, inconsistent program administration, and a reluctant trust in BKE from the participants, all difficult challenges that have contributed to lower repayment rates and higher default rates. Since then, a new accountant has been hired and a trusted employee of Madam Victoria has been acting as the interim program coordinator. New practices have been put in place to prevent further discrepancies and BKE has engaged in other activities to rebuild the program.

It is important to note that some former BKE borrowers have left the program to participate in a group lending program, similar to that of Barlonyo, called Heaven's Family, which was funded externally by an American philanthropic group. Although these borrowers don't belong to the BKE group, they still participate in monthly meetings with BKE participants and interact with BKE staff. These borrowers were interviewed for this evaluation but only regarding their participation in the BKE program.

1. Purpose of the Evaluation

ASA Social Funds has applied for Rotary Funds to begin a new program using the Grameen Bank model used in Barlonyo. It must be determined whether the model and procedures from Barlonyo can be replicated to yield similar results in Entebbe. Despite differences in both location and circumstance, it is worth ascertaining which aspect of the model (be it administrative, social, or financial) in the north can help build a more sustainable and lucrative enterprise for its southern counterpart.

In terms of evaluating the administrative capacity of the program, the main focus of the project is to assess the activities surrounding risk reduction and recovery strategies. Risk reduction practices are intended to determine which borrowers are prime candidates to receive funds and have the skills to generate a sustainable profit and repay the funds. Recovery strategies are those that lower transaction costs and facilitate regular repayment of funds. The first challenge is to determine which strategies BKE staff are actively engaging in and whether they are being implemented effectively. After this, the task is to determine if the administrative procedures in place are sufficient enough to support such strategies. For example, do the records being kept document interactions in a detailed enough way that explain lack of payment or loan default? Do staff members have all the necessary information from borrowers to accurately determine further action? How are defaulted funds approached? Lastly, the task is to determine if the program as it exists meets the needs of participants so that the transaction costs are low enough to facilitate consistent repayment of the funds. Are repayment procedures and terms clear enough for participants to understand? What do communication procedures look like for participants who cannot make payments? How do relationships with staff affect the nature of payment behaviors?

One of the goals of operating a microcredit program is to generate income for the organization which facilitates it. BKE's borrowers are charged a flat twelve percent interest rate which is put in a separate account to help supplement the expenses of BKE, including the purchase of supplies, repairs to the facility, and, in Barlonyo, the funding of program implementers' salaries. It is, therefore, necessary to decide if the business model currently being employed by this program is substantial enough to generate the income necessary to cover these expenses. As is the case for several borrower accounts, the failure to recover funds consistently does not allow for the recovery of interest, which is then not available to help fund operational expenses. It is, therefore, in the best interest to make sure that the program is being implemented not only in a functional way, but one that is financially salient. Such an assessment generates the following questions: How much of the current operational costs are supported by interest recovery from the program? What recovery threshold is necessary to meet these goals? Do current record keeping practices provide enough information to determine this?

Therefore, our evaluation operates on the following evaluation questions that attempt to characterize the provision, utilization, and coverage of the financial and programmatic services provided by the BKE Microloan Program:

1. *Is the program being implemented as intended and with quality?*
2. *Are services being utilized by staff and participants?*
3. *Are services being utilized successfully by the intended population?*
4. *Is the current business model financially salient enough to support the needs of the organization?*

The results of this evaluation are two fold: to provide recommendations for a new Grameen-Bank-Model-styled program to begin in the south, ensuring its success in the south, and to provide separate recommendations for the existing BKE program in the south, boosting its repayment rates and lowering default rates.

2. Methodology

Over the course of the first phase, team members worked to design instruments and to collect, analyze, and report data in forms specified by the deliverables. The team met weekly with Madam Namusisi for updates on the progress of data collection, consultation for direction of the project, and planning for the coming week of data collection.

Data collection took place using both analysis of existing program records and semi-structured interviews. Existing program records were most important for the financial evaluation of the program, as they hold important information about the repayment rates of participants, size and scope of the program as a whole, and important financial information for identifying business and financial metrics. The financial evaluation of the program also look over all the BKE financial statements, including balance sheet, income statement, and statement of cash flow to determine the total and/or target expenses the microfinance program is expected to cover and potential profit/loss contribution to the organization. Semi-structured interviews were then used to gather qualitative data regarding the structure and implementation of the program. It was important that interviews were given structure in order to cover all relevant topics of the project and last an appropriate length of time. It was then crucial that participants be given the freedom to express any and all thoughts on the program, including unforeseen factors and effects. Participants were asked to come to the BKE facility when possible, but the majority of interviews were conducted by traveling to the homes and places of businesses of participants. Madam Namusisi and Ms. Janet Shapiri, the acting Microloan Coordinator, were instrumental in the scheduling and interviewing process, offering guidance and insight when structuring questions and when interacting with participants. Although some participants spoke competent English, the majority of interviews were conducted in Luganda. Ms. Shapiri and Ms. Immaculate Nalubega acted as translators for the interviews. It is important to note that their familiarity and existing relationships with participants were crucial to participants feeling comfortable speaking with us. Their involvement as translators did pose some threat to validity, especially when asking questions about the role and effectiveness of program coordinator. Because Ms. Shapiri was asking questions on our behalf and translating answers, participants may have felt reluctant to answer truthfully when giving negative feedback.

Both purposive and snowball sampling were used to find participants for interviews. In order to determine which participants were most likely to give insight into the project, the team compiled a document containing the names of borrowers who had not made payments in at least six months and their demographic/programmatic information. From this list, an average loan size of 444,000 UGX and an acceptable range (one standard deviation) of 130,000 - 750,000 UGX was identified from which to choose at least 4-5 ideal candidates to interview for each identified population. The populations are: successful Barlonyo borrowers, successful Entebbe (Community) borrowers, defaulting Entebbe (Community) borrowers with a special emphasis on obtaining as much information as possible on the experience of borrowers who are part of hidden communities, such as survivors of acid attacks, survivors of gender based violence, and parents of children with disabilities.

