



► Social Finance Brief

May 2023

Making Finance Work for Refugees

RUFI's journey in serving refugees and host communities in South Sudan and Uganda

About this publication

The ILO documented the journey of a few financial services providers (FSPs), describing the decision-making process inside the organization as it evolves through the various “stages” of the journey to serve refugees and host communities. In each of the cases, the brief focuses on one or more of the stages (identified by the sections' titles) where the FSP has learned useful lessons for the global community regarding the outreach strategy, design and implementation.

Key points

- Following a wave of displacement from South Sudan, RUFI followed its clients and staff across the border to Uganda
- Identifying former South Sudanese staff among refugees now in Uganda, RUFI rehired them as loan officers, further facilitating outreach
- RUFI and its investors recognized its inherent competitive advantage in the refugee market segment, which was not served by Ugandan FSPs
- RUFI saw significant reputational gains from the cross-border expansion strategy, and has joined different initiatives to promote financial inclusion of refugees in Uganda
- As RUFI hails from South Sudan and had followed refugees across the border, the institution was very well received among refugees, who inherently trusted the FSP in an environment where they often felt exploited
- All refugee customer households have made efforts to keep up with loan repayments to access future finance for businesses and school fees in both countries

Background

Rural Finance Initiative (RUFI) is a limited liability company initially incorporated in South Sudan in 2008, owned by 8 national shareholders and governed by a five-person board. RUFI's mission is to provide rural entrepreneurs with financial services to improve their living standards. Since 2010, RUFI has received significant technical assistance,

grant and loan support from the Dutch NGO Cordaid to grow and strengthen its operations.

At the end of 2015, RUFI South Sudan was an operationally sustainable microfinance institution (MFI) with four branches serving around 2,200 customers with savings, group, individual and agricultural loans, and domestic transfers. In addition, borrowers are covered by an in-

house loan insurance fund which writes off outstanding loan balances in case of the client's death or disability, total loss of business due to fire, robbery or loss of stock during transport, at a cost to clients of 0.5 per cent of the loan amount.

In 2016, renewed conflict in South Sudan displaced huge numbers of people, including RUF1 clients and staff, mostly to Uganda, and led to the closure of rural branches (see Box 1). It's portfolio at risk spiked, demand plummeted, and currency devaluation cost RUF1 at least US\$300,000 in losses.

1. Ideation phase (screening product and market ideas)

In a bold gamble for survival, the board found and authorized funds for an in-house market assessment among South Sudanese refugees in Northern Uganda in 2016. Reconnecting with several of its former customers, and finding that no FSPs served them, RUF1 followed its clients and staff across the border to Uganda in February 2017, incorporated it as a foreign legal entity, and registered as a non-deposit taking MFI. This allowed RUF1 to recover loans that had been given in South Sudan and refinance them in Uganda, where clients were living as refugees. Identifying some former staff among refugees, RUF1 rehired them as loan officers in Uganda, investing in staff training to familiarize them with the very different business environment and began looking for customers.

RUF1 did not have the same hesitation as other FSPs serving refugees, because they already knew South Sudanese refugees in Uganda from when they were still living in South Sudan. However, former business loan customers were used to high profits and limited competition at home and RUF1 was initially worried about credit risk. Still, moving their operations to Uganda offered a chance of survival. RUF1 and its investors felt they had a competitive advantage among the South Sudanese living as refugees in Uganda, since they were not served by Ugandan FSPs. Retaining low-key operations in South Sudan also enabled RUF1 to verify and accept collateral in South Sudan, such as land, for loans provided in Uganda, and to provide a transfer (remittance) service which was in high demand.

By February 2020, RUF1's cross-border portfolio included some 3,000 clients (2,000 borrowers), served from South Sudan and Uganda branches: two branches in Juba in South Sudan, offering the popular 'daily fixed deposit' savings product and short-term loans for quick turn-over businesses (trade), as well as inter-branch (including cross-border) transfers, and two urban and one rural branch inside the Palorinya settlement in north-western Uganda. It is thus one of the first cross-border MFIs in East Africa.

