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# LOAN PRODUCT STUDY KYAMUHUNGA SACCO

FINAL REPORT



**April, 2006**

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# Rural SPEED

Rural Savings Promotion & Enhancement of Enterprise Development

## LOAN PRODUCT STUDY KYAMUHUNGA SACCO

FINAL REPORT

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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# TABLE OF CONTENTS

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<b>Acronyms</b> .....	<b>i</b>
<b>Executive Summary</b> .....	<b>ii</b>
<b>1.0 Background</b> .....	<b>1</b>
1.1 Introduction .....	1
1.2 Research Objective .....	1
1.3 Research Design and Methodology .....	1
<b>2.0 Activity Summary</b> .....	<b>6</b>
2.1 Research Findings .....	6
2.2 Analysis of the cost, productivity and profitability for existing products .....	12
2.3 findings of mini-focus group discussions & conclusions .....	15
2.4 Appropriate financial product for the needs of KYAPS members, the target Market.....	15
<b>3.0 Limitation of the current coping mechanism</b> .....	<b>17</b>
3.1 Savings .....	17
3.2 Potential Risks in the implementation of the Agricultural Loan Product.....	18
3.3 Agricultural Loan Product Concept.....	18
<b>4.0 Recommendations</b> .....	<b>25</b>
4.1 KYAPS management.....	25
4.2 Continuous technical support to pilot test the ALP and roll it out .....	25
<b>Appendix 1 Literature Reviewed:</b> .....	<b>26</b>

## **ACRONYMS**

AGM	Annual General Meeting
ASCA	Accumulating Savings and Credit Association
FGD	Focus Group Discussion
FI	Financial Institution
KYAPS	Kyamuhunga Peoples Savings and Credit Cooperative Society
MDI	Microfinance Deposit Taking Institution
MFI	Microfinance Institution
MIS	Management Information System
PRA	Participatory Rapid Appraisal
ROSCA	Rotating Savings and Credit Association
SACCO	Savings and Credit Cooperative Organization
UGX	Uganda Shillings

## **EXECUTIVE SUMMARY**

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Kyamuhunga Peoples Savings Credit and Cooperative Society Ltd (KYAPS) started operations in Kyamuhunga Sub-county of Igara County in Bushenyi District in 1998 as a company limited by shares but changed to a SACCO in 2004 to access and intermediate members' voluntary savings. The SACCO has expanded to Katerera sub-county in Bunyaruguru County and it is one of the financial services providers on the forefront in a bid to develop products that are demand driven. In partnership with Rural SPEED, Ms JKB Finance and Management Consultants were subcontracted to review and refine the KYAPS current loan products and find out the exact needs of its members they are serving and potential clients.

### **Objective**

The research objective was to review and refine the existing loans products features and/or develop appropriate financial product for the needs of the target market.

### **What was done, why it was done and how it was done**

#### **What was done**

A market research was conducted. Also carried out was a product review of the existing loan product features and developing a product to meet the financial needs of KYAPS members and potential clients. In addition, group discussions and individual interviews were conducted with 42 persons of whom 23 were female and 19 male for both qualitative and quantitative tools. Sessions were held during the study with: board members, management and staff of KYAPS; tea growers; mixed farmers; market vendors; enterprise managers and workers; teachers; and civic leaders. This was followed by data analysis and reporting of the findings.

#### **Why it was done**

- The market research was carried out to identify the kind of product features and products that would directly respond to the financial wants and needs of members as well as potential clients.
- The analysis of the cost, productivity and profitability for the existing products was done to ascertain whether the products are delivered profitably and efficiently.
- Looking at the minimum savings requirement, loan term, interest rate, security, sources of repayment, importance of the products to the existing and potential clients, and loan disbursement process were carried out to assess the accessibility and affordability of the loan products.

#### **How it was done (methodology)**

The data analyzed in this study were gathered primarily by two survey techniques: focus group interviews (FGDs) using discussion guides; participatory rapid appraisal (PRA) tools and in-depth-interviews with several members of identified target groups. In-depth interviews with staff and management made it possible to understand the loan product features and made the review and agricultural loan product easier. It also gave an in-depth insight about MIS and loan tracking, loan processing time, charges, interest rates, productivity and profitability.

FGDs enabled the team to have an in-depth examination of the different features/aspects of the SACCO's current loan products, members' needs and perceptions about these products.

The following PRA tools were used during the course of the study: i) seasonality analysis of income, expenses, savings, and credit which provided the research team with information regarding seasonal issues around the farming and business cycles in Kyamuhunga, the income flows, expenditure patterns throughout the year, the savings and coping mechanisms and the periods when credit is needed most ii) life cycle profiles and changes in monetary and savings needs. The tool helped to investigate possible

loan products to cope with the life-cycle events. iii) Financial Sector Trend Analysis which brought out the competition among the key players in and around Kyamuhunga and Katerere operational areas; and iv) Quantitative Survey that helped to get information on whether agricultural loans were available at KYAPS, amounts involved, financing sources, constraints, time taken in the process and quality of work

## **Findings, Conclusions and Recommendations**

### **Findings**

In response to the needs of the members for credit, KYAPS came up with the business, school fees, agricultural and water harvest loan products whose features are as follows..

#### **Business loan product**

The product features: loan size range from UGX 1,000,000 to 2,000,000 for three to six months. The interest rate is 3.5% per month (42% p.a.) and 5% per month on overdraft. Extra charges include: insurance fee 1%; account opening: UGX 26,000; commitment fee: 2%; and stationery: UGX 2,000. There is no grace period and the product is available as both individual and solidarity group loans. The acceptable collateral include: vehicle log book and sale agreements; plots of land (*bibanja*); and village groups for forced saving. Loans are disbursed through credit of clients' accounts at KYAPS premises and the loans are accessed immediately. Members are given a dual purpose passbook as a statement of account. The product is easily accessible and there is an opportunity for an overdraft (OD) facility. However, because it is easy to implement, it has stifled the staff initiative to develop other loan products. In addition, short-term overdrafts are showing some signs to cannibalize the business loan product. The ODs are also subject to abuse as the loans are outside loans policy and procedures. The product in general and ODs in particular leads to too much demand on the meager loanable funds. Delayed disbursements (3-4 months) constitute a major complaint by clients.

#### **Agricultural loan product**

The following were the main features of the product. The loan size is UGX 50,000 – 2,000,000 for 1 – 12 months at an interest rate of 3.5% per months for KYAPS funds and 2% per month for MSCL funds. The grace period varies from enterprise to enterprise but range from 1 – 6 months. Like the business loan product, UGX 26,000 is required to open an account and buy shares. There is a 2% commitment fee and UGX 2,000 for stationery. The methodology is the individual lending approach and plots of land (*bibanja*); crop harvest; livestock; vehicle sale agreements constitute acceptable collateral. The loans are disbursed through clients' savings accounts at KYAPS premises and clients are given a dual purpose passbook. The late payment penalty levy for loans in arrears is 3%. Clients find the product flexible with favorable loan terms, affordable collateral requirements, suitable product in premises located in the farming community who need the product, and close to tea factor from where members get regular weekly payments for green tea. The major disadvantage is different interest rates for the same product (3.5% per month and 2% per month for KYAPS and MSCL funds respectively).

#### **School fees loan product**

Apart from the loan period: primary and secondary: 3 months; higher/tertiary institutions: 4 months, the features for this product are similar to those of the business and agricultural loan products. Clients view the advantages of the product as being timely and because payment is direct to school, there is little risk of diversion and misuse. The challenge is the ever increasing school fees and affordability of loan repayment unless the product is linked to an appropriate savings product.