The team also conducted interviews with BKE staff and other program implementers in Barlonyo to determine how the program functions in its present form. Additionally, one interview with Mr. Patrice Ovungirwoth was conducted. Mr. Ovungirwoth operates as an independent contractor with the Uganda Institute of Banking and Financial Services. He offered his thoughts about the operations of successful microloan programs he has observed from his ten years of experience in the industry, with special expertise in both commercial and microfinance and agricultural loans. These perspectives gave a more well-rounded outlook on functioning microfinance institutions.

During the second phase, data was analyzed using interview transcription, coding, and constant comparison. This method allowed for the identification of common effects surrounding the program and its operation, support structures, and effectiveness.

3. Summary of Operation

In an effort to understand the strengths and weaknesses of the program as it operates, it is helpful to have a comprehensive account of current operations. This explanation was captured by interviewing participants as well as program stakeholders, implementers, and funders. By comparing and contrasting the differences between the Entebbe area and Barlonyo program, it is much easier to understand differences influenced by demographics and those influenced by program operation.

3.1 Summary of Operation – Entebbe

In order to gain a well-rounded understanding of the state of operations of the Microloans Program in Entebbe, it is important to understand the processes by which it serves its community--primarily in servicing loans. In doing so, one can better understand the roles of its administrators and their relationship with their clients, as well as how indicative this process is in comprehending the ways in which the program meets the needs of its clients and where it falters. It is a process which, since the program's inception, has taken many forms. At its core, however, has been a program coordinator. The coordinator acts, first and foremost, as the primary liaison between the administrative body and the clients. As it currently stands, the BKE Micro-Loan program does not have an official program coordinator fulfilling the role. Instead, it has an interim-coordinator in place. Thus, the process of acquiring a loan has been explained by the general BKE staff (program implementers), and more specifically, by the interim-program coordinator.

In order for a potential borrower to acquire a loan, the process, as explained by the current acting-program coordinator, goes as follows:

First, an applicant must come with his or her business proposal, a written understanding of their current business' status and prospects. If they are applying for a loan to start a business, they must give a similar proposal detailing their intent for the business and, similar to a current business owner, how they plan to use the funds provided by BKE for their endeavor. After reviewing the applicant's proposal, the program coordinator must verify the validity of the applicant's claims. If the applicant has a running business, the coordinator inspects the business' physical location, checking the business' records (should they have them) and taking photographs of the place, to store as proof later on in the applicant's file. If the applicant is seeking a loan to start their business, as has happened in the past, the program coordinator then must establish whether the plans for the loan and for the business can be substantiated through an interview and, potentially, visiting the desired business location. In the past, such an inquiry has usually been done by the program's founder, Victoria Nalongo Namusisi. Once the business or business' potential meets the approval of the program founder or coordinator, the applicant is then ushered to sign a contract, where they must provide official identification (most commonly a national I.D. card). The contract between the borrower and BKE outlines an agreement detailing the amount to be disbursed, the interest rate (a one-time charge of 12%), the repayment schedule (usually at a monthly rate), and repayment time limit (12 months). The contract is explained to the applicant in the language which best suits them (either English or the local language, Luganda), as they sign the contract for the loan in English, a common practice in the region. Upon signing for the loan, it is then disbursed to the borrower by the organization's accountant, who then tracks repayment until its completion. The accountant hands out a receipt for each transaction between him or her and the borrower, be that at the initial disbursement or at each payment made by the borrower.

From then on, each payment, if in cash, is either made to the program coordinator during his or her's visit to the business or is made directly to the accountant at the BKE headquarters. If the borrower is not able to make a payment to the program coordinator or able to make a payment at the BKE accounting office, then they are free to make a payment using mobile money. Through the use of a cell phone, a borrower may wire money to the program founder, Madam Namusisi, who is the sole manager of the program's mobile money account. This is to deter the temptation for staff members manning the program to use the mobile account for personal reasons. Once Madam Namusisi receives the payment, she informs the head accountant, who takes note of it and forms a receipt to be given to the borrower at their next meeting.

In addition, Bright Kids Uganda provides certain services to borrowers, both to ensure loan repayment and to foster good relations between their borrowers and BKE staff. The service most requested and encouraged by borrowers is visitation by the program coordinator. The program coordinator visits the borrowers, usually monthly, at their place of business to check up on the business' financial and operational standing. At most, they help make informed recommendations on how business-owners can improve their operations and reach more customers. At the very least, they simply check to verify that the business still stands and that the borrower is working to improve their current standing, such as maintaining detailed records of expenses and income. If the program coordinator is unable to pay a visit to the borrower, then he or she makes sure to telephone the borrower to the same end.

One other crucial service used to maintain positive relationships with borrowers is a monthly meeting, set on the first Saturday of each month. This meeting gives a chance for borrowers to meet with the program founder and the program coordinator, if he or she has not been able to visit the borrower's business. It also provides an opportunity for the borrowers to pay toward their loan. If the borrower is unable to pay their loan at the meeting or during that month at all, they are encouraged to notify the program coordinator at the meeting or in another more convenient method (by telephone for example). If the accountant makes note that the borrower has not made a payment, the program coordinator is notified and reaches out to the borrower, usually by telephone, to inquire about the issue. If the borrower misses multiple consecutive payments, the program coordinator will first telephone again and then pay the borrower a visit to further the inquiry.