► Box 1: Country context

South Sudan has been plagued by conflict for decades. Nine years after independence, it remains one of the world's most fragile states. The oil-dependent and dollarized economy is in collapse, price levels are near hyper-inflationary, and food insecurity is widespread. A quarter of the population either are internally displaced or live as refugees in neighbouring states. Uganda has received around 1 million South Sudanese refugees. Under an [accommodating refugee policy](#), Uganda registers refugees and asylum seekers with recognized identification documents, provides land plots in open settlements and secures the rights of refugees to free movement, work and private enterprise.

2. Outreach and product strategy

The initial market survey among South Sudanese refugees in Uganda confirmed a demand for financial services. Among newer arrivals in settlements, their financial resources and capacity were lower, while refugees in the urban areas had established businesses and needed finance. Initially, RUF1 focussed on serving South Sudanese refugees, especially former clients. Gradually RUF1 also started serving Ugandan nationals who now make up 22 per cent of the portfolio in Uganda. Due to fierce competition in the Ugandan microfinance industry and widespread multiple lending among borrowers, RUF1 finds credit risk to be higher among Ugandan nationals than among South Sudanese refugees.

RUF1 started out offering its existing group and individual loans products in Uganda. Now displaced, former RUF1 clients with outstanding loan balances in South Sudan could refinance or restructure their loans to settle outstanding debt and invest the balance to restart or grow of their business or farm in exile. Any savings balances left behind with RUF1 were included in the structuring of the transitional loans. Initially, individual loans were preferred among displaced South Sudanese, since they did not know their new neighbours. Over time, the group loan with easier terms and conditions has become more popular among refugees in prolonged displacement, especially those remaining in settlements. Due to the significant devaluation of the South Sudanese pound against the Ugandan shilling, many refugees preferred to refinance their loans. Many refugees in Uganda save, mostly informally and in Village Savings and Loan Association (VSLAs), so the demand was high for RUF1's daily and weekly fixed deposits and other savings products that some clients were familiar with from South Sudan. However, as RUF1

cannot mobilize savings in Uganda, it has negotiated an agent banking agreement with Centenary Bank, which enables RUF customers to access Centenary's suite of savings and transfer products from RUF's branches. This increased turn-over for the RUF branches. Initially, customers cashed out more than they deposited, but as RUF began to target existing VSLAs more directly, this started to change.

In partnership with the [Food Security through Agribusiness Development](#) Project (SSADP II) implemented by Cordaid, Agriterro and SPARK in South Sudan, RUF started lending to farmer's cooperatives in 2018. The project trained cooperatives and gave them seeds and tools at demonstration plots. Transferring the experience gained from the SSADP II, RUF introduced an agricultural loan in Uganda in late 2019.

While focusing on business owners, RUF noticed a large segment of unemployed youth in the settlements. After focus group discussions in Palorinya, RUF designed a project aimed at youth and single parents to start businesses in groups. The "REMEDY" Loan Product adopted a model using loans, own contributions and grants and included both training and financial services (see Box 2). RUF secured initial funding, and since it is proving very popular, it will expand the model in Uganda and pilot it in South Sudan if it can find additional funding. Considered as an incubator product to prepare refugees to access standard loans, the external grant enabled RUF to charge

a lower interest rate for this product. Otherwise, RUF's interest rates, fees and commissions follow prevailing rates in Uganda and are the same for refugees and hosts. As the CEO of RUF, Yengi Lokule, comments: "If you have to offer a product specifically for refugees, it should have genuine reasons that can be understood by the host community."

► **Box 2: The REMEDY product**

Self-selected groups of youth or single parents pitch their business idea to a project committee and are given vocational and business management training by local or refugee trainers while saving. The groups then source the business assets necessary for start-up, such as chicks, feeders for poultry, seeds, farming tools, grinding mills, bakery ovens, sewing machines and solar panels. They must contribute 25 per cent of the cost (from their savings), while the balance is financed 50% by project grants managed by RUF and 50% as a lease loan. The assets are transferred to the group members upon full repayment of the initial loan and groups can also borrow working capital from RUF, following the normal appraisal process for group loans. RUF is exploring options to make the business model more sustainable through partnerships with non-governmental organizations but will remain the capital provider for the lease part of the asset acquisition, and for working capital loans, as well as product manager to ensure that assets are delivered to group clients in timely manner.