### Water Harvest loan product

The features are also similar business loan product except that: a) it is a consumption loan; b) loan term is 8 – 12 months; c) loan size vary from UGX 1 million - UGX 12 million depending on the size and capacity of the water tank. The product enables the members access to safe water but being a consumption loan, the source of repayment is assumed to be other household incomes which are not easily verifiable.

### Conclusions and recommendations

1. Clients think that the interest rate of 3.5% per month is still high (the Board recently reduced it from 4% to 3.5%). Their preference: 2%-2.5% per month. An appropriate rate can only be arrived at after an ABC costing exercise and then compare it with that of the competitors.

The business loan product should be refined by: (a) reviewing the interest rate after a process mapping and ABC costing exercise; (b) discontinue the overdraft sub-product which entails overdrawing the savings accounts, is subject to abuse and impacts on meager loan funds as some loans are not all that “short-term”, and it has no fixed price.

2. The agricultural loan product: KYAPS is in position to exploit the area’s integrated farming system. The cash inflows from economic activities in and around Kyamuhunga are highly influenced by the agricultural calendar. Presently, the agricultural loan product exists in name only. Hence the need to refine the product by developing a new concept and prototype for the product and pilot test it before rolling it out. It is further recommended that The SACCO should charge uniform interest rates for all agricultural loans products. Technical assistance is required to : operationalize the product prototype below to a pilot test and eventually role it out and d) improve the MIS by acquisition of appropriate software to handle the proposed agricultural and savings products.(acquisition of software such as Equinox that can interface with PMT reporting formant to improve the MIS to handle the operation of this and the refined products of KYAPS)
3. The school loan product should be blended with an appropriate savings product. Clients are perpetual borrowers and will reach a point where they cannot borrow any longer.
4. The water harvest product: the product is a consumption loan. It should be refined. KYAPS should, before disbursement, ascertain the source of repayment; b) link the product to the savings function of the SACCO. For example, make the borrower save a determined percentage of the cost of the tank as a strategy for savings mobilization and management of liquidity given that the loan size is bigger than average loan size of other products.

## **1.0 BACKGROUND**

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### **1.1 Introduction**

Kyamuhunga Peoples Savings Credit and Cooperative Society Ltd (KYAPS) which started operations in Kyamuhunga Sub-county of Igara County in Bushenyi District in 1998 as a company limited by shares but changed to a SACCO in 2004 to access and intermediate members' voluntary savings has expanded to Katerera sub-county in Bunyaruguru County. It also has clients in Mbarara, Ntungamo and Kasese districts. In partnership with Rural SPEED, It is one of the SACCOs on the forefront in a bid to develop products that are demand driven. In the wake of the evident growing competition in the Ishaka operational area a few kilometers away, KYAPS realized the need to review and refine its current products; and find out the exact needs of its members they are serving and potential clients (going out where clients are to get their views/opinions in the product development process). The product review and refining was also to enable KYAPS to expand and enhance its range of financial services; and minimize member dissatisfaction and delinquency. This will result in maximizing member retention and attracting new ones. In light of this need to design products responsive to the needs of the clients, Rural SPEED subcontracted Ms JKB Finance and Management Consultants to carry out: a market research; and a product review of the existing loan product features and develop a product to meet the financial needs of KYAPS members and potential membership.

### **1.2 Research Objective**

KYAPS wants to review and refine the existing loans products features and/or develop appropriate financial product for the needs of the target market. The research entails:

- Conducting a market study to identify the kind of product features and products that would directly respond to the financial wants and needs of members
- analyzing the cost, productivity for the exiting products
- looking at the minimum savings requirement, loan term, interest rate, security, sources of repayment, importance of the products to the existing and potential clients, loan disbursement process and legal implications

### **1.3 Research Design and Methodology**

The research team used qualitative research tools (Focus Group Discussions (FGDs) and Participatory Rapid Appraisal (PRA) in the collection of data in the field. These tools were designed to have complementary data obtained by quantitative and one-to-one in-depth interviews. Views and opinions from a total of 42 (23 female and 19 male) respondents (for both qualitative and quantitative tools) form the substance of this report. Table 1 shows a summary of the tools used and why they were used.



**Table 1**

<b>TOOLS</b>	<b>REASON FOR CHOICE OF TOOL</b>
Focus Group Discussions	FGDs enabled the team to have an in-depth examination of the different features/aspects of the SACCO's current loan products, members' needs and perceptions about these products.
Seasonality Analysis	The tool provided the research team with information regarding seasonal issues around the farming and business cycles in Kyamuhunga, the income flows, expenditure patterns throughout the year, the savings and coping mechanisms and the periods when credit is needed most.
Financial Sector Trend Analysis	Financial Sector Trend Analysis exercises were useful in bringing to light competition among the key players in and around Kyamuhunga and Katerere operational areas.
Life-cycle Profile/Analysis	The tool helped to discover the key events in the lives of KYAPS members and non-members that require cash lump sums and the peoples current coping mechanisms and their limitations. It helped to investigate possible loan products to cope with the life-cycle events
Quantitative Survey	This tool was designed to get information on whether agricultural loans were available at KYAPS, amounts involved, financing sources, constraints, time taken in the process and quality of work <sup>1</sup> .
In-depth interviews.	In-depth interviews with management and staff, the Board and potential clients made it possible to detail typical cases illustrating different situations encountered. It also gave an in-depth insight about MIS and loan tracking, loan processing time, charges, interest rates, productivity and profitability.

The following three activities were defined in the Scope of Work (SOW) for reviewing and refining the existing loan products features. What was done during the field work, why it was done and how it was done are summarized in Table 2 below. The summary is followed by an analysis of the findings on each of the identified activities.

<sup>1</sup> People around Kyamuhunga engage in activities such as mixed farming, tea and tree planting, petty trade, *boda boda* transport and professionals such as teachers.

**Table 2**

No	Activity	What was done	Why it was done	How it was done
1	Conducting a marketing study	<p>Prepared a discussion guide.</p> <p>Interviewed four categories of people: clients (SACCO members); non-clients; the board; KYAPS management and staff.</p>	<p>To help the consultants facilitate group and individual discussions during the market research activity</p> <p>To get in-depth understanding of clients perceptions and satisfaction of KYAPS' services and product features; To establish KYAPS' clients needs</p>	<p>By a group discussion between team members and the SACCO management and staff - FGDs and use of PRA tools (Seasonality, Financial Sector Trend Analysis, Lifecycle Profile, in-depth one-to-one interviews &amp; quantitative survey) Holding Team meetings and discussions at the end of each day to compare, triangulate, interpret and enter the results obtained by using different FGDs and PRA sessions into a Tally Sheet.</p>
		<p>Worked out a fieldwork itinerary and agreed with Kyamuhunga SACCO management and the sample size to visit was determined.</p>	<p>To ensure that a good representative sample was covered</p>	<p>The use of random stratified sampling of all the SACCO and potential clients.</p>
		<p>Held debriefing meetings to the board and management</p>	<p>To fine tune the research findings and solicit the board's buy-in.</p>	<p>- Brain Storming and general discussion research findings with the MT and the Board</p>
		<p>Selected a product champion</p> <p>Carried out a literature review prior to the field work. Relevant documents including various MicroSave literatures on the Product Development Process were reviewed.</p>	<p>The product champion was selected to lead the process</p> <p>The review helped the researchers to determine different loan products features and to find out what features contribute to the attraction of both KYAPS clients and potential ones</p>	<p>By evaluating the three staff presented through consultation with the manager and selected during a session with the MT</p> <p>Going through as many MicroSave Documents as possible. Also read reports on product development including report on Agricultural Financing by Ms Olive Kabatalya and John K Bejuka.</p>