Furthermore, the monthly meeting allows for community building. As most of the borrowers reside near one another in Entebbe (with few in parts of Kampala), they are given the opportunity to meet with each other, promote their business, sell their goods, and for those few who have taken out group loans, it allows for them to congregate with their fellow group members.

These processes and services show a steady improvement in the management of the loan program. While in the beginning, much of the program coordinator's responsibilities (processing applications, visiting program participants, etc.) have been handled by the program's founder, there is a forming pattern of a shift in delegation. Since the program's founder is also the founder of the umbrella non-profit organization, Bright Kids Uganda, under which the loan program lies, having a micro loans program coordinator, even if simply in an interim position, has proven to benefit the borrowers and helped differentiate certain roles assigned to particular staff, such as the management of the application process, which is now assigned to the program coordinator.

3.2 Summary of Operation – Barlonyo

The Barlonyo Microloan program began in 2015 under the vision of Bright Kids Uganda's founder, Victoria Nalongo Namusisi. It was designed to mirror the *Grameen Bank solidarity model* in which participants borrow as a group and rely on each other to pay back their loans. The purpose of the program is to provide economic development to a community devastated by armed conflict and civil war. Much like its Entebbe counterpart, the Barlonyo Microloan program has a local program coordinator who facilitates monthly meetings and collaborates with Madam Namusisi directly about loan participants and loan repayment. The process to apply and receive a loan, however, is quite different in Barlonyo.

The process for acquiring a loan through the Barlonyo microloan program is as follows: the current participants first speak to Madam Namusisi about their current business or their business plan. Most Barlonyo participants do not have a formal education and, therefore, cannot read or write. Consequently, most loan contracts are done verbally with Madam Namusisi. Once she has had a close examination of their business and the needs within the community, and after they have agreed to participating in the group lending model, she offers them a loan. Once Madam Namusisi has found participants willing to join in the group loan program, she places the borrowers in groups of five. Before any loans are disbursed each participant must complete a business training given by BKE staff which covers basic accounting and finance, low-cost marketing, and goal setting. Once training has been done and each member of the group passes the training, Madam Victoria distributes the loans to the group.

As mentioned above, each member of the group has to receive business training from a BKE staff member in order to receive a loan. The business training is quite extensive covering issues such as record-keeping, financial literacy, critical thinking skills, problem solving skills, and marketing strategies. They are also required to do a Strengths, Weaknesses, Opportunities, and Threats (SWOT) analysis in order to adjust business strategies. The training is a two-day program, with initial training focusing on financial literacy. The program coordinator defines revenue, expense, profit and loss for the participants, then provides examples based on the participants own businesses. Next the training goes into marketing strategies. The coordinator explains how to find their businesses target market, how to understand their competition and how to compete. In addition, the training asks each participant to write out their SMART (Specific, Measurable, Achievable, Realistic, Timely) goals and teaches them low cost marketing strategies to achieve these goals. Both days consist of the participants running through these strategies to produce an assessment for the business. At the end of the training each participant is asked to create a SWOT analysis for their business. Once the training has been completed and each member of the group has a training certificate, the group is given a loan for their businesses. The trainings are implemented by the local program coordinator in Barlonyo in the local language, Luo, to ensure every participant has the same level of training. The participants, despite the lack of a formal education, manage not only to retain the knowledge from the training beyond its two-day period (many without taking notes), but apply it successfully to their businesses. At this time, trainings are only implemented when a new participant is added, thus not providing consistent training or reminders to many of the participants who may need them to stay up to date on record-keeping and financial literacy.

At this moment, the Barlonyo program consists of twenty participants separated into four groups of five. The groups each have their own dynamic, but they all work together with the local program coordinator. Each group has five members with three members being elected to take the position of Chairperson, Secretary and Treasurer. The chairperson runs the meetings, sets the dates for meetings, and assigns a time for payment collection. The number of meetings each group has is different and is set by the group depending on their schedules, how they like to run their meetings, and what has been going on in their businesses during the month. The secretary takes minutes of the meetings. The secretary also takes minutes of any emergency meetings the group might have in addition to keeping records of all missed and covered payments. The treasurer for each group collects the money for the loan repayment during their last group meeting prior to the program's monthly meeting and turns it into the coordinator at the monthly program meeting. While each group has the same leadership structure, their group meetings are run quite differently. The groups have different methods for dealing with internal conflict, a different number of meetings per month, and different methods with dealing with repayment issues. While the groups run themselves differently, the group dynamics are quite similar throughout. Each of the groups defined their dynamics as having each other to encourage, advise, and rely on to better themselves and their businesses. Unless there is a problem which the group cannot find a solution for on their own, each group tends to try to fix their own issues before involving the coordinator.

Within a group lending program, loan repayment can become a big issue for the groups as they rely on each other in order to receive new loans. Each group is responsible for devising their own strategy for dealing with repayment issues. All four groups, while different, have created a collateral system to offset the gaps in repayment. All groups came to the conclusion that if a member does not have the funds for repayment, they will first discuss as a group what the issue might be, how they can cover the payment, and what appropriate consequences for the defaulting member might be. One group, for example, has a three strikes rule. If a member misses the first payment, the group will cover it, but the member is warned. A second missed payment results in collateral being taken from their house. The collateral is of the same value of what they owe and the group either sells it or holds on to it until the group member makes up the missed payment. In addition to collateral being taken the participant is also warned that if they miss a third payment they will be dismissed from the group. A third missed payment results in collateral being taken once again following the same manner and that member being pushed out of the group. One group takes collateral from the participant's home which matches the same value of their payment and they will either sell it or hold on to it until the member pays them back. While each group has a method for dealing with members who cannot pay, no group has had issue with repayment. If a major group issue was to occur, the local program coordinator would be brought into the group discussion.

