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AGRICULTURAL LENDING TRAINING FOR CERUDEB

FINAL REPORT



May, 2006

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Rural SPEED

Rural Savings Promotion & Enhancement of Enterprise Development

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The author's views expressed in this publication do not necessarily reflect the views of the United States Agency for International Development or the United States Government.

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1.0 BACKGROUND

1.1 Introduction

Agriculture, despite being the prime economic activity and engine of growth in the rural areas in Uganda, is heavily underserved by the financial institutions. Agriculture is the second largest sector in Uganda's economy, contributing 40% to GDP. The agricultural sector is the largest employer, accounting for over 80% of all employment for rural inhabitants, who make up 85% of Uganda's population (27 million). Agriculture also accounts for 85% of Uganda's export earnings. According to statistics gathered in the year 2000, contributions to household income from agriculture were broken down as follows:

- Crops 70%
- Non-farm activities (i.e. shops, gambling) 25%
- Livestock 5%

As you can see, 75% of house household income is derived from agriculture. However, when it comes to agricultural credit, less than 10% of all loans made, are for agriculture purposes. Agriculture finance is largely misunderstood in many of the formal financial institutions. Many of these institutions view agriculture as simply just making crop production loans, leaving areas such as marketing, processing, and livestock production out of the realm of agriculture.

Centenary Rural Development Bank (CERUDEB), a commercial bank regulated by the Bank of Uganda, during the last decade, has taken the lead to provide agricultural credit to rural farmers. Since 2000, through collaborative efforts with ACDI/VOCA, the former IDEA Project, APEP Project and DANIDA's Agricultural Sector Program Support (ASPS), the bank began to diversify its portfolio to include commercial farming for selected crops and is currently providing agricultural lending to approximately 1,000 commercial farmers. However, there has been a rapid increase in the number of agricultural borrowers, putting pressure on CERUDEB to ensure there are adequately trained personnel in agriculture to handle the demand for agriculture financing.

During my preliminary discussions with CERUDEB personnel, the first couple of years of involvement with agricultural lending were very good years for the Bank; however, during 2001 and 2002, a rapid expansion of several branches, with inadequate training and a dramatic drop in maize prices, led to a rapid deterioration of the agricultural portfolio. These actions have left many of the loan officials with a distorted view of agricultural lending.

The Rural SPEED project has partnered with CERUDEB to assess the internal causes that led to the set-back of the program during 2001-2002. Through the cooperative efforts of Rural SPEED, CERUDEB felt the need to increase its awareness of agriculture financing, thus resulting in the need for international consultancy in agriculture finance.

1.2 Objective:

The USAID/Uganda's 2002-2008 Strategy calls for expanded sustainable economic opportunities for rural sector growth, promoting a connection between productive strategies by the private sector in rural areas and expansion of financial services sector. Rural Savings Promotion and Enhancement of Enterprise Development (Rural SPEED) was designed to meet this goal.

The objective of Rural SPEED is to deepen and strengthen Uganda's financial sector in response to this rural sector demand for financial services.

CERUDEB would like to strengthen its internal capacity to extend effective agricultural financial services to the rural communities in Uganda. The Scope of Work (SOW) was developed to train its agricultural credit and branch management staff, as well as, sensitize the senior managers and board members on the characteristics of agricultural credit, and the importance of relevant and appropriate policies and decisions on the agricultural credit portfolio growth, in addition to reviewing the bank's agricultural lending manual.

2.0 ACTIVITY SUMMARY

The principal tasks completed under this SOW were:

- Hold preliminary discussion with CERUDEB's Principal Loans Officer (agriculture) and Human Resource Manager to understand from the Bank's perspective, the agricultural credit training needs and the training agenda.
- Review and adjust CERUDEB's agricultural lending operations manual to ensure standardization of the lending process across all the branches extending agricultural credit.
- Preparing the training materials for training of the existing agricultural loan officers of Centenary.
- Refine the training materials based on the training needs identified and the training agenda developed with the Bank officials.
- In conjunction with other facilitators from CERUDEB, deliver training as follows:
 - A two-day workshop for CERUDEB's existing agricultural loan officers
 - A two-day workshop for the Bank's branch managers, head of loans and head office credit staff
 - A half-day round table power point presentation for select top management and board members.