No	Activity	What was done	Why it was done	How it was done
			to join.	
2	<b>Analysis of the cost, productivity and profitability for existing products</b>	<p>Carried a one-to-one interview with the Accountant. Review of charges and fees on various products.</p> <p>Interviewed the two managers of Kyamuhunga and Keterera</p>	<p>To get her experience and input about KYAPS MIS especially the software and loan tracking to establish the trend of the SACCOs costs and profitability</p> <p>This was done to establish staff productivity</p>	<p>By carrying out financial analysis of KYAPS financial statements and performance. However, the way the operational costs of KYAPS is reported in their financial statements does not separate the lending operational costs from other costs of the SACCO (administrative, financial and programme costs). This made it difficult to establish and effectively analyze the cost and profitability of the existing loan products. Technical Assistance will be required as follows:</p> <p>a) A processing mapping exercise to identify bottlenecks in the SACCOs' services delivery;</p> <p>b) proper recording of operational costs into categories: program (cost of lending and recovery) costs; personnel and other administrative costs; and financial costs</p> <p>c) acquisition of appropriate software to improve the MIS to efficiently and effectively manage the accounting and loan tracking functions of the SACCO – proper piloting and roll out of any new product will need such software</p> <p>d) carry out a product costing exercise using either “Activity Based Costing” or “Allocation</p>

No	Activity	What was done	Why it was done	How it was done
				Based Costing” so as to establish the cost of service delivery.
3	<b>Refining existing products and/or developing appropriate financial product for the needs of the target market</b>	Studied the product features of each existing loan product. Carried out extensive interviews with clients and all staff.	This was to better understand clients’ financial behavior and risk profile. The FGDs, individual interviews and PRA sessions made it possible to listen to KYAPS clients and potential clients and then refine the products and design appropriate ones based on better market information.	This activity was carried out by reviewing the existing loan products and their features using the 8 Ps (product; price; promotion; place; positioning; physical evidence; people; and process). The 8 Ps were also useful in analyzing the product (savings and agriculture) concept.  Involvement of the finance staff (mainly the Accountant) so as to develop the product concept with a clear understanding of potential direct and indirect costs which in turn will allow the SACCO to examine options for pricing the products appropriately.

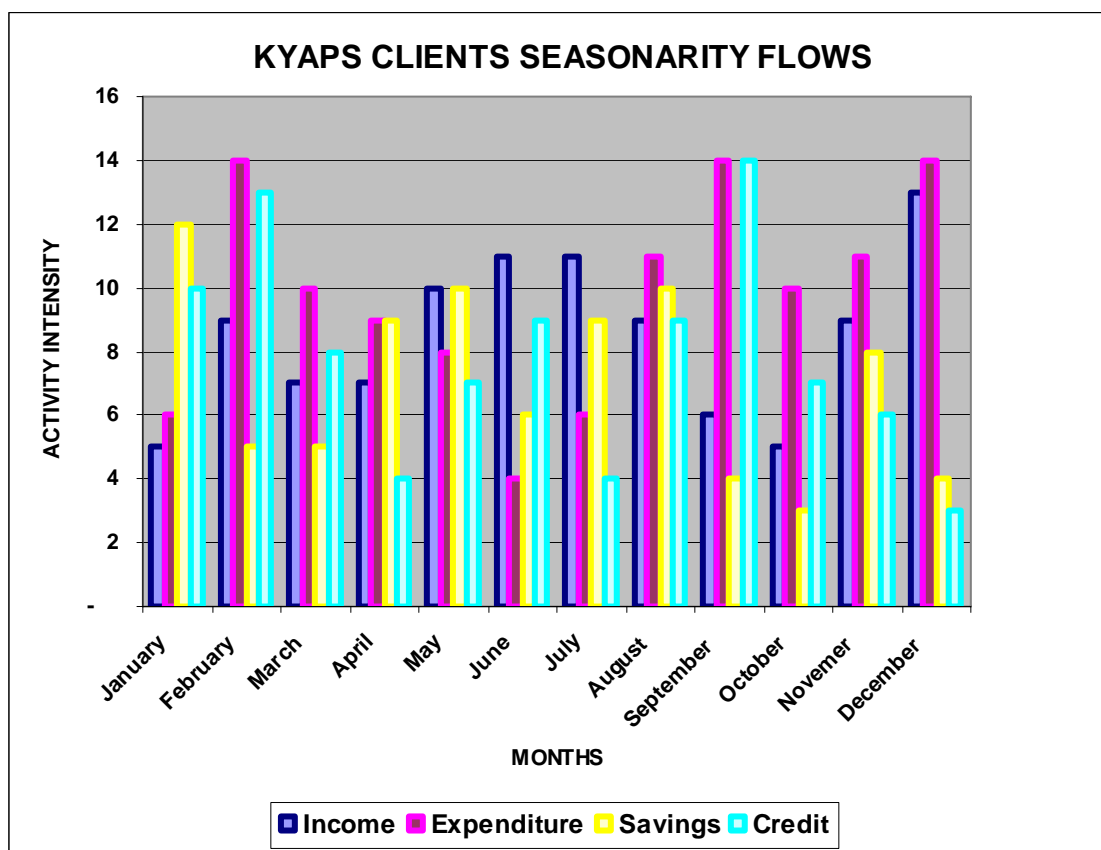
## 2.0 ACTIVITY SUMMARY

### 2.1 Research Findings

#### 2.1.1 Business loan

People around Kyamuhunga and Katerera engage in activities such as: petty and medium enterprise trade; tea growing, processing and trading; transport (*boda, boda*, taxis); professionals such as teachers and tea factory workers who earn salary. The results of the seasonality flows of income and expenditure shows that stock turnover in shops is high around Christmas and other festival seasons (Easter, New Year). Harvesting from the farming activities also bring in substantial incomes around the months of June-August. People’s pockets are liquid around December-January and June-August (Figure 1). The salaried sector tends to have steady income while the weekly tea payments bring in cash inflows on a regular basis for the people of Kyamuhunga. The incomes in February and March are also from stored produce for sale in this lean period when traders take price advantage. The cash inflows from other sectors in the area are highly influenced by the agricultural calendar

Figure 1



Very high expenditures are experienced in February, September and December. The first two high expenditure months (February and September) are due to school fees on children’s education and in December there is high expenditure on marriages and Christmas. The high expenditure is also attributed to buying assets for households and re-investing in business.

This is also the time when they also need credit (January-February and September –October are high credit months). In response to the needs of the members for credit in these months, KYAPS came up with both the business and school fees loan products whose features are reviewed in Table 3 below.

### **2.1.2 Agricultural loan**

Interviews, FGDs and PRA sessions with a total of 168 (72 women and 96 men) persons in various locations during the field research revealed that most KYAPS members and potential clients are farmers of various sizes of farms and different levels of production and with a minimum of three enterprises such as tea, coffee, bananas and dairy cattle concurrently on each farm. A small number out of these had diversified into retail trade. They all indicated that they require loans for purchase of inputs like fertilizers, herbicides, seeds/seedlings and payment of labor in order to increase the productivity of their farm enterprises.

Further to this expressed need by clients, the loans officers revealed to the research team that a total of 300 loans applications totaling to Ug. Sh. 400 million, were received by Kyamuhunga in the first quarter of 2006, for agricultural production enterprises, and only 74 loans worth Ug. Sh. 50.5 million was granted. This alone illustrates the existence of a very high demand for agriculture production loans in Kyamuhunga's operational area.