Much like the Entebbe program, the Barlonyo program has a microloan coordinator who collects money, visits each group's meetings when invited, and handles any issues that might arise throughout the month or during payment collection. The repayment of loans is done every month, typically on the last day of the month. The coordinator sets a date and time to meet with the groups in order to collect their payments, handle any issues that the groups might have, and give out new loans with the help of the program founder, Madam Namusisi, when she is present. If Madam Namusisi is unable to visit Barlonyo for the month, the payments remain with the coordinator and disbursement of new loans are suspended until Madam Namusisi's return. Madam Namusisi tends to visit to disburse new loans every few months when she has the time and the funds to travel to Barlonyo. Despite the lack of consistent loan funds, the groups continue to have their meetings every month to encourage each other in their businesses and to provide advice to any business owner encountering difficulties.

Due to the services and funds provided by the BKE microloan program, the Barlonyo groups have seen improvement in their businesses and their lives. The Barlonyo participants attribute much of the increase of community activity and development in Barlonyo to the microloan program. The Barlonyo marketplace is extremely active due to the improvements the loan program has had on the market stalls, participants' businesses and the community's development. The Barlonyo group lending program has so far been successful for both the loan participants and the community as a whole.

4. Strengths and Challenges

While summarizing the programs' operations allows for a broader understanding of how the programs function, it fails to emphasize the programs' underlying positive and negative attributes. Therefore, in order to ensure a thorough description of the BKE Microloans programs in both Entebbe and Barlonyo, it is necessary to highlight in which aspects the programs have succeeded and where there is room for improvement.

4.1 Strengths and Challenges in the Entebbe Program

The microloan program's strongest attribute in Entebbe is its relationship with its borrowers. This is partly due to Madam Namusisi's high standing reputation. Many of the interviewed participants recalled being introduced to the loan program by Madam Namusisi. Some even chose her program over other loan programs, while some chose her program after having had loans from other microfinance institutions. They put their faith into *her* word and *her* organization. Many of the participants noted how encouraging Madam Namusisi's involvement in the program influences their regard for their businesses, their families, and for some, even themselves. The strong ties the program has to its communities, and its positive relationship with both successful and defaulting borrowers, are largely due to Madam Namusisi's tireless efforts to both supervise the program and remain intimately involved in ensuring the welfare of a large number of its participants. Unfortunately, while the extent of Madam Namusisi's presence is outwardly positive, it brings about underlying worries.

Although, Madam Namusisi's attachment to the program is important to it remaining in good favor with its communities, it also attaches additional responsibilities to a person who runs several programs, oversees several businesses, and fulfills several regional and multinational roles. As a result, the integrality of her role in the microloans program has produced notable consequences. Primarily, it makes it difficult for many of the participants to know who handles certain services. If there is any doubt on who to go to for a specific problem related to their loan, most reach out to Madam Namusisi, when they might instead need to talk to the interim-program coordinator or the accountant. This is less of an issue in Barlonyo, since the group-lending model there allows for group autonomy. It is, however, a notable issue which has impacted many participants, both successful and defaulting, in Entebbe. Consequently, the roles of each administrator overlap, with any remaining duties usually falling on its founder's already stretched schedule.

As it currently stands, the program's interim-coordinator performs other duties throughout BKU, focusing on the microloan program part of the time. Because she has other duties which better suit her background in mass communications, it brings up a concern in her ability to execute all the requisite tasks assigned to whoever is the standing program coordinator.

While the program coordinator's main obligation is to act as a liaison between participants and BKE, he or she must also provide the full range of services the program is looking to offer (e.g. training in business management, offering business advice where need be, etc.). The coordinator should, therefore, be a full-time employee (to have the time to execute all of his or her duties) and have some background in business management. This would help in motivating borrowers to implement effective business strategies, which many need to do.

Conversely, BKU's newly-employed accountant has all of the necessary qualifications and experience to carry out his main responsibilities. He is, however, taxed with his own challenges. Not only does he oversee the microloan program's financial records, but also the parent organization's records, which, due to the recent misconduct of its former accountant and program coordinator, have left him with the responsibility of reconciling the organization's finances and reorganizing the program's record-keeping system. He also interacts directly with borrowers, as some of the borrowers approach him before approaching the program coordinator or the program's founder. This only exacerbates the issue of a lack of clear-cut role separation.

Nevertheless, there currently exist several strong risk reduction procedures within the loan application process. As was detailed in the summary of operations, there are several steps to a candidate getting their loan approved. The most thorough being the verification of the applicant's business records and the photographing of their business location. This allows for the coordinator to authenticate the applicant's claims and provide proof to the founder, who works with the coordinator to approve the loan. It is a system which creates checks and balances among the administrative body, as well as reduces the likelihood of investing in an unviable venture. Despite these efforts, there are ways in which the application process can be further improved. First, there needs to be more discernment in the selection of businesses and in the profiles of the approved applicants. For example, it has been found that the selling of most crafts, such as baskets, is a crowded market in the region. It would then be prudent for the program, which has already provided loans to several basket makers, to refrain from loaning to any more. It has also been found that certain borrower profiles tend to do better than others. For example, married women with children tend to be more viable investments than single women with no children. Applying substantiated research on microloan risk reduction practices, catered to the cultural practices and tendencies of the region, would help minimize the likelihood in loaning funds to a potential defaulting borrower. Second, there needs to be a more standardized application process. While, the program is moving in this direction, there still exist discrepancies in the current application process. Notably, while many of the newer borrowers have first and foremost dealt with the interim-coordinator, this has not always been the case. Some choose, instead, to approach the program's founder, who has been known to approve certain candidates on her own.