2.1 Deliverables:

- Agricultural Lending Training materials, both in power point presentation and detailed explanation in word to be used during the training workshops
- Three training workshops for existing agricultural loan officers, bank management staff, senior managers, and board members.
- Revised agricultural lending manual for CERUDEB outlining the adjusted guidelines for agricultural lending for the bank.
- A final report summarizing the observations made and recommendations for further agricultural lending skills enhancement in the bank. The Final Report, not to exceed 25 pages (excluding appendices) is to be provided to Rural SPEED electronically in the prescribed format. The report should include the following components:
 - Background
 - Activity Summary
 - Conclusions and Recommendations
 - Appendices

3.0 CONCLUSIONS

CERUDEB Bank has introduced agricultural lending in an unsystematic manner. Due to the pressure to expand into new areas, many of the branches have poorly trained loan officers, branch managers, and credit administrators, in financial assessment. The quality and level of lending varies across branches, many of which have no monitoring system in place, thus causing the deterioration of the loan portfolio.

From my observation of CERUDEB's management of its agriculture loans portfolio, is weak at best. During my preliminary discussions with head quarters and staff and in discussions during the workshops with loan officers, branch managers, and credit administrators, I was sure that no one had a grasp of the percentage of the agriculture loans in the bank's or the individual branches loan portfolios.

CERUDEB also needs to be serious about the assistance Rural SPEED is providing. I didn't sense they were committed to working along with Rural SPEED, by the lack of organization in preparing for the workshops. A simple thing, such as having writing materials for workshop participants, is one step to showing they are committed to working with Rural SPEED.

One of the deliverables was to revise CERUDEB's lending policies. With many of the loan officials not having adequate training or the background in sound agricultural lending practices, I've found it difficult to do such, and instead provided recommendations to various sections to be considered for revision.

Let me say there are a few loan officials at CERUDEB committed to agricultural lending; however, they will need additional training in the future to keep them motivated to continue to work with the rural poor.

Given the deterioration of the agricultural lending portfolio, my recommendation is that Julius Segirinya, Principal Credit Officer, be allowed to monitor the agricultural loan portfolio, as he has been appointed to do, with complete autonomy. He should be allowed to focus solely on the agricultural loan portfolio, and his many other duties, be distributed to other bank officials.

The agricultural finance training was held May 2 – 6, 2006 in Mbale, Uganda at the Wash & Wills Hotel. There were two groups of loan officers, branch managers, and credit administrators. Group 1 consisted of approximately 37 loan officials, ranging from loan officers to credit administrators. If I had to complete an analysis of the group as a whole, I would have to be quite frank and say that many of the participants have a distorted view of the clients they were hired to serve. There was very little empathy for the rural poor and more than one participant indicated that the farmers were all illiterate and stupid. Observing the attitudes of the group led me to gear the training more toward sensitizing the group to not only the rural poor, but agriculture overall. During the session with the Bank's board of directors, I informed them of the attitudes of many of the participants from group one. There was a feeling of shock and disbelief from some of the board members, while others on the board knew this reality prior to our discussing the findings of the training sessions.

Group 2 had a different outlook on the clients they served. The group as a whole felt that by looking down on their clients would somehow be viewed as being disrespectful to their own mothers and fathers, who in some cases, were farmers as well. There were approximately 25 loan officers, branch managers, and credit administrators in attendance.

Field Visits:

On Wednesday, May 3, 2006, the group took a field visit to Kapchorwa to the Kapchorwa Commercial Farmers Association (KACOFA) where I had the pleasure of meeting Commissioner Chemisto Wilson, Apili Nelson, and the entire KACOFA staff. On Friday May 5, 2006 we visited with Dr. Mudusu, Commissioner to a 2,500-acre rice plantation.

Summary Observation from both groups:

During the week-long workshop, there were common themes presented by both groups. Those group recommendations and observations are listed below.

Issue: As I stated previously, the first group of trainees had very little compassion for the rural poor clients they served. While the second group was more sensitive to their clients, I thought something needed to be done for the clientele at Centenary in an effort to show that the Lender indeed values their customers. Many of the loan officials indicated that their customers, especially those with good repayment history, should be recognized for their efforts. There were several in the group who suggested an appreciation day should be established.

4.0 RECOMMENDATIONS:

Customer Appreciation Day

- Recommendation to set aside at least one day per quarter to show customers they are valued and a day to market the bank's products.
- For those unable to reach the bank due to logistics, offer the same out in the communities of the clients.

Continuous Training for all personnel

Issue: There was concern from both groups that training, if any at all, only came on sporadic bases. One loan official indicated that the training offered was the first training he had had in seven years.

Continuous Training

- All loan officials would like to see training on an annual basis; with periodic "refresher" trainings held throughout the year.

Issue: An overwhelming majority of the trainees expressed how slow processing times were the source of frustration among the various branches. Many also expressed that the restrictive loan limits also caused delays in the processing speed of loan requests.

Greater Authority to Accountants

- Allow the accountants located in the branches, the authority to approve loan requests whenever there is not a loan approval official available in the branches.

Issue: The mission of Centenary is to provide financing for the rural poor for their agricultural credit needs. The excessive high interest rates and penalty assessments have driven many customers to the competition. An evaluation should be conducted to see whether it is feasible to charge such high rates for rural customers. The excessively high rates could be increasing the risk of recovery.

Revisit Interest Rate Policy

- Evaluate whether it is feasible to charge such high rates for rural customers.
- Consider lowering the rate of interest charged for repeat customers and for those with a good repayment history.

Issue: There was concern that many new potential customers are unaware of the various products Centenary has to offer. Some branches had developed their own strategies for marketing Centenary's products; however this is not consistent among the branches.

Marketing of Centenary's Products

- Recommend that a brochure outlining Centenary's available products be developed and distributed to all branches.

Issue: Loan officials expressed that they felt there was a difference in the way agricultural loan officials were treated in branches, versus those who work in various other departments in the bank. There appears to be a lack of teamwork among the employees at the various branches.

Teamwork Building

- Create ways to harvest an attitude of "teamwork" among branch employees.

Issue: Branch Managers and Credit Administrators felt trapped in the office trying to keep up with all the paperwork associated with loan making. Many felt a disconnect from the clients due to the inability to take periodic field visits.

Time Management

- The workload should be adjusted so that branch managers and credit administrators have the opportunity to get out of the office and do more "hands-on" work with the client base.

Issue: As stated earlier, the excessive interest rates and penalty fees for origination were excessive to many of the loan officials.

Loan Pricing

- Excessive fees for loan origination may also contribute to recovery risks. Consider revising how loans are priced.

Issue: Due to the preconceived notion that all agricultural loan making is “risky”, many loan officials have found that in order to meet the monthly loan quotas and the bonus incentives, it was more practical to make commercial loans versus agricultural loans.

Some loan officials preferred to make agriculture loans versus commercial, however since the incentives for bonuses could be easily obtained by making commercial loans, this is the route most have taken.

Separate Incentives for Commercial Loans versus Agriculture Loans

- Incentives for bonuses should not be the same for commercial loans and agriculture loans.

Issue: Previously pointed out was the lack of sensitivity group one had for the clients serviced by Centenary Bank.

Customer Service

- Customer sensitivity training should be done on an ongoing basis. Some loan officials have negative attitudes toward their customers.

Issue: This issue ties in with the “Teamwork Building” concept. If agricultural loan officers felt a part of the “team” by those in other departments, morale among the branches would begin to rise.

Internal Service

- Customer service for internal customers should also be addressed. There is low employee morale in some areas, due to poor internal customer service

Issue: Loan officials felt that complaints received from clients were not be addressed in a timely manner, if addressed at all. Where there is no accountability, morale will begin to diminish not only with the clients, but with employees as well.

Suggestion Boxes

- Suggestion to place “Suggestion Boxes” throughout the branches so that customers can request different products and services.
- If customer complaints are received in these boxes, the complaints should be addressed in a timely manner.