It is against this background that KYAPS obtained funds from the MSCL to meet this demand for agricultural loans which were disbursed at 2% per month interest rate. It also provides few agricultural loans from own funds at 3.5%. The disparity in interest rates have resulted into some unscrupulous business people purporting to borrow for agriculture, obtained the loans at 2% interest rate per month and diverted the money into businesses other than agriculture. In other cases, some clients obtain loans under the business loan product and the money ends up in financing tea and other agricultural enterprises. The product features, its advantages and disadvantages are presented in Table 3 below.

### **2.1.3 School fees loan**

From Focus Group Discussions, Life Cycle Profile PRA Tool it was revealed there are financial pressures clients face at different stages of their lives that require lump sums of money. Long illness, school fees (mainly secondary and tertiary), buying land, building a house (establishing a household) was frequently mentioned (Figure 2). The UPE program has eased pressure on parents with children in primary school. However, more and more parents are finding it difficult to afford quality education for all their children beyond primary level (secondary and tertiary education). Hence KYAPS school loan product whose features are also presented in Table 3. The product is extremely popular. The major problem with the product is the money is not enough especially for those borrowing to meeting the cost of education at both secondary and tertiary institutions level. There is need to complement the product with a savings product specifically for education by improving the Minors savings account product.

Figure 2

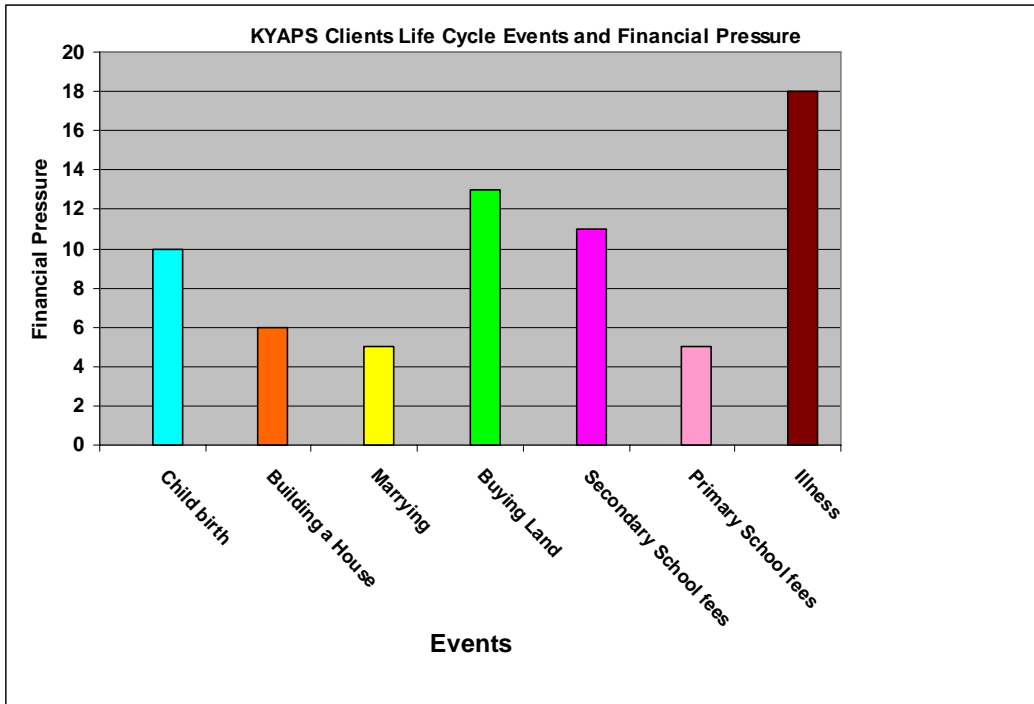


Table 3

PRODUCT	FEATURES	ADVANTAGES	DISADVANTAGES	REMARKS
<b>Business Loan</b>	<ul style="list-style-type: none"> <li>loan size UGX 100,000 to 2,000,000</li> <li>loan term 3 to 6 months</li> <li>interest rate: 3.5% per month (5% per month on overdraft)</li> <li>insurance fee 1%</li> <li>Account opening: UGX 26,000</li> <li>Commitment fee: 2%</li> <li>Stationery: UGX 2,000</li> <li>No grace period</li> <li>Product delivery: both individuals and groups.</li> </ul>	<ul style="list-style-type: none"> <li>Favorable loan terms</li> <li>The loan delivery methodology: favorable to both individual borrowers and group loan clients</li> <li>Flexible and affordable collateral</li> <li>Easily accessible</li> <li>Diversification: short-term overdrafts (ODs)</li> </ul>	<ul style="list-style-type: none"> <li>Because it is easy to implement, it has stifled the staff initiative to develop other loan products</li> <li>It provided a way for treating loans under the Microfinance Support Centre Ltd (MSCL) as business loans but still carrying a 2% interest rate</li> </ul>	<ul style="list-style-type: none"> <li>No brochure articulating the business loans features</li> <li>Clients think that the interest rate of 3.5% per month is still high (the Board recently reduced it from 4% to 3.5%). Their preference: 2%-2.5% per month. An appropriate rate can only be arrived at after an ABC costing exercise and then compare it with that of the competitors.</li> <li>In most cases (as confirmed by both credit officers and verified from clients), loan processing time take long (3-4 months before disbursement) attributed to “no money”. Delays are also due time taken before the Board Loans Committee meet leading the management team to take a “short-cut” by giving some luck clients overdrafts. The delays to disburse loans constitute a major complaint by clients.</li> </ul>
<b>Business Loan</b>	<ul style="list-style-type: none"> <li>Collateral: vehicle log book and sale agreements; plots of land (<i>bibanja</i>);village groups for forced saving</li> <li>Accessibility: loans disbursed through credit of clients’ accounts at KYAPS premises</li> <li>Access/Processing time: Immediate</li> <li>Dual purpose</li> </ul>	<ul style="list-style-type: none"> <li>Can keep trace of/track savings; loans disbursement; principal and interest loan repayments and charges</li> </ul>	<p>Short-term overdrafts are showing some signs to cannibalize the business loan product. The ODs are also subject to abuse (disbursement of loans outside loans policy and procedures); ODs are not found anywhere in KYAPS loan policy<sup>2</sup>. The product in general and ODs in particular leads to too much demand on the meager loanable funds. At times the short-term overdraft</p>	

<sup>2</sup> KYAPS does not have operational and lending manual and a well articulated loans policies and procedures



PRODUCT	FEATURES	ADVANTAGES	DISADVANTAGES	REMARKS
	passbook		lapse into “long-term.”	<ul style="list-style-type: none"> <li>The codes used in the passbooks to denote various loan charges are not explained or interpreted to borrowers</li> <li><b>Refine the product by:</b> <ol style="list-style-type: none"> <li>reviewing the interest rate after a process mapping and ABC costing exercise</li> <li>Discontinue the overdraft sub-product. It entails overdrawng the savings accounts; is subject to abuse; is not covered by the loan policies and procedures; and impacts on meager loan funds as some loans are not all that “short-term”, and it has no fixed price.</li> <li>minimize processing time by regular loans committee meetings; and produce a brochure detailing the product features</li> </ol> </li> </ul>
Agricultural loan	<ul style="list-style-type: none"> <li>Loan size: UGX 50,000 – 2,000,000</li> <li>Loan term: 1 month – 12 months</li> <li>Interest rate: 3.5% per months for KYAPS funds; 2% per month for MSCL funds</li> <li>Grace period: 1 – 6 months – vary from enterprise to enterprise</li> <li>Other equirements and charges:                             <ol style="list-style-type: none"> <li>UGX 26,000 to open account and buy</li> </ol> </li> </ul>	<ul style="list-style-type: none"> <li>Flexible and favorable loan terms</li> </ul> <p>Flexible and affordable</p>	<ul style="list-style-type: none"> <li>Two different funding for the product at different interest rates: 3.5% per month and 2% per month for KYAPS and MSCL funds respectively</li> </ul>	<ul style="list-style-type: none"> <li>Recommendations:                             <ol style="list-style-type: none"> <li>uniform interest rates for all agricultural loans products</li> <li>the loans are mixed up with business loans. There is need to develop a new concept and prototype for the product and pilot test it before rolling it out</li> <li>KYAPS should embark on a fundraising campaign to build</li> </ol> </li> </ul>