Beyond the application process, once an applicant is approved, the program is accommodative to its borrowers' payment preferences. Not only is it flexible in the method of payment (in cash or mobile money), which is helpful for borrowers who may live and/or work far from BKU's office, it is also lenient in the case of payment frequency. The program, while it encourages its borrowers to abide by their contract (which mandates borrowers pay monthly), does not currently penalize borrowers who pay infrequently or who default. This has allowed some borrowers to feel comfortable returning to paying their loans, even if they have failed to do so in a month or two. However, the infrequency in payments (common amongst most of the program's borrowers) is partly a reason why the program has difficulty in supporting itself. The other reason is its low interest rate. The current interest rate, at 12%, is much lower than the suggested rate, which ranges from 18%-45%. A higher interest rate would ensure, even with infrequent or low payments, a quicker return in the program's investment within the first few months of repayment.

It is encouraging that BKE has made strides in moving toward a more standardized business process, as it is crucial for the program (despite it being a social enterprise) to act as a financial institution. For it to act as a sustainable service to such deserving communities, standardization and consistency are vital. It must, therefore, address and correct the issues brought forth in this evaluation, as they weaken the viability and credibility of the program.

4.2 Strengths and Challenges in the Barlonyo Program

The Barlonyo microloan program's strongest attribute is its relationship with the community, particularly its borrowers. There are two reasons for this. First, Madam Namusisi's willingness to help a community devastated by armed conflict has fostered deeper connections than most other microfinance institutions normally would. Her reputation and understanding of their conflict and experiences allowed for the community and program borrowers to put their trust in her and her ideas. Second, due to a shared experience and a shared desire to rebuild their lives the group members have been able to foster strong relationships not only in their individual groups, but with the other groups as well. Their shared values and experiences have cultivated a desire for betterment in their lives and businesses, leading to consistent group meetings and repayment, ensuring they all continue to move forward. The strong group relationships have given them the opportunity to develop an understanding of conflict resolution and group dynamics, which have allowed them to work together successfully and without much strife. The borrowers' success is in part due to their shared culture, shared experience, and understanding of each other's lives, but also because of the support offered to them by the BKE microloan program.

BKE provided each participant with business management training before disbursing loans, which is another successful aspect of this group lending program. The training touched on business literacy, marketing strategies, SWOT Analysis and group dynamics. Each borrower attributes the training to their current business successes and has spoken out about the desire to receive more training in the future. The success of the training can be seen in the borrowers' strong understanding of marketing strategies and business management, which they have applied towards each of their businesses (e.g. offering samples of oil to new customers to try, bagging their purchases, etc). As mentioned before, each borrower has commented on the desire for further training in different aspects of business and business management, which is a current challenge for the program.

Training as discussed by many borrowers in Barlonyo should be a recurrent theme in order to ensure the success of the program. Since many of the participants have never been formally educated, training is an important aspect of running their businesses. However, due to the lack of a full-time program coordinator, it has shown to be very difficult to continue training when there is not a coordinator trained in business management and marketing skills with the technical background to train and provide business support for these borrowers. This presents a challenge to the continued success of the program in Barlonyo, especially since it has begun to harm the loan repayment collection and loan disbursement among the borrowers.

Due to the lack of a full-time coordinator, the program has faced a lack of consistent loan repayment collection and loan disbursements to the group. The past program coordinator travelled Barlonyo every month to collect money and redistribute loans, but once she left the program, those responsibilities were left to Madam Namusisi herself. Madam Namusisi has her hands in every aspect of BKU and BKE. She is constantly stretching herself to be involved in every aspect of the children's home, the microloan program, and all the other encompassing aspects of BKU. This is so much the case that it has become hard for her to be in two places at once. Madam Namusisi's busy schedule in Entebbe sometimes withholds her from driving to Barlonyo every month to meet the program's needs. Consequently, the loan payments sit with the local coordinator and the borrowers go without new loans until Madam Namusisi can make the drive up there. This creates a security issue in regard to the money, as well as a development issue in regard to the development of the borrowers' businesses. Employing a full-time program coordinator would provide the technical business support and training to the participants and the ability to collect and distribute new loans, while providing relief for Madam Namusisi to focus on the children's home and her duties to BKU.

Despite the challenges in Barlonyo the program and its participants have adapted and continue to be successful. Monthly meetings are held, loan payments are collected, and each group continues to work and build their businesses. The groups have created strong relationships that provide the support and understanding they need to face and overcome individual challenges. It is crucial, however, for the sustainability and success of the program that the program develops consistent training modules for the borrowers and consistent loan repayment and disbursement methods, which would ensure that as the borrowers businesses grow so does their business knowledge and the microloan program as a whole.

5. Recommendations

5.1 Recommendations for the Execution of the Rotary Coordinated Group Loaning Program

5.1.1 Strategic scouting for existing collaborative groups

In the group-lending model, group dynamic is especially salient when determining the outcomes of repayment and business success. As we learned in Barlonyo, groups are most successful when they have specified structures with communications and problem resolution procedures as well as systems of mutual respect and trust. In our discussion with Mr. Ovungirwoth, he described the importance of scouting participants who already conduct business informally in groups as the standard method for established MFI's (especially agricultural programs). He continued by adding that participants should be allowed to form their own groups of eight to ten participants instead of being assigned groups. By doing this, it ensures a certain level of pre-established respect and trust among participants and lays a solid foundation for building effective communication and problem resolution structures. Groups are recommended to be between eight and ten to reduce the power of the elected peer leader but not be overwhelming in size so that resources are too diffuse for any or all members. Members of groups are also recommended to be engaging in the same or similar industries as to give each other effective advice and constructive criticism. Having too many different business types might be overwhelming and doesn't allow for the accumulation of collective knowledge and expertise.