Issue: Commercial and Agriculture Loan Officers are having to share equipment in many of the branches. The trainees were fully aware that resources are scarce, however, it becomes difficult to complete assignments. Loan officers are trying their best to split the time equally among themselves with computer usage, but due to the lack of “teamwork” in some branches, agricultural loan officers are feeling slighted with the computer usage.

Technology Enhancement

Ensure that there is at least one computer dedicated in the branches for the commercial loan officers and at least one computer dedicated for the agriculture loan officers, to reduce the need to share equipment.

From my observation of several loan files, and during group discussion, many of the loan officials are not taking full advantage or lack access to current market prices. Lack of current market prices will also contribute to poor loan recovery. If the loan officer is not using realistic and adequate market prices, the risk for failure of the client increases severely. A few of the trainees indicated that the

headquarters office in Kampala use to provide each of the branches, at least weekly updates on current market prices. Some loan officers are able to access markets via their cell phone, however those who do have access to this technology aren't taking advantage of the available resources, while other loan officials are simply going on "word of mouth" for current market prices.

Market Access – Clients & Loan Officials

- Ensure that loan officials and clients have access to market prices for various commodities.

Issue: While visiting the Kapchorwa Commercial Farmers Association, with its approximately 2,100 members, expressed their frustration over not having a branch of Centenary bank in Kapchorwa, and having to make the long journey to Mbale. After speaking with the Board of Directors at Centenary, the expansion of a branch in the area was not on the Banks "5-year plan". I encouraged the board, they have the authority to change the 5-year branch, and consider, if not a full branch, a small space should be rented out of an existing structure, and consider visiting the "Kapchorwa" branch as soon as possible. Many clients will not or can not afford to take the trip to Mbale, therefore, Centenary is losing potential clients to the competition.

Branch Expansion

- Consider opening a branch in the Kapchorwa area within the very near future..

Issue: I previously stated that many of the loan officials enjoyed making agriculture loans, and the same could be said of commercial loans. The trainees and I agreed that it is far better to enjoy doing something you had a passion for, versus being forced to do something you don't enjoy. Many of the loan officials would like the opportunity to specialize in one of the two areas – commercial or loan, but not both.

Exclusive Agriculture Loan Officers

- Create exclusive Agriculture Loan Officer Positions. These Loan Officers will focus strictly on agriculture loans.
- Match job positions with the skill-set of loan officials. If you have loan officials proficient in appraisal, create an Appraiser position.

Issue: The same argument presented for agriculture loans, could also be said for those loan officials interested only in commercial loans.

Exclusive Commercial Loan Officers

- The same comment as under Agriculture Loan Officer applies to Commercial Loan Officers.
- Match people with the right attitude and skill-set to the job.

Issue: Many of the training needs and other technical assistance could be provided by entities that are in partnership with Centenary Bank, with little to no cost to the Lender. Many of the loan officials were not only unaware of who Centenary had partnerships with, but had no idea what other services could be provided to them from other sources.

Partnership Enhancement

- Strengthen the relationship with other agriculture finance partners.
- Ensure Centenary's loan officials are aware of the services their partners offer so that the loan officials are empowered with the necessary information for loan success.

Issue: The lending policies throughout the branches are not uniform but standards are universally stringent. In many cases, good clients were given the runaround regarding the items needed to make a loan decision. Many of the trainees felt that those clients with good repayment ability, should not be penalized with inflexible lending requirements, being projected on them from the weak repayment history of other clients.

Flexible Lending Requirements

- Because there are no set standards that are universal across the various branches, I will only make recommendations to the current lending policies which are included under the summary of topics discussed with the board of directors.

Issue: Many loan officials felt like the application process was burdensome for repeat customers. With adequate loan documentation, repeat customers should not be required to complete the same paperwork for each loan request.

Streamline Application Process

- Repeat customers should be offered a simplified loan application. Centenary officials should look at developing a “lo-doc” (low documentation) type application for repeat customers, as long as the loan amount fell within the established range. Those loan requests that exceed the established loan limits established, would be required to complete the normal loan application process.