PRODUCT	FEATURES	ADVANTAGES	DISADVANTAGES	REMARKS
Agricultural loan	<p>shares</p> <p>b) 2% commitment fee</p> <p>c) UGX 2,000 stationery</p> <ul style="list-style-type: none"> <li>• Delivery mechanism: individual lending approach</li> <li>• Collateral: Plots of land (<i>bibanja</i>); crop harvest; livestock; vehicle sale agreements</li> <li>• Accessibility: loans disbursed through clients' savings accounts at KYAPS premises</li> <li>• Dual purpose passbook</li> <li>• Processing time: immediate</li> <li>• Late payment penalty for loans in arrears 3% per month</li> </ul>	<p>collateral requirements</p> <p>Suitable product in premises located in the farming</p> <p>Community who need the product; close to tea factor from where members get regular weekly payments for tea green leaf.</p>		<p>up loan funds. The current products lending operations are constrained by lack of funds and hence the insignificant portfolio growth.</p> <ul style="list-style-type: none"> <li>• <u>Refinement:</u> <ol style="list-style-type: none"> <li>a) Charge uniform interest rate on all agricultural loans</li> <li>b) articulate the agricultural loan product features, design and develop the product</li> <li>c) Proposed technical assistance: operationalize the product prototype below to a pilot test and eventually role it out. The team's view is that the agricultural loan product exists in name only</li> <li>d) improve the MIS by acquisition of appropriate software to handle the proposed agricultural and savings products.</li> </ol> </li> </ul>
School fees loan	<ul style="list-style-type: none"> <li>• Similar features as business and agricultural loan products except for loan period</li> <li>• Loan period/term:               <ol style="list-style-type: none"> <li>(a) primary and secondary: 3 months</li> <li>(b) higher/tertiary institutions: 4 months</li> </ol> </li> </ul>	<ul style="list-style-type: none"> <li>• Timely. Because payment is direct to school, there is little risk of diversion and misuse.</li> </ul>	<ul style="list-style-type: none"> <li>• There is limit to which clients' can borrow for the ever increasing school fees</li> </ul>	<ul style="list-style-type: none"> <li>• There is need for a school fees savings product. Clients are perpetual borrowers and will reach a point where they cannot borrow any longer.</li> <li>• <u>Product refinement:</u> Blend the product with a savings function. Technical Assistance recommended for acquisition of software such as Equinox that can interface with</li> </ul>

PRODUCT	FEATURES	ADVANTAGES	DISADVANTAGES	REMARKS
				PMT reporting formant to improve the MIS to handle the operation of new products
Water harvest Loan	<ul style="list-style-type: none"> <li>Similar features as business loan except: a) it is a consumption loan; b) loan term is 8 – 12 months; c) loan size vary from UGX 1 million - UGX 12 million depending on the size and capacity of the water tank.</li> </ul>	<ul style="list-style-type: none"> <li>Provision of safe water to households</li> <li>One of the strategies to diversify the loan portfolio.</li> </ul>	<ul style="list-style-type: none"> <li>It is a consumption loan and the source of repayment is assumed to be other sources of household income.</li> </ul>	<ul style="list-style-type: none"> <li><u>Refinement:</u> <ol style="list-style-type: none"> <li>Eligibility: before disbursement, ascertain the source of repayment;</li> <li>link to the savings function of the SACCO e.g. make the borrower save a determined percentage of the cost of the tank as a strategy for savings mobilization and management of liquidity given that the loan size is bigger than average loan size of other products.</li> </ol> </li> </ul>

## 2.2 Analysis of the cost, productivity and profitability for existing products

### 2.2.1 Cost analysis and profitability

A financial analysis of KYAPS financial statements and performance as at December 2005 was carried out to have an idea of the SACCOs profitability. It was found out from the reports that costs of all operations were reported together as their current MIS could not separate costs of operations by each loan or deposits product. Similarly, the loan income is mixed up with other sources of income such as: share premium; entrance fees; account opening, passbooks; ledger fees; etc. As a result, it was difficult to establish and effectively analyze the cost of the existing loan products. It was also not easy to verify the SACCO statement of self-sufficiency presented in Table 4 below.

**Table 4**

Indicator	2004	2005
OSS	119%	110%
FSS	106%	109%

Source: KYAPS Financial Statements 2004 – 2005

However, an attempt was made to establish whether KYAPS is covering the cost of lending and other operations from the interest and commissions using a formula from CGAP occasional paper on Micro credit interest rates by Richard Rosenberg:- "Setting Interest Rates for Self Sufficiency" and taking into account the fact that KYAPS is operating in competition with other MFIs. The formula is:

$$R = \frac{OC+LL+FC+IC+K}{I-L} - II$$

I-L

Where:

ITEM	FORMULA EXPLANATION
R	The needed effective interest rate per annum
OC	the total operating costs per year
LL	the loan losses per year
FC	the financing costs per year
IC	the imputed costs or costs due to inflation
K	the capitalization rate which represents the net real profit per annum which Kyamuhunga SACCO would like to target per year, expressed as percentage of the average loan portfolio
II	the investment income

A simple calculation based on the financial statements as at December 2005 (operational costs not segregated as product) revealed an effective interest rate of 84%<sup>3</sup> which is too high compared to 44% p.a. nominal interest rate currently being charged. The calculation is presented in (Table 5) below.

Table 5

ITEM	=	ASSUMPTIONS AND CALCULATION
Average outstanding loan portfolio	=	= Ug. Shs 418.9 million + Ug. Shs 378.3 million divide by 2 (p. 8 annual accounts) (portfolio balance 31-12-05 +balance 31-12-04) divide by 2 = 398.6 million over the year 2005
Loan losses:		Kyamuhunga SACCO has not yet written off any loans, although they make provisions for loan losses. For this calculation, it is assumed that their annual loan losses will be 5% of the portfolio. This is the maximum industry average loan loss for MFIs.
Operational costs	=	UGX 197.6 million (p.5 2005 annual accounts)
Financing costs Imputed costs:	=	interest on borrowings +interest paid on time deposits = 20.1 million + 10.4million = 30.5 million (p.4 annual accounts 2005) These are costs which take care of the effect of inflation on the loan portfolio over time. The current inflation rate for March 2006 of 8.0% was applied (New Vision 3/4/06 p. 38) 8% of 398.6 million =31.8 million.
Capitalization cost:		this represents the net real annual profit that Kyamuhunga has targeted in its five year business plan 2005-2010 actual profit was 41.9 million
Investment income		was zero because KYAPS did have any investments as they did not have any idle funds (deposits) for placing in treasury bills.
Results		
Operating costs (OC)	=	197.6/398.6 = 0.49
Loan loss (LL)	=	(5/100*398.6) = 19.93 m/398.6m = 0.05
Imputed costs (IC)	=	(8/100*398.6 m) = 31.88 m/398.6 = 0.08
Capitalization cost (K)	=	41.9 m/398.6 = 0.10
Financing cost (FC)	=	30.5m/398.6 = 0.076
Investment income (II)	=	0
Effective interest rate (	=	= 0.49+0.05+0.076+0.08+0.1 = 0.796 -0 =0.837 = 84%

<sup>3</sup> The rate calculated is for all loan products as the MIS could not track each product costs and revenues separately and it was therefore difficult to arrive at a recommended interest rate for the agricultural loan and savings products prototypes.