5.1.2 Hiring a Program Coordinator with business and technical expertise

It has been established how crucial the presence of a full-time program coordinator is to the success of the micro-loan program and to its borrowers' businesses. The program coordinator's primary role would be to liaise with the participants. In order to develop a good rapport, the coordinator will need to be able to communicate effectively with his or her's clients on the program's behalf. Not only should they have suitable people skills, but also an adequate understanding of both the Barlonyo and Entebbe regions' languages and cultures and, most importantly, a strong background in business or economics. Basic business skills and knowledge are needed to ensure the success of a business venture within a microfinance program. As such, the financial support provided by the MFIs must also be complemented with technical support to the loan recipient. Indirectly, this requires close supervision of the business at every stage of the venture, starting from its planning period until the plan for expansion, ensuring active participation of the MFIs. For instance, the recommended technical assistance would include pre-disbursement support (in terms of project assessment or viability and providing the recipients with the basic knowledge in their particular project of interest); initial stage of fund disbursement (purchasing of machines and ensuring quality raw materials); mid-course evaluation (ensuring progress of the project) and final stage consulting (marketing of produce and expansion plan which include possible downstream activities). Observations about the importance of this role in the context of the BKE Microloan program are contained in recommendations in the next section.

5.1.3 Enhance post-disbursement monitoring system

In an effort to reduce the moral hazard problem after the funds are disbursed, there is an urgent need for the micro-finance institution (MFI) to closely monitor how the funds are being spent by the recipients. This was observed in our interviews with implementers as we heard many accounts of defaulting members using their disbursed funds for non-business related expenses such as school fees, personal purchases, and the payment of medical bills. A Post Disbursement Monitoring system would include close supervision on the status or progress of the business undertaken and some technical assistance in achieving a viable business project. This includes giving advice during the initial application stage, partial disbursement, and the requirement for proof of purchase of necessary materials before further disbursement.

5.1.4 Motivational programs for recipients

To ensure the recipients are motivated to do their best in whichever business project they are undertaking, frequent motivational talks should be given to the recipients. These talks would focus on educating participants on the "business mindset", i.e. focusing on using profits to pay off their loans or reinvesting profits into their business rather than on personal expenses, such as school fees. Such talks have been found not only to serve a great benefit to the borrowers' businesses, but also aid in improving their individual standards of living. In addition, it is also important to remind the recipients of their responsibility to their loan. By providing a motivational forum, participants would be motivated to work toward the success of their business project, and thus repay the loan, particularly if it is extended. In the same regard, the participant's self-confidence needs to be raised, so as to make them believe that they can succeed if they strive for it. During the tenure of the previous program coordinator, some of these practices were employed in the form of monthly meetings with communal support and even a monetary incentive competition, where the business-person with the clearest records and best upkeep would receive an award. These practices, however, were discontinued when the same coordinator was suspended and terminated due to improper conduct. A specific way to increase motivation is through a motivational camp, which could include a series of motivational talks and some training on project-specific business knowledge and skills. The motivational camp would not only help motivate the recipients, but would also strengthen the creditor-borrower relationship. The recipients would feel obligated to work toward the success of their business project, so as to keep their promise to the creditor by paying their loan. Although a large undertaking, in the interview with Mr. Ovungirwoth, it was shared that this is a common practice with commercial lenders that yields very positive results. It is also recommended that the practices carried out during the previous program coordinator's term be re-introduced.

5.1.5 Raise flat annual interest rates

The operations of any microfinance project need to be sustainable. Being sustainable for a social enterprise means that the business model of a project can fulfill its social responsibility, while ensuring that its financial operations are still viable. Currently, Bright Kids Uganda has cash donations from several donors funding the loan program to empower its targeted families. The limited income from the loans' interest rate has been used to support the project and create a wider social impact. Further analysis of the program, however, has determined that the current annual interest rate is considerably too low, particularly in comparison with the prosperous microfinance projects found in the area. The average interest rate applied by a microfinance or banking institution is around 18-45%. Meanwhile, current annual interest rate in the BKU microfinance project is 12%. In this regard, it is recommended that BKU raise its flat annual interest rate between 15-18%. Although, this rough estimate would need to be justified through further calculation. The program needs to manage its interest rate at a level which would cover its expenses, while not being a burden for its participants. Ideally, in order to decide the most effective interest rate, a pricing formula would need to be configured. This formula would cover administrative expenses, cost of funds, loan profits losses, capitalization rates, and investment income. During the analysis of this program, such an endeavor in estimating the formula was not feasible, since the current project does not have its own financial calculation for profits and losses. Additional information on this topic is discussed at length in the section on the BKU Enterprises Financial Evaluation report.

6.2 Recommendations for Continued Operation of the BKE Microloan Program in Entebbe

5.2.1 Enhance post-disbursement monitoring system

In an effort to reduce the moral hazard problem after the funds are disbursed, there is an urgent need for the micro-finance institution (MFI) to closely monitor how the funds are being spent by the recipients. This was observed in our interviews with implementers as we heard many accounts of defaulting members using their disbursed funds for non-business related expenses such as school fees, personal purchases, and the payment of medical bills. A Post Disbursement Monitoring system would include close supervision on the status or progress of the business undertaken and some technical assistance in achieving a viable business project.

This includes giving advice during the initial application stage, partial disbursement, and the requirement for proof of purchase of necessary materials before further disbursement.