Issue: Many loan officials expressed their frustration with not being able to meet the monthly targets set each month for themselves, as well as the branch. Geographically, there are challenges that prevent both the clients and the loan officers from networking with potential new customers. Many of the branches felt pressured to meet such targets, and in order to do so, many have avoided making agriculture loans, due to the oversight required, and have focused totally on making commercial loans. I was also reminded, that because the bonus incentives were carefully thought through, there was even more pressure to meet the branch targets.

Refining Targets for Branches

- The lending territory should be given careful consideration when establishing monthly targets for the branches.
- Clearly distinguish between projected agriculture loan targets and commercial loan targets.
- There should be monthly monitoring of planned versus actual projections and clearly identify potential weaknesses.

Issue: Of the trainees in attendance, there was only a handful with less than three years of lending experience. However, many of the loan officials say that there has been a recent surge of the turnover rate among new and young employees. The group felt if those young employees had someone mentoring or coaching them, there's the possibility they would not have either quit or moved on.

During my discussion of the findings with the Board, Ms. Annette CN. Lubega Ntulume indicated that this was an area the training department wanted to incorporate into their training, however, the department was also in need of coaching/mentoring training. I indicated that the coaching and mentoring did not have to be something formal, however, when new employees came on board, they should be partnered with someone who has more experience to serve as a guide, until that new employee felt comfortable in their new job.

Coaching/Mentoring

- Ensure that all new loan officers have a coach/mentor in the early stages of developing as a loan officer.
- If Centenary chooses to have a formal mentoring program, as an incentive to get individuals to serve as mentors, possible look at offering some type of stipend or bonus for their wiliness to take-on the additional responsibility of mentoring along with their official duties.

Issue: There is concern from the group that the competition of other lenders have moved in to provide services that once were dominated by Centenary Bank. However, excessive loan costs, poor customer services from some branches, and lack of marketing, to name a few, have put Centenary in a vulnerable position for future agricultural lending.

Keep the Mission of Centenary in mind

- If the mission of Centenary is to provide financing for the rural poor, provide incentives for those customers, such as waiving loan origination fees for repeat customers who have successful loan performance, provide quality service and customer service, and market the products and services of Centenary in a way that will not only increase your customer base, but ensure that existing clients will remain customers for years to come.

Critical Areas discussed with Centenary Bank's Board of Directors

Reclassifying agriculture loans

- Portfolio Management of Commercial and Agriculture Loans
- Ensure that all loan officials are properly coding all loan types so that a determination can be made on the number of agriculture and commercial loans are in the portfolio.

Portfolio Planning

Planning v. Actual

- Monthly, quarterly, and yearly assessment of planned versus actual loan performance.

Distinct Targets

- Branch targets should be specific for the area.

Trend Analysis

- Monthly, quarterly, or yearly assessments should be conducted to assess trends in loan performance.

Lending Costs

- Careful analysis should be conducted to ensure that such excessive costs are not contributing to poor loan recovery.

Human Resource Department

- Miscommunication and was cleared up during the meeting. I was unaware of the fact that the Human Resources Department was located at another location, therefore that was one of the factors for us not getting together to discuss the training needs for the loan officials at Centenary.

Phased Disbursement of Loan Proceeds

- Loan officials should complete a careful analysis of each loan request and consider using a "phased disbursement" schedule to mitigate the risks for recovery. The "one-size-fits-all" approach leads to the large default rate among the clientele.

Mitigate Risks

- Loan officials should be advising clients in appropriate financial matters to help ensure recovery risks are mitigated.

Lending Policies (multiple recommendations, see below)

- Seriously consider revising the current agricultural lending policies within the next 12 months.
- Specific recommendations include:

Issues:**Loan Description**

- Agriculture involves more than just production loans. The recommendation is for Centenary to look into expanding their lending authority to include: agriculture husbandry, agriculture marketing, and agribusiness.

Maturity

- Recommendation: The “one-size-fits all approach”, meaning giving everyone 12 months to pay may contribute to the loss recovery. The key is to remember that loan officials are funding the activity not the individual. For example if the activity could be paid in a reasonable time period such as 6 months, then the repayment scheduled should be adjusted as such.
- Some activities such as marketing and processing will require longer maturity periods. Centenary should revise their policy to include maturity periods that are activity specific.