3. Marketing and delivery

RUF was itself a new market entrant and had to learn how to operate in the crowded Ugandan microfinance industry. The FSP was careful to seek official approvals from the Office of the Prime Minister to provide services to refugees and obtained operational licenses from national and district authorities. In the accommodating environment in Uganda, the authorities welcomed an FSP that was willing to serve refugees. In the early days, competition was negligible. RUF also saw significant reputational gains from the cross-border expansion strategy and has joined different initiatives to promote financial inclusion of refugees in Uganda.

Once established in the trading town of Koboko, RUF benefited by being the first FSP to open a branch in Morobi, inside the Palorinya settlement. As RUF had limited loan capital, its primary marketing approach was to "go slow" with a low profile to avoid getting overrun by demand for services that they might not be able to meet. But the demand did catch up with RUF, as it saw a much higher number of loan applications than it projected during the first year, and finding capital to meet this demand without

the option of mobilizing savings was a challenge. The agent banking agreement with Centenary Bank was concluded to access loan capital from the Bank in exchange for onboarding depositors.

RUF transferred its client data base from branches in South Sudan to Uganda to trace former clients for the 'transitional (restructured) loans'. Rehiring former staff who were now refugees in the settlement facilitated outreach, as marketing was done by loan officers and community-based REMEDY trainers. RUF also used radio announcements, market day promotions and brochures, but word of mouth was the most effective marketing channel.

As RUF hails from South Sudan and had followed refugees across the border, it was perceived well among refugees, who trusted the FSP in an environment where they often felt exploited. RUF trained staff to be as transparent as possible. It believes that being contacted and onboarded by "one of their own" in a familiar language increased interest and buy-in for new refugee clients and for former clients. Familiarity with the brand in South Sudan also helped build customer loyalty.

RUF's inter-branch transfers (remittances) are popular among separated refugee families. Contrary to the initial fear of customer flight, RUF has realised that refugee households do not pack up and go home all at once. Rather, families in exile send one or two members home to check on property and the conditions. Sometimes they stay, sometimes they come back to Uganda, but all refugee customer households have made efforts to keep up with loan repayments to access future finance for businesses and school fees in both countries.

In the relatively remote settlements, mobile money services (at reduced costs) are in high demand to reduce transport cost and time for customers. RUF hopes to introduce more mobile services linked to its recently upgraded management information system, but it requires an application programming interface which is expensive. Currently RUF is experimenting with apps to digitalize appraisal and monitoring processes, such as the [Grameen Foundations' Ledger Link](#) for VSLAs and ICCO's [A-CAT](#), an agricultural loan analysis tool.

RUF's CEO concludes: "We now have three years of lending experience to refugees, and we have found them no different at repaying loans than locals. Our strategy is to continue serving refugees as long as they exist and use our cross-border presence to create financial services for refugees in exile and as returnees back home. Refugee clients understand that once they return to South Sudan, RUF will still be there to serve them."