5.2.2 Employing a full-time program coordinator

It has been established how crucial the presence of a full-time program coordinator is to the success of the micro-loan program and to its borrowers' businesses. While the program currently has someone filling the position, it is on a part-time basis, as the individual in question plays another role at Bright Kids Uganda. There are a few reasons why hiring a full-time program coordinator is important. To begin, he or she would play a critical role in the management of the program up north in Barlonyo. One concern which was addressed in the *Barlonyo Program Operations Summary* is the inconsistency with which money is both disbursed and collected in Barlonyo. Given that the person currently in charge of travelling up north is the program's founder, whose responsibilities span past the microloan programs, it is understandable that she is unable to venture up every month. As Madam Namusisi has expressed, and as is being strongly recommended, having a full-time program coordinator to make the monthly trip to Barlonyo is vital to ensuring the program's continued success and stability. Furthermore, a full-time program coordinator is recommended to ensure that regular visits are made to borrowers in Entebbe. As has been mentioned, borrowers encourage visits and phone calls made by the coordinator to help motivate them to enhance their businesses and regularly pay their loans. The program coordinator's primary role would be to liaise with the participants. In order to develop a good rapport, the coordinator will need to be able to communicate effectively with his or her's clients on the program's behalf. Not only should they have suitable people skills, but also an adequate understanding of both the Barlonyo and Entebbe regions' languages and cultures and, most importantly, a strong background in business or economics.

5.2.3 Strong training system for recipients and field workers of MFIs

Basic business skills and knowledge are needed to ensure the success of a business venture within a microfinance program. As such, the financial support provided by the MFIs must also be complemented with technical support to the loan recipient. Indirectly, this requires close supervision of the business at every stage of the venture, starting from its planning period until the plan for expansion, ensuring active participation of the MFIs. For instance, the recommended technical assistance would include pre-disbursement support (in terms of project assessment or viability and providing the recipients with the basic knowledge in their particular project of interest); initial stage of fund disbursement (purchasing of machines and ensuring quality raw materials); mid-course evaluation (ensuring progress of the project) and final stage consulting (marketing of produce and expansion plan which include possible downstream activities). Some of these supports have already been employed at the BKE program, such as the assessment of business viability and mid-course evaluation. However, it is important to note that all necessary technical supports require that the field workers of the MFIs be well-equipped with the skills and knowledge to convey effective advice to the recipients. In the case of BKE, for example, the micro-loan program coordinator should be required to have a strong background in business management or the like.This is a weakness we observed, as the acting program coordinator has education regarding media and communication rather than agriculture, craft businesses, and marketing. Therefore, any advice being offered and any trainings being led by said coordinator would be highly speculative and minimally effective.

5.2.4 Project-specific repayment schedule

Immediate fixed repayment schedule on either weekly or monthly basis for all type of projects has shown to be burdensome for many recipients, particularly those with business projects that require relatively long incubation period. MFIs should be aware that the time needed for a business project to turn in profit depends on the nature of business. For example, a chicken-rearing farm takes at least two weeks to turn in profit, while a goat-rearing farm takes about one to two months. The BKE portfolio is rather large encompassing businesses anywhere from chicken rearing, to agriculture, to supermarket operation, to craft businesses, etc. Yet, all participants are expected to operate on the same repayment schedule. In this circumstance, MFIs should discuss with the borrower to ascertain the real nature of their business before deciding on the repayment plan. Payment should ideally start after the incubation period, i.e. once the goods can be sold. In this regard, a more flexible repayment schedule would benefit clients and potentially improve their repayment capacity. This seems especially true as agricultural businesses seem to be able to make more consistent payments rather than retail businesses which operate more seasonally and less predictably.

5.2.5 Motivational programs for recipients

To ensure the recipients are motivated to do their best in whichever business project they are undertaking, frequent motivational talks should be given to the recipients. These talks would focus on educating participants on the “business mindset”, i.e. focusing on using profits to pay off their loans or reinvesting profits into their business rather than on personal expenses, such as school fees. Such talks have been found not only to serve a great benefit to the borrowers’ businesses, but also aid in improving their individual standards of living. In addition, it is also important to remind the recipients of their responsibility to their loan. By providing a motivational forum, participants would be motivated to work toward the success of their business project, and thus repay the loan, particularly if it is extended. In the same regard, the participant’s self-confidence needs to be raised, so as to make them believe that they can succeed if they strive for it. During the tenure of the previous program coordinator, some of these practices were employed in the form of monthly meetings with communal support and even a monetary incentive competition, where the business-person with the clearest records and best upkeep would receive an award. These practices, however, were discontinued when the same coordinator was suspended and terminated due to improper conduct. A specific way to increase motivation is through a motivational camp, which could include a series of motivational talks and some training on project-specific business knowledge and skills. The motivational camp would not only help motivate the recipients, but would also strengthen the creditor-borrower relationship. The recipients would feel obligated to work toward the success of their business project, so as to keep their promise to the creditor by paying their loan. Although a large undertaking, in the interview with Mr. Ovungirwoth, it was shared that this is a common practice with commercial lenders that yields very positive results. It is also recommended that the practices carried out during the previous program coordinator's term be re-introduced.

6.2.6 Implementing the concept Islamic microfinance, the concept of Mudarabah

Mudarabah is an Islamic contract in which one party supplies the money and the other provides management expertise to undertake a specific trade. In particular, mudharabah can be adopted to ensure active participation by both parties for the success of a business venture. The party supplying the capital is called *owner of the capital*. The other party is referred to as the *agent*, who surveys over the business' operations. In Sharia law, different responsibilities have been assigned to each of these two. As a matter of principle, the owner of the capital does not have a right to interfere in the management of the business enterprise which is the sole responsibility of the agent. It challenges both the owner of capital and the agent to trust one another's acumen, and provides a structured framework where the owner of the capital is unable to threaten to withhold funds or seize property should the agent choose to operate their business their own way. With that being said, the owner of the capital has every right to specify conditions that would ensure better management of his investment prior to disbursement. Subsequently, during the run of the business, the owner of the capital may offer some advice, which the agent is open to accept or decline. By specifying operational conditions to the agent, the owner of capital can decide more shrewdly which industries suit its investments. It is the recommended strategy to be utilized as a means of risk reduction to specify the types of industries BKE is willing support. For instance, it has been found that agricultural businesses seem to be one of the few industries that return consistent repayment rates versus the many retail ventures. BKE should then specify the number agricultural ventures versus retail ventures it is willing to undertake, minimizing the risk of default. Moreover, this risk-sharing concept is particularly well-suited for micro-financing since the MFIs can provide capital and while the recipients could provide their work effort and be compensated accordingly. Since the basic concept of mudarabah is that in the event of financial loss, the owner of the capital will bear that loss, it is then in the best interest of the MFI to ensure close supervision of the project while staying true to the concepts of existing as a social enterprise.