Payment Mode

- Recommendation: Let’s clearly define grace periods, multiple disbursements, and irregular payments. These terms meant different things to the loan officers, branch managers, and credit administrators in attendance at the workshops.
- Recommendation: To introduce Lines of Credit (LOC) to mitigate potential losses. Funds would be disbursed over time. The client would have the option to advance funds as needed. This is going to require that loan officers provide more oversight.

Loan pricing

- Pricing should be determined by marketing trends. The penalties for nonpayment can be greatly reduced if the policies on loan maturity were extended.
- There was a recommendation by the groups to allow the 0.5% per day penalty interest to begin on the 15th day of being past due. If adequate oversight is provided by all personnel, there will be little need to penalize clients such as an excessive interest penalty.

Minimum and maximum amounts

- Recommendation: Minimum and maximum loan amounts should be based on the activity and not on the client. There is a high percentage of loans being under-funded, as well as over-funded, based on inadequate oversight by loan officials. Some activities that involve marketing and processing may need more than the minimum and maximum amounts set forth in the existing policy.

Security requirements

- Recommendation: Let’s clearly define what the “two other types of securities” include and if there are exceptions to this policy.

Other requirements:

- Recommendation: Centenary should include the above requirements in a brochure for distribution to potential new clients and ensure each branch is well supplied with the brochure.

Application

- Recommendation: Provide an incentive for repeat customers, such as waiving the application fee for those customers with successful loan performance.

Loan Assessment and Analysis

- Recommendation: Loan officers should begin to compile photos taken during the appraisal process, archive in a notebook, and use as a desk reference for future appraisals.

Formulation of a credit proposal

- Recommendation: The loan officers should strengthen the area of the summary. The summary should be written well enough that someone with no experience in agriculture will be able to read what is planned and be able to comprehend the information presented.

Disbursements

- Recommendation: I'd like to recommend introducing a Line of Credit (LOC), to mitigate losses. Funds are not all disbursed at once, and will involve more oversight by the loan officer in charge of the credit, such as keeping a tracking log of disbursements and payments.

Post dated checks

- Recommendation: As an incentive for new clients, consider waiving this fee or reducing this fee for first-time customers.

Other Recommendations:

Centenary's Human Resources Department should look at developing a Coaching & Mentoring Program for all new loan officers. New loan officers are partnered with experienced loan officers throughout a year-long process. As an incentive for participation from experienced loan officers, Centenary could look at providing a bonus throughout the year-long mentoring process, or at the end of the partnership. Other criteria could be added by the Human Resources Department as appropriate. This may curtail some of the recently high turnover rate among new hires.

Strengthen loan documentation (field notes & analysis of the loan request) for the board and loan committee. This could be monitored quarterly by the official designated to oversee the agricultural loan portfolio.

Quarterly field visits from bank management, in addition to those visits performed by the loan officers

Quarterly outreach sessions conducted by loan officers in their respective areas, with attendance from bank management. These sessions are to inform existing customers and potentially new customers about current agricultural trends.

Realizing that not everyone learns and understands agricultural finance on the same level, recommend that each loan officer be given an Individual Development Plan (IDP) to outline goals and objectives for each growing season/year.

Do they understand what the term "guarantee" means? Ensure that careful training on loan guarantees is provided to loan officials, especially when partnering with DANDIA.

Hold-off expanding for at least the next six months until you're completely comfortable with the level of training by those loan officers on staff now; or place some type of follow-up system in place following the May 2006 training session.

APPENDIX I READING MATERIALS IN PREPARATION FOR THE CONSULTANCY:

“Agricultural Finance in Uganda – The Way Forward” by: Richard L. Meyer, Richard Roberts, & Adam Mugume; June 2004

“Panel III: Case Study Promising Practices in Credit Technology” Innovative Approaches to Rural Lending: Fininciera Calpia in El Salvador; by Sergio Navajas & Claudio Gonzalez-Vega

“Lending for Agriculture: Understanding Production and Marketing and Lending Risk, and Value Chain Financing Opportunities” by Asaph Besigye; December 7, 2005; USAID-Uganda; Rural SPEED (Rural Savings Promotion & Enhancement of Enterprise Development)