ITEM	=	ASSUMPTIONS AND CALCULATION
R)		1-0.05      0.95
The rate so calculated includes the quoted rate of 3.5% per month plus any other charges like loan acceptance commission and late loan payment penalty fees. The rate calculated is for all loan products as the MIS could not track each product costs and revenues separately.		

Source: Calculated using KYAPS Financial Statements 2005

The 84% effective interest rate means that KYAPS operational costs are too high and need to be strictly controlled. There is also a need to explore ways to grow the loan portfolio to reflect the demands for the loans, so that more interest income can be generated per unit cost of operation than is currently realized. In the meantime, the current rate of 3.5% p.m. should be maintained and consider reducing it in future when the SACCO is more efficient in controlling its operational costs and also is able to earn more revenue from an expanded loan portfolio. The SACCO needs to be assisted in the following areas:

- a) Process mapping to identify bottlenecks in the SACCOs' services delivery
- b) Organizing and proper recording of operational costs into categories: program (cost of lending and recovery) costs; personnel and other administrative costs; and financial costs – these are items to highlight in the accounting manual when, together with other manuals are written
- c) Management Information System (MIS) in terms of acquisition of appropriate software to efficiently and effectively manage the accounting and loan tracking functions of the SACCO. In particular, proper piloting and roll out of any new product will need such software. A quick contact of MFIs such as CMF; U-Trust, CERUDEB revealed that they are using **EQUINOX** software and Faulu is in the process of acquiring one. We understand, the SACCO can obtain modules that are appropriate to its operations and does not have to buy all the modules of the software, something that needs to be investigated. There will be need to interface with the Monitoring Performance Tool (PMT) to: standardize the reports to management; reporting costs separately; isolate interest income from non-operating income; and calculate important ratios such as OSS, FSS, productivity, liquidity;, etc. accurately. It will also be cost effective for the other Rural SPEED partners such as Muhame and Shuku to contribute to the cost of acquisition and maintenance (sharing the usage and running costs).
- d) Carry out a product costing exercise using either “Activity Based Costing” or “Allocation Based Costing” so as to establish the cost of service delivery product by product.

### 2.2.2 Productivity of existing products

An assessment of the productivity of the loans products at KYAPS was done indirectly by , calculating the following parameters (which are indicators of their productivity) using reports supplied to the research team by the management of KYAPS .

The loan ratios

- i) loan portfolio growth
- ii) loan portfolio yield
- iii) arrears rate
- iv) loans officers case load.
- v) Loan portfolio growth at Kyamuhunga

31 December 2003	254 Loan outstanding	Growth in %
31 December 2004	<b>283</b> Loan outstanding	<b>11%</b>
<b>31 December 2005</b>	326 Loan outstanding	<b>15%</b>
<b>1<sup>st</sup> Feb. 2006</b>	735 Loan outstanding	<b>125%</b>

Portfolio growth has been minimal due to lack of loan able funds.

- i) Portfolio yield as at 31-12-2005 was 39.5% which is an indicator of good loan recovery
- ii) Arrears rate has been ranging from 9.28%-23% in the last three years which is poor compared to the industry average of 5%.
- iii) Case load/ staff productivity: average case load at KYAPS ranges from 85-110 loans per loans officer. This is below industrial average of 250.

### **2.3 findings of mini-focus group discussions & conclusions**

1. Kyamuhunga area is characterized by diverse social and economic sectors. As shown by effective demand well articulated in the Agricultural Product Development Report complimented by the results of the min-FGDs, there is tremendous need for an agricultural loan product that needs to be well defined in terms of the scope and other attributes for it to sell better.
2. The need for the product is also based on clients current coping mechanisms, limitations and savings behavior detailed in the Savings Mobilization Study.
3. According to the findings of the Financial Sector Trend Analysis PRA tool, KYAPS is the only credible MFI/SACCO in and around the western part of Kyamuhunga sub-county and has tremendous potential to capture most of the market in Bunyaruguru sub-county. This gives it a comparative advantage in delivering its current products to the community. This also suggests that the SACCO can base the marketing of the newly refined and designed agricultural loan product (ALP) on the goodwill it has built.
4. KYAPS is in position to exploit the area's integrated farming system (people around Kyamuhunga engage in activities such as farming (tea and banana growing complemented by livestock, subsistence crops like beans and groundnuts, tree planting and rice)). Steady income is obtained from the weekly repayments for green tea. The seasonality analysis of income flows indicates that the cash inflows from the other sectors in and around Kyamuhunga are highly influenced by the agricultural calendar.

### **2.4 Appropriate financial product for the needs of KYAPS members, the target Market**

#### **2.4.1 Coping mechanisms**

From the lifecycle profile which seeks to trace lump sum cash requirements overtime and the seasonality analysis PRA tool which was used to analyze the inflows based on the agricultural calendar, it was revealed that events like building a house, buying land and agricultural inputs, weeding, harvesting including tea plucking and marketing; and education costs, among others, featured prominently with the highest ranking.

The research team discovered that the people in the research area have in place different mechanisms to help finance their agricultural activities. Respondents expressed great need for an improved agricultural loan product by giving numerous items for consideration in the product definition. They said they are committed to improving their agriculture by employing both formal and informal avenues of financing.

#### **2.4.2 Savings**

To raise the required lump sums, people do save some money from their incomes in order to acquire the necessary agricultural inputs to improve their tea plantations; mulch for their banana plantations and drugs for their grade livestock. Those in employment save part of their salary income; others save from proceeds from their agricultural produce and from profits of some of their businesses. As detailed in the Savings Mobilization Study, the methods used often include: in-kind (animals and produce); in house

(box, roofs, under mattresses and pillows, etc.); ASCAs, ROSCAs, SACCOs like KYAPS; MFIs groups, like U-Trust, Pride Microfinance Ltd, Ugafode and UWESO; and banks such as CERUDEB and Stanbic.

### **2.4.3 Credit**

Individuals borrow from financial institutions, non-financial intermediaries, local associations, friends and relatives to improve their farms. As revealed in the FGDs, they repay either in one installment or on several small installments. Some of the items taken as security include: radios; furniture; animals; harvest; and vehicle logbooks. Some of the sources charge very high interest, usually 10% per month. Some KYAPS members have multiple loans from other MFIs on the grounds that what the SACCO gives them is too small for their activities and others said KYAPS takes too long to approve the loan (3-4 months) and cannot to miss early planting, weeding or harvesting. Because of the scarcity of agricultural loan funds, others obtain credit on the basis of improving businesses but subsequently divert it to agriculture.

### 3.0 LIMITATION OF THE CURRENT COPING MECHANISM

#### 3.1 Savings

As detailed in the Savings Mobilization Study, most KYAPS members and potential clients found it difficult to save because of low prices from sale of farm produce. Others said they were discouraged to save by charges on their savings accounts and no interest is earned on their money they keep on the accounts with the SACCO. Generally, people do not save in banks due to unfriendly staff and get scared of filling forms and need to maintain minimum balances. A summary of savings methods, reason for saving and constraints to saving extracted from the Savings Mobilization Study is presented in Table 6.

**Table 6**

<b>METHOD</b>	<b>REASON</b>	<b>CONSTRAINTS</b>
In-kind (animals and produce)	Animals reproduce and hoarded produce sold at high price. Easy to monitor; no paperwork required	Costly to keep animals and sometimes may die or stolen thereby losing everything; large space required for produce and cannot be kept for long periods
In the house (box, roof, pillows, etc)	Easy access; easy to monitor; no paperwork required; no time wastage	Subject to trivial spending; can easily be stolen or destroyed by fire, termites, rats, etc.
ROSCAs	Easy to join; very transparent; useful lump-sums easily created; within the community and no legal requirements for formation; no paperwork	Often collapse as some members fail to honor their contributions
ASCAs	Easy to join; easy access to loans	Problems with record keeping; easily influenced by high profile people; cheating by some clever and literate members ( <i>abasoma baine amagezi maingi</i> literary meaning the educated are tricksters)
MFIs, SACCOs	Located within community; pre-disbursement training; saving in small bits; in some institutions, condition to access credit	Some are limited in scope e.g. targeting only women or members only; most do not have safe places to keep money – it has to be deposited with a bank; weekly meetings fatigue.
Banks	Safe places for money	Many people illiterate or semi-illiterate; many forms to fill; high opening and minimum balances; unfriendly staff; laborious and costly references requirements; low interest on savings; most do not have agricultural loan product; ; elaborate conditions to access credit



### 3.1.2 Credit

Using the Product Attribute Ranking, Seasonality Analysis, and the Financial Sector Trends Analysis PRA tools, it was established that the general problems associated with acquiring credit mainly rotate around:

- High interest rates
- Short loan periods
- High installment amounts
- Untimely disbursements
- Insufficient loan amounts
- Fear to risk losing assets when one fails to pay in time.

## 3.2 Potential Risks in the implementation of the Agricultural Loan Product

### 3.2.1 General Risks

- (i) Farmers are often confronted with problems such as: natural disasters; artificial anomalies like price fluctuations in the cost of inputs and produce sales; lack of inputs supply; diseases (banana wilt, tea diseases) and crop failure. The occurrence of any of these events will greatly affect loan repayment.
- (ii) The Life Cycle Profile analysis also revealed that it may be difficult to recover the loan in case of death, accidents and terminal illnesses.
- (iii) One - to - one interview with staff brought out the issue of competition from the already existing products which could easily cannibalize or be cannibalized by other products.
- (iv) Competition from other financial institutions in and around Kyamuhunga/Ishaka. There is also the threat of multiple borrowing.

### 3.2.2 Risk management (issues that will impact implementation of ALP)

- (i) Untrained staff on: agricultural lending techniques; good risk management technologies; and marketing skills.
- (ii) Good farming techniques and mechanisms have to be encouraged and promoted (this is likely to be constrained by poor delivery of extension services in Kyamuhunga)
- (iii) Need to encourage spouses to open up joint accounts to mitigate the-would-be loss in case of death or failure and the mandate should be either to sign
- (iv) Lack of resources for continuous market research. The “one size-fits-all” approach cannot work in situations where client needs and demands keep on changing every other time.
- (v) Shortage of loanable funds and limited growth of deposits, the major source of the SACCO’s loan funds
- (v) The SACCO might not be in position to institute a well facilitated product development team to carry out market research whenever need arises
- (vi) It is important that the packaging of the agricultural loan product is:
  - a) well defined to control the risk of cannibalization
  - b) clear and simple to understand
  - c) expressed in clients’ language (*Runyakitara*)
  - d) priced in the most acceptable way for the members

## 3.3 Agricultural Loan Product Concept

The purpose of the loan is to provide finance for any productive and profitable agricultural production enterprises. Within the operational areas of Kyamuhunga SACCO- rice, Matooke, tea, coffee, pineapples, cattle fattening and dairy cattle are the eligible enterprises. The list does not exclude any other enterprises that the farmer/ loan applicant may be undertaking at the time of lodging an application for a loan. The agricultural loan product concept and prototype is presented in Table 7

Table 7

**AGRICULTURAL LOAN PRODUCT CONCEPT AND PROTOTYPE**

**“The KYAPS Agricultural Production Loan Product, ALP, is targeted at the agricultural productive enterprises sector”.**

<b>ITEM</b>	<b>KRAPS PROPOSED POLICY/PROTOTYPE</b>	<b>CLIENT REACTION</b>	<b>RESEARCHERS' COMMENTS</b>
<b>NAME</b>	KYAPS Agricultural Loan Package (ALP)	<b>OK</b>	KYAPS can have one simple local term for the product
<b>Purpose</b>	Provide finance for any productive and profitable agricultural production enterprises.	<b>OK</b>	<b>OK</b>
<b>Use</b>	Production (inputs, labor, coffee and tea seedlings, technical advice and extension etc)	The loan also need to cover transport of tea leaves from garden to factory and extension services and technical assistance costs for example veterinary services, mixing chemicals for spraying tea and fertilizer application	The description of the use of the loan product should be done to cover specific items to avoid confusion
<b>Loan Term</b>	The maturity of an agricultural loan at Kyamuhunga SACCO shall depend on the agricultural season and shall range from one to twelve months.	<b>OK</b>	Loan period should not go beyond twelve months. The period can also be determined by the amount applied for and the capacity of the client to service the loan but within 1-12 months period.
<b>Interest</b>	The agricultural loan product shall be given at an interest rate of 3.5% per month, on declining balance basis.	<b>OK</b> The borrower shall pay a loan acceptance commission of 2% of the loan amount to which they are already familiar with.	Retain the rate at 44% p.a. The borrower shall also pay the costs of loan security registration and the costs of loan recovery, if in default. If an agricultural loan is fully secured by a fixed deposit account kept at Kyamuhunga SACCO, the borrower will pay an interest rate of 0.5% per month (6% p.a.) above the interest paid on the fixed

ITEM	KRAPS PROPOSED POLICY/PROTOTYPE	CLIENT REACTION	RESEARCHERS' COMMENTS
			deposit amount i.e. paying 18% p.a. given that the interest on the FDR is at 12% p.a. presently .
<b>Security/collateral</b>	<p>Chattel mortgage of farm tools and implements such as spray pumps, wheel barrows.</p> <p>Agricultural land on which the farmer is currently growing crops or grazing cattle.</p> <p>Cattle owned by the borrower</p> <p>The crop harvest A guarantor or two guarantors at the discretion of Kyamuhunga SACCO Boda Boda motor cycle and vehicle log books The total value of securities shall cover at least 150% of the loan amount excluding the value of the crop harvest and no value shall be placed on guarantors</p>	<p><b>OK</b> Clients readily agreed with guaranteeing each other. No need for tying the product to savings. The amount used to open the account is sufficient. The SACCO concern should be whether the client will pay.</p>	<p>This individual lending and therefore no need for upfront savings. Kyamuhunga SACCO will have the right to take more than one of the securities types listed in order to adequately secure the loan ( above 150% securities value to the loan amount)</p>
<b>Amount Eligibility</b>	<p>The minimum amount of an agricultural loan at Kyamuhunga SACCO is UGX. 50,000, while the maximum loan amount shall be Ug. Sh. 5,000,000 (or 5% of the maximum liability for Kyamuhunga SACCO as per the cooperative organizations statute)</p> <p>a minimum of two seasons of experience in the agricultural enterprise to be financed.</p>	<p><b>OK</b> People should be allowed to borrow even UGX 10 million</p> <p><b>OK</b> though some clients were complaining that the UGX 26,000 to open the</p>	<p>Loan funds and statutory maximum liability permitting, people should be allowed to borrow up to UGX 10 million. However, any increase should be determined by annual reviews of the product.</p> <p>The verification of evidence of residence in Kyamuhunga and the plot of land (kibanja)</p>

ITEM	KRAPS PROPOSED POLICY/PROTOTYPE	CLIENT REACTION	RESEARCHERS' COMMENTS
	<p>undertake to carryout farming for profit and endeavour to use extension services available to improve on the yield / productivity of the enterprise.</p> <p>reside within the operational area of Kyamuhunga SACCO and be the rightful owner or tenant of land used for the enterprise.</p> <p>have an account within Kyamuhunga SACCO and to have operated the account for at least three months.</p> <p>not have any other outstanding loan at any of the branches of Kyamuhunga SACCO.</p> <p>carrying out farming in at least three enterprises or more, from the list in “g” below in order to be considered for an agricultural loan at Kyamuhunga SACCO. However rice and watermelon can be financed as individual enterprises.</p> <p>g) Enterprises for which farmers are eligible to receive loans are the following: bananas, tea, coffee, pineapples, cotton, cattle/livestock and maize. Rice and water melon as individual crops and then any three or more of the remaining</p>	<p>account was too much and poor people cannot afford.</p>	<p>given as security shall be by a means of letter of the local Council 1 chairperson handed over to the SACCO loan officer direct.</p> <p>The loan product should create competition and only the most competent applicants should get the loan</p>

<b>ITEM</b>	<b>KRAPs PROPOSED POLICY/PROTOTYPE</b>	<b>CLIENT REACTION</b>	<b>RESEARCHERS' COMMENTS</b>
	enterprises		
<b>Process</b>	The process shall follow the normal application and disbursement procedures of the SACCO. This process, will among others, involve application, appraisal, valuation and verification and approval by the loans officer and the Loans Committee respectively.	Initially the product to be handled by utmost the two loans officers and the manager. Fridays should be set aside for the loans Committee to discuss the agricultural loans only. The SACCO should design an application form for uniformity and ease of application. The clients should provide transport for the loans officer to verify the application.	As determined by KYAPS. However, best practice is that the institution should provide transport to the loans officer since such costs are recovery from interest and other charges on loans.
<b>Grace period</b>	Grace periods of up to three months or less and irregular loan payments plan are allowed. For example a loan for tea production (fertilizers purchase) requires a grace period of one month. Grace period should be considered on case by case basis depending on each agricultural enterprise and the farmer's cash flow position.	<b>OK</b>	<b>OK</b>
<b>Repayment</b>	The payment mode shall depend on the farmer's disposable income (projected) at the level of the household	<b>OK</b>	<b>OK</b>
<b>Promotion</b>	The agricultural loan product shall be promoted through	<b>OK.</b> Product differentiation by clear descriptions	<b>OK</b>

ITEM	KRAPS PROPOSED POLICY/PROTOTYPE	CLIENT REACTION	RESEARCHERS' COMMENTS
	sensitization and educational programs, media, at the point of service (customer desk); posters at group meetings	on brochures/ flyers. Sensitization seminars should be regular. The SACCO can, where funds permit, organize parties/promotion, posters and even have prizes like T-shirts to good borrowers	
<b>Incentives</b>	Good repayments will be encouraged by regular monitoring visits to farmers with brief /concise field reports posted on the client' loan files.	<b>OK.</b> If a client served 3 consecutive ALP loans can be given chance to get both business loan and AL:P concurrently. Income from business loan can help to service the ALP. Interest to reduce a little bit on follow-on loans for good repayment history.	Fund permitting, the SACCO can introduce automatic ALP loan after sometime of good record. The main features of automatic loan are: a reduced interest rate; and a processing time of less than half a day.
<b>Penalties</b>	Late payment should be penalized by a standard penalty percentage (0.5% per day up to a maximum of 10% of the amount in default)	<b>OK.</b> Should not be calculated on weekends. Members should be excused especially during unfortunate circumstances so that the loan can be rescheduled so as not to tarnish the client's track record.	There should be no rescheduling of loans as a matter of policy. The alternative is to keep monitoring those sticky ALP loans for recovery. The loan policy shall specify circumstances under which the penalty can be waived.
<b>Staff</b>	Staff incentives should be in place for officers handling the ALP to	<b>OK.</b> The SACCO should design staff incentives	Staff interests should not interfere with the delivery of the product. There is need

ITEM	KRAPS PROPOSED POLICY/PROTOTYPE	CLIENT REACTION	RESEARCHERS' COMMENTS
	succeed	for officers handling the ALP. When is the improved product on the market? Grateful to the research because this is the first time when the SACCO has thought of members' responsive product. Any arguments between clients and KYAPS staff members should not affect the client capacity of acquiring an ALP loan.	for this product. There is need for ALP operational manual of policies and procedures and care is needed to stick to them. There are all the hopes for the ALP to succeed!

### Conclusion

- there is tremendous need for ALP in both branches visited (Kyamuhunga and Katerera)
- many members are likely to apply for this loan product once it is launched on the market
- care must be taken when launching the product on the market as there is high possibility of it being cannibalized by the business loan product
- to be able to monitor the ALP well, there is need for the loan officers to handle it to have good knowledge of the features of the product and the delivery mechanism. In this regard, the loans officers responsible and the branch managers need training in agricultural lending and attend a workshop aimed at specifically teaching them the salient features of the product.
- Initially aim at members/clients having one loan at ago.

## 4.0 RECOMMENDATIONS

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### 4.1 KYAPS management

1. Pilot testing of the ALP as a way of measuring the worthiness of the product is recommended. After continuous monitoring and evaluating the pilot test results, the SACCO will be in position to either go a head or roll out the product or wait and continue pilot testing because the results are uncertain and needs more time or terminate the product and thus save the SACCO and clients from losing money.
2. KYAPS will have to be fully committed to have the pilot testing of the product to succeed. It should select a team headed by a product champion whose duties will be to manage the Team, be responsible for reporting pilot test results to top management<sup>4</sup>. There should be a complete buy-in by the SACCO management and the Board. The Team members should be have self-esteem and motivation.
3. Develop the terms of reference for the Team whose responsibilities will be clearly defined. The accounts and finance department should prepare budget, costing and financial projections.
4. Provide frontline customer information to the Pilot Testing Team.
5. Proportion of the agricultural loan portfolio: - The proportion of the agricultural loan product in the overall loan portfolio should be limited to 30% or less, by amount. This is to minimize the extent of any potential losses in the portfolio in case of the problems or risks mentioned above and in the Agricultural Product Development Study.

### 4.2 Continuous technical support to pilot test the ALP and roll it out

KYAPS will need continuous technical assistance in the following areas:

1. **Specific training program:** For agricultural loans officers, on how to appraise and manage an agricultural loan portfolio as well as both front line and back office staff. Managers need this exposure training too, in order to be able to effectively chair the loan committees which discuss and approve agricultural loans applications. This training should be out sourced to individuals/ organizations that are well versed with the management of loans to smallholder farmers.
2. **Software:** This issue needs to be addressed urgently. This has been raised by the savings mobilization study and in Agricultural product report under key issues.
3. **Policies and procedures manual:** Need to be put in place to guide staff and management in systematic pilot testing of the proposed agricultural lending product prototype and its subsequent roll out.
4. **Marketing and research:** prepare marketing plans for pilot test, training, testing marketing materials and tracking marketing effectiveness. The SACCO should be assisted to coordinate research and continuing market research during the pilot test, collect, process data and make monthly reports to the Board, Management (MT) Team and other interested parties.
5. **Audit and Controls:** Assist in the formulation of policies proceedings and conduct a full product audit and follow up during the pilot testing and roll out.

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<sup>4</sup> Mr. Henry Bamwine was appointed to be the product champion, for all new products that will be developed.



**APPENDIX 1 LITERATURE REVIEWED:**

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