5.2.7 Raise flat annual interest rates

The operations of any microfinance project need to be sustainable. Being sustainable for a social enterprise means that the business model of a project can fulfill its social responsibility, while ensuring that its financial operations are still viable. Currently, Bright Kids Uganda has cash donations from several donors funding the loan program to empower its targeted families. The limited income from the loans' interest rate has been used to support the project and create a wider social impact. Further analysis of the program, however, has determined that the current annual interest rate is considerably too low, particularly in comparison with the prosperous microfinance projects found in the area. The average interest rate applied by a microfinance or banking institution is around 18-45%. Meanwhile, current annual interest rate in the BKU microfinance project is 12%. In this regard, it is recommended that BKU raise its flat annual interest rate between 15-18%. Although, this rough estimate would need to be justified through further calculation. The program needs to manage its interest rate at a level which would cover its expenses, while not being a burden for its participants. Ideally, in order to decide the most effective interest rate, a pricing formula would need to be configured. This formula would cover administrative expenses, cost of funds, loan profits losses, capitalization rates, and investment income. During the analysis of this program, such an endeavor in estimating the formula was not feasible, since the current project does not have its own financial calculation for profits and losses. Additional information on this topic is discussed at length in the section on the BKU Enterprises Financial Evaluation report.

5.3 Recommendations for Continued Operation of the BKE Microloan Program in Barlonyo

5.3.1 Training program recipients and MFIs workers

To ensure a successful and sustainable microfinance program, all program participants and employees should learn basic business skills and knowledge. Therefore, technical support to its recipients and appropriate microloan workers must complement the financial support provided by the BKE microloan program. This allows for constant management of the program, spanning from the launch of a recipient's business to the time of its expansion. It has been found that consistent business training is imperative to ensuring a business' success. The recommended training, herein, focuses on record-keeping, using capital to expand and reinvest in a business, and providing tips on how to handle both minor and major business issues. Some of these points have already been implemented in early trainings offered by the BKE program. *Consistent* training is necessary for Barlonyo, however, because most participants lack formal education and have come to rely on the trainings to continue and expand their businesses. Moreover, it is equally important that the microloan program staff be well-equipped with the business skills and knowledge required to advise their clients on how to manage potential setbacks or other related issues. This was a weakness observed in Barlonyo, as the local coordinator does not have any formal business education.

5.3.2 Employing a full-time BKE program coordinator to improve the loan disbursement system

Loan repayments and loan disbursements should be guaranteed every month. To ensure that loan payments and loan disbursements are done efficiently and effectively in Barlonyo, a full-time program coordinator is recommended. The program coordinator, who will be stationed in Entebbe(managing the program there), would travel to Barlonyo every month. He or she should, therefore, have a clear understanding of the local culture, language, and history, but most importantly, have a background in business/business management. A program coordinator with a background in business would have the knowledge, skill, and technical expertise to provide business training and technical support to the program's participants. Additionally, a full-time program coordinator who travels to Barlonyo every month, collecting the loan payments, would discuss with the local coordinator and the groups about any issues or concerns that need to be addressed. This allows for cooperation and program stability, ensuring the program's continued success.

5.3.3 Providing a boda-boda loan in the area

Many of the Barlonyo participants have raised the issue of lack of consistent transportation to and from Lira Town as a weakness for their businesses. Due to this issue, it is recommended that a boda-boda (motorbike) loan, like the one provided at the Entebbe branch, be implemented in Barlonyo. In Entebbe, Madam Namusisi has instituted boda-boda loans with local community members. The drivers pay off the loan with their day-to-day earnings, while also being available for Madam Namusisi when she needs transport. It is a source of income for Madam Namusisi, as well as income for the motorbike drivers. Once the loan is paid off, the drivers keep the bike, but many remain available to Madam Namusisi should she need them. Instituting a boda-boda loan in Barlonyo would allow for consistent access to transportation for the microloan participants, would provide an additional source of income for Bright Kids Uganda, and would offer a source of income for drivers in the area. The boda-boda drivers could work in Lira Town to earn money to pay off their loans and still provide weekly transportation to and from Barlonyo for program participants for a fee based on of their income. This has the potential to resolve the issue of a lack of transportation for the participants, while providing yet another business venture for BKE and the local community members.

5.3.4 Implementing a more selective application process

The Barlonyo group lending program started out as a pilot program in northern Uganda to help rebuild a specific war-torn community. As BKE expands into other northern areas, and if the program decides to grow in Barlonyo, being selective about applicant businesses is necessary to ensure that the group lending program remains sustainable and prosperous. BKE can assure consistent repayment and profit, as well as success for businesses in the area, by being selective about the types of businesses in which it invests. Different types of businesses in the area already saturate the market-- e.g. craft-making business such as baskets, purses, jewelry. Picking and choosing businesses that are not already in the market can allow for more profitable businesses, higher profits, and long term sustainability. It is crucial, however, that applicants show some knowledge or expertise in these businesses. It is recommended that if BKE decides to start a program in Gulu, and continue to expand in Barlonyo, business selectivity must be implemented to assure long-term success and assured repayment.