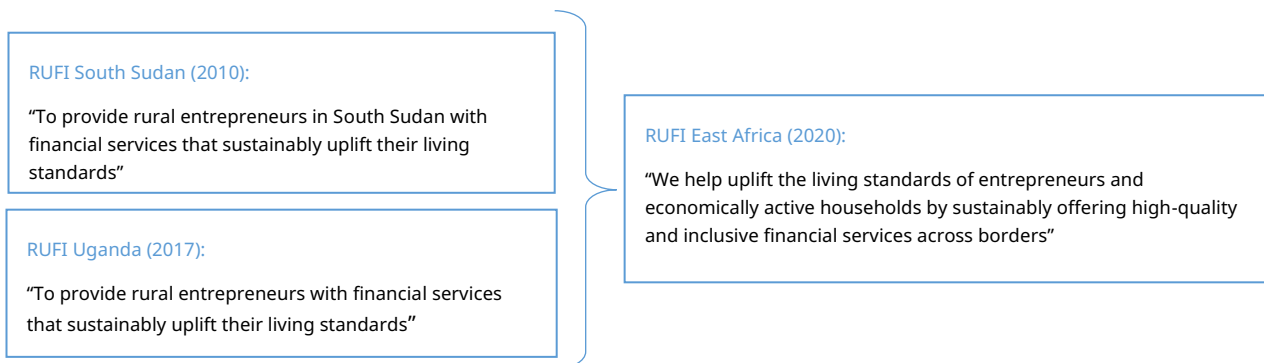
4. Institutional culture change

While RUF has appeared more 'refugee-ready' in Uganda than many other FSPs, initially staff and management expressed the same concerns about serving clients who were not from South Sudan. After reviewing eligibility criteria and policies in South Sudan in 2019, RUF realised that adjustments were needed for the FSP to become fully inclusive. As a result, it adapted its institutional culture to be inclusive of Ugandan nationals.

RUF held a strategic planning workshop in May 2019 to outline the direction for 2019-2021, inviting the board, managers and staff from all branches in both countries. RUF realized that the new cross-border reach was not reflected in its identity yet. RUF wanted to remain financially stable in both countries, even after South Sudanese refugees return home.

The workshop reviewed and revised the entire set of vision, mission and values. The mission statements, which had evolved from South Sudan to Uganda, were integrated and updated as illustrated in Figure 1, and the values were reformulated to reflect the new identity (Table 1). Subsequently, RUF adjusted and standardized credit policies so that eligible customers of any nationality and residency status will be served in the same way across all RUF branches.

► Figure 1: The evolving mission statement



► Table 1: RUF core values before and after the strategic planning revision, May 2019

<i>RUF core values till 2019: TEACHERS</i>		<i>RUF core values going forwards: SPIRIT</i>	
Transparency	in business conduct	Social Good	We strive to create enabling, healthy and safe workspaces, providing and supporting services that Do No Harm to others or to the environment, and we believe in giving back to all our stakeholders.
Efficiency and effectiveness	Producing quality and desired results	Professionalism	We work by inclusive finance good practices, and work to produce quality results quickly and effectively by continuously learning and improving.
Accountability	Answerable for all our acts	Integrity	We strive to earn the trust of those we serve by being reliable in our conduct and we hold ourselves accountable to do the right thing, even when no one is looking;
Creativity	Innovative in service delivery	Resilience	We stick with customers and with each other – even through hard times;
Health and safety	Creating an enabling and safe working environment	Inclusion	We accept and appreciate the uniqueness of everyone without prejudice and discrimination, and we challenge ourselves to see beyond stereotypes to welcome customers, suppliers and partners of all creeds, colours and nationalities.
Environmental sustainability	Funding activities that do no harm to the environment	Transparency	We conduct our business in an open manner, sharing information and documenting our work processes, product terms, progress and performance to all stakeholders.
Reliability	Dependable at all times		
Social good	Socially supporting the clients and communities in which we operate.		

RUF is expanding the outreach of its Ugandan branches to also refugees from the Democratic Republic of Congo. An unfortunate outbreak of the Ebola virus in a refugee camp in South Sudan has delayed RUF's outreach to refugees there, but a scoping visit is planned. They are also exploring segments of the small business community in Juba from other countries, which includes many Ugandans, but also entrepreneurs from elsewhere in East and Central Africa.

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

About this publication

RUF1 is currently receiving technical assistance from the ILO in the context of the [PROSPECTS project](#), in order to attract more host community clients and implement an improved digital strategy.

About “Making Finance Work for refugees and host communities”

This case and the others from the same series have been developed in the framework of the management course “Making finance work for refugees and host communities”. It targets managers of FSPs that currently serve or consider serving refugees and host communities with financial services. [Click here](#) for more info.

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