Development of Agricultural Loan Product

Report

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### Acronyms and Abbreviations

<table>
<thead>
<tr>
<th>Acronym</th>
<th>Full Form</th>
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<tbody>
<tr>
<td>ADP</td>
<td>Area Development Program</td>
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<tr>
<td>ALAS</td>
<td>Agricultural Loan Appraisal Spreadsheet</td>
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<td>AMFIU</td>
<td>Association of Microfinance Institutions of Uganda</td>
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<td>CDF</td>
<td>Community Development Facilitator</td>
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<td>CERUDEB</td>
<td>Centenary Rural Development Bank</td>
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<tr>
<td>CGAP</td>
<td>Consultative Group to Assist the Poor</td>
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<tr>
<td>FAQ</td>
<td>Frequently Asked Questions</td>
</tr>
<tr>
<td>FGD</td>
<td>Focus Group Discussion</td>
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<tr>
<td>HIV/AIDS</td>
<td>Human immunodeficiency virus/ Acquired Immunodeficiency Syndrome</td>
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<td>INAFI</td>
<td>International Network of Alternative Financial Institutions</td>
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<td>ISP</td>
<td>Intermediate Solidarity Product</td>
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<td>IT</td>
<td>Information Technology</td>
</tr>
<tr>
<td>MDI</td>
<td>Micro Deposit Taking Institution</td>
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<td>MED-Net</td>
<td>Micro-Enterprise Development Network</td>
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<tr>
<td>MFI</td>
<td>Micro Finance Institution</td>
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<tr>
<td>NGO</td>
<td>Non-Governmental Organisation</td>
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<td>PDT</td>
<td>Product Development Team</td>
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<tr>
<td>PMA</td>
<td>Plan to Modernize Agriculture</td>
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<tr>
<td>PRA</td>
<td>Participatory Rapid Appraisal</td>
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<td>PTT</td>
<td>Pilot Test Team</td>
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<td>ROSCA</td>
<td>Rotational Savings and Credit Association</td>
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<td>SACCO</td>
<td>Savings and Credit Cooperatives</td>
</tr>
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<td>SPEED</td>
<td>Savings Promotion &amp; Enhancement of Enterprise Development</td>
</tr>
<tr>
<td>SUFFICE</td>
<td>Support to Feasible Financial Institutions and Capacity-Building Efforts</td>
</tr>
<tr>
<td>UPE</td>
<td>Universal Primary Education</td>
</tr>
<tr>
<td>USAID</td>
<td>United States Agency for International Development</td>
</tr>
<tr>
<td>Ush</td>
<td>Uganda Shillings</td>
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<td>WV</td>
<td>World Vision</td>
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EXECUTIVE SUMMARY

MED-Net has seen the need to push the frontier to serve the rural clients who are basically farmers. This act is in line with its mission of being responsive to clients’ needs by developing appropriate products. In this particular case MED-Net is interested in designing an agricultural loan product for this target market which has hitherto been neglected by many financial institutions. The move in this direction has been made possible with the partnership of World Vision – Uganda and the Rural SPEED in funding the project.

The agricultural sector has and is still seen as a very risky segment and this justifies why most financial institutions have not targeted it. Many factors contribute to the complexity of the sector; unreliable climatic conditions, limited landholding, pests and diseases, price fluctuations and also the country’s politics. Interestingly, this is the sector that employs over 80% of the Uganda’s population and they continue to survive in the face of these problems.

This is the sector that MED-Net wants to serve and for it to have a systematic approach decided to first conduct a market research based on the following objectives;

- Assessing clients needs and preferences in these areas
- Finding out the current coping mechanism, their strengths and weaknesses (including the current offerings from MED-Net)
- Assessing the potential for the Agricultural Loan Product in these areas
- Coming up with an initial Product Concept that will be refined into a Prototype ready for pilot testing

Qualitative research methods were used to conduct the study. The tools used for the exercise included, Focus Group Discussions using a pre-determined discussion guide, Seasonality Analysis, Product Attribute ranking, Financial Sector Trend Analysis and Relative Preference Ranking exercise. The use of these tools enabled the research team to have an in-depth understanding of clients and potential clients’ views on different aspects under consideration in Agricultural lending. A total of 257 people participated in three districts – Mpigi, Masaka and Rakai.

The study revealed that people in the rural areas too have needs just like any other person e.g. clothing, medical care, housing, and education among others. With regard to their core farming activity, they needed money for field preparations, seeds, pesticides, storage, transportation, etc. To access the required cash lump sums, several means have been use such as ROSCAs, Friends and Relatives, Banks and MFIs, Money Lenders, Own Savings and disposal of own assets.

The limitations associated with the coping mechanisms and the people’s sophisticated financial management skills in managing risk present an opportunity for MED-Net to exploit. The readiness that MED-Net has and the enabling environment created by ADPs, makes it a worthwhile idea to explore.

Given the different problems that are characteristic of this sector, MED-Net needs a well thought out product that should be delivered in a way that will assure benefits to parties involved. The product concept should be modeled around the household as a unit and tagging repayments on the aggregate household income. Other important points include; thorough sensitization on the product offering, delivering the product via group mechanisms, client motivation, improving information sharing between MED-Net and Area Development Programs and recognizing MED-Net as a
business entity that is to operate sustainably. These points in mind and a systematic approach through pilot test planning to a live pilot test in one or two of these areas should be sufficient to let MED-Net go for it.
INTRODUCTION
The market study/research exercise to which this report relates was commissioned by MED-Net an affiliate of World Vision – Uganda in collaboration with Rural SPEED project in an attempt to deepen its outreach by developing customer oriented products and in particular in the agricultural sector which employs over 80% of the Uganda’s population. The sector comprises the largest portion of the low income people which apparently is MED-Net’s target.

The Microfinance sector in Uganda is a vibrant one characterized by different forms of financial service providers ranging from informal through to formal entities in the mainstream banking sector such as Centenary Rural Development Bank (CERUDEB) and Stanbic Bank which of recent have lowered their minimum requirements thereby attracting many from the low income bracket. Currently Microfinance services are offered in most areas of the country targeting and reaching different client groups.

Whereas the market is quite competitive in Uganda, as already observed, reaching out to the rural areas still remains a huge challenge to most MFIs. Apart from other factors such as the high transport costs, high risks and inadequate infrastructure in reaching out to this basically farming population, product design is one major aspect which if not well thought out may result into serious operational problems such as delinquency, client dropout and slowed growth.

The challenge faced by MED-Net is that the rural communities require flexible and longer-term loans, need for grace periods etc mainly because the businesses are very much influenced by the agricultural calendar and therefore seasonality plays an important role here. In light of this MED-Net feels there is need to develop a product that is in line with needs and preferences of these communities in the rural areas. This is only possible through a detailed market research in selected areas in understanding the underlying needs and preferences and how best to deliver it.

Objective of exercise
As already mentioned, there was need to carry out market research that would form the basis for development of appropriate product(s) for the rural population that is engaged in agriculture. The research was conducted against the following specific objectives;
• Assessing clients needs and preferences in these areas
• Finding out the current coping mechanism, their strengths and weaknesses (including the current offerings from MED-Net)
• Assessing the potential for the Agricultural Loan Product in these areas
• Coming up with an initial Product Concept that will be refined into a Prototype ready for pilot testing

Research Design and Methodology
Qualitative research methods were used to conduct the study. The tools used for the exercise included, Focus Group Discussions using a pre-determined discussion guide, Seasonality Analysis, Product Attribute ranking, Financial Sector Trend Analysis and Relative Preference Ranking exercise. The use of these tools enabled the research team to have an in-depth understanding of clients and potential clients’ views on different aspects under consideration in Agricultural lending. The matrix below summarizes the tools that were employed:
<table>
<thead>
<tr>
<th>Tools</th>
<th>Reason for choice of the tool</th>
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<tbody>
<tr>
<td>Discussion Guide-Led Focus Group Discussions</td>
<td>Focus Group Discussion enabled the team to collect detailed information using a discussion guide developed around the main research objectives of the study. The tool allowed for more in-depth examination of issues through the dynamics of peer-group discussions.</td>
</tr>
<tr>
<td>Seasonality Analysis</td>
<td>This tool was used to determine the cash flow patterns of the communities and gave insights into the impacts of seasonal effect on the financial products on offer. The tool also captured information on main sources of income and major household expenditure items. The tool also helped the team to understand areas requiring lump sums of money – potential areas for product development.</td>
</tr>
<tr>
<td>Product Attribute Ranking</td>
<td>This was used to see how clients and potential clients perceived the components of the current products on offer, and which of these elements they considered important to them. It also helped challenge pre-conceived notions about people’s attitudes towards financial services, what matters to them, and why they had those preferences.</td>
</tr>
<tr>
<td>Financial Sector Trend Analysis</td>
<td>To understand the changes in the use and availability of a variety of financial services over time and why they are used. The tool had the potential to bring to light competition experienced in the market from the users’ point of view and explored reasons for level of operations of the different financial service providers at different points in time.</td>
</tr>
<tr>
<td>Relative preference ranking</td>
<td>This helped to find out clients’ perception of MED-Net and its services as compared to other service providers in terms of service delivery around key elements such as proximity, processing time, staff attitude, institutional stability, capacity to handle agricultural loans, etc.</td>
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</table>

A total of 37 sessions were conducted in three districts – Mpigi, Masaka and Rakai. These locations were chosen for the study on the grounds that World Vision has operations there through Area Development Programs (ADPs) which is key for MED-Net’s entry and also due to the fact that they are rural with populations mainly engaged in agriculture. A total of 257 people participated (159 women and 98 men).

The exercise targeted clients and non-clients but fairly knowledgeable on ADP/MED-Net operations. The research also solicited information from staff by holding discussion with the frontline officers to tap into their rich experience that was key in providing a balance between clients’ views and MED-Net’s capacity to address the expressed needs. MED-Net’s senior and middle management staff were also interviewed to provide information on strategic issues in line with the agricultural lending and institutional capacity issues and support in the new direction – agricultural lending. The research was backed up by a review of materials that have been written on the same subject.

The exercise was done by a consultant with assistance from a team put in place by MED-Net to assure support and continuity of the product development process. The skills gained by the team
will particularly be important during the planning and conducting the pilot test for the product developed in this exercise.

**MED-Net: Its Products/Services, Partners and Strategic Directions**

Micro Enterprise Development Network (MED-Net) is a Microfinance affiliate of World Vision Uganda. It is incorporated as a company limited by Guarantee and also registered as a Non Governmental Organization (NGO). It started its Credit and Savings operations way back in June 1997.

The target group is the productive poor who are availed with micro credit loans through a revolving fund. Savings mobilization is promoted and some training offered, in order for them to attain a better quality of life through increased incomes, employment creation/sustenance and improved entrepreneurial skills thus contributing to poverty alleviation in a sustainable manner.

At least 60% of the clientele served are women. Through these we are able to maintain a focus on children who benefit from improved incomes, training and increased awareness. They enjoy better health, nutrition, housing facilities, education and a higher standard of living.

**Societal Vision**

“To be the leading institution in transforming livelihoods with high quality financial services”

**Mission Statement**

“To provide sustainable gender sensitive microfinance services to the economically active poor in Uganda for the enhancement of socio-economic development”

MED-Net market target comprise the economically active/productive poor. A typical client is an adult male or female person with some micro business-commerce/trade, restaurant services, production and similar businesses. They are typically aged between 18 and 55, have modest or no literacy. Their typical household incomes are lower than US$ 300 per year, and they live in or around the districts of Kampala, Mukono, Wakiso, Kayunga, Mpigi, Rakai, Mbale, Sironko, Apach, Lira, Masaka and Sembabule.

Presently MED-Net serves 21,541 clients with an outstanding portfolio of Ush 5,500,906,903. The operating self-sufficiency is at 101%

**Loan products**

*Community Banking Product*

MED-Net is building its Community Banking model basing on a system known as village banking (having solidarity groups within). The key pillars of this model include; group empowerment, group guarantee and collective responsibility of groups, use of peer pressure, regular group meetings, democratic management and transparency of groups. This loans product targets low income earners who lack collateral and require small sums of capital. Members must be living in the same locality and have similar business dynamics. The loan amount ranges from Ush 100,000 to 500,000 with a loan period of 4 or 6 months.
Intermediate Solidarity Product
The Intermediate Solidarity Product (ISP) operates as a bridge between the two major products, Community Bank and Solidarity Loan product. The principles followed are very similar to those of community bank groups where peer pressure is used to ensure repayment. The Intermediate group consists of only 5 people, co-guaranteeing each other and accessing amounts ranging from Ush 400,000 to just below Ush 1,000,000 with a loan period of 4 or 6 months.

Institutional Loan product
Institutional approach- This type of loan product requires the employer to guarantee the employees accessing a loan. The loans in this category make a provision for the entrepreneur who may not be able to access other products because of the kind of work schedule they have. A group of not less than 3-10 people can access amounts ranging from Ush 400,000 to Ush 2,000,000 for a period of 4 or 6 months.

Individual Lending Product
The individual loan product targets individuals that require large sums of money and can provide collateral as security. It is for both new and existing clients located within and around major towns with a radius of not more than 25 km. It also targets individuals fatigued with group loans and prefer individual loans. Salaried earners requiring large sums for personal development can also benefit. This loan product covers loans ranging from Ush 2,000,000 to Ush 5,000,000 for first loans. The loan period is 6-12 months and clients should have at least two trainings before a loan is disbursed to them.

Other products/Services
- Savings
- Credit orientation and training
- Business training
- Business counseling
- Linkage to other service providers e.g. health services, business development services, etc.
- Insurance
- HIV/AIDS Initiatives
- The village phone product offered in collaboration with MTN Uganda

Partnerships

The World Vision Area Development Programme Approach
The World Vision Area Development Programme’s approach works in partnership with people in the communities themselves to realize their skills, resources and potential to overcome the forces of poverty and underdevelopment. Community development workers are catalysts for change within the community and support the process of change towards a better life. Through community meetings, they enable the people to identify their most critical problems and find the most practical and sustainable solutions. The aim is to increase the capacity of the people to be self-reliant by dealing with the causes of poverty as well as the symptoms.

World Vision Support to Agriculture
World Vision supports farmers by providing farm inputs. Usually after training “model farmers” in best agricultural practices, it supplies them with improved seeds and animals. The small start up
capital with close supervision that World Vision provides to each targeted family helps households generate more income through sale of produce and food surpluses. To promote large scale agriculture, World Vision supplies to community farmers pineapple suckers, maize, beans, passion fruit seedlings, vanilla vines, banana suckers, orange seedlings, Moringa and Neem tree seedlings.

**Rural SPEED Project**

Rural Savings Promotion & Enhancement of Enterprise Development (Rural SPEED) is a USAID funded program designed to improve access to financial services in the rural areas of Uganda. Working collaboratively with financial intermediaries to meet the needs of micro- small and medium enterprises (MSMEs), the program is supporting and executing activities which:

- Enhance the Capacity of Rural Financial Entities to Provide Agricultural and Non-Agricultural Financial Services;
- Strengthen Strategic Partnerships between Financial Institutions;
- Increase the Value and Volume of Rural Savings Mobilization.
- Develop Innovative Products and Services Delivery Mechanisms

The collaboration with MED-Net stems from its keen interest in building capacity of the rural financial entities in the provision of the agricultural financial services. The obvious areas here include product development and innovation in using IT solutions to reach out in the rural areas.

**MED-Net’s Strategic Plans**

MED-Net is conscious of the market conditions and is one of the MFIs that are set to transform into Deposit Taking Institutions (MDI) in the near future. All these future plans are based on its mission of being responsive to the needs in the market by scaling up operations sustainably. As MFIs no longer get grants to leverage their operations, most of them including MED-Net have resorted to commercial borrowing. The cost of funds is still high and transforming of MED-Net into an MDI assures it inter-mediation of clients’ deposits as an alternative cheaper source of funds.

The road to transformation is not an easy one for a number of issues needs to be assessed and embarked on in line with the Central Banks requirements and the general market needs and/or conditions. The internal alignment leading to the required transformation includes but not limited to;

- Ownership issues as stipulated by the MDI Act
- Infrastructure – the infrastructure in place to meet the requirements set by the central bank and at the same portraying an image of an institution that inspires clients to entrust it with their deposits.
- Board of Directors in line with the new form of MED-Net that is representative of the interest of the different stakeholders in the new institution.
- Systems – the system in place should have the capacity to handle products meant for the new market (savings) and flexible enough to accommodate the necessary variations in the product designs (for both loans and savings products).
- Preparing staff for culture change from that of an institution that is basically credit-led to one that also takes clients’ deposits. In the current form clients have been

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1 Program Description on speeduganda website
coming to us for services and with deposits the institution goes out for clients’ money.

Work alongside ADPs is one other thing that has been emphasized by World Vision and this approach has already taken effect in some affiliates such as SEDA in Tanzania and WISDOM in Ethiopia. It is believed that in this way MED-Net is able to extend its frontier in expanding outreach to the rural unprivileged populations. As will be seen in the section under “Potential for product Development” it is envisaged that the existing World Vision network (ADPs) forms the enabling environment for MED-Net’s success in these rural areas. What is important here is for MED-Net and the WV ADPs to identify areas of collaboration to enable each party to reach its goals as planned.

Current products review aimed at their refinement and the need to come up with the new ones is also another area that MED-Net is keen to explore. This keeps it abreast with the market needs and preferences in line with its mission of responsiveness, which is quite important in the survival of the MFIs in what has become a competitive environment. The process also leads to having a reasonably diversified product portfolio which, coupled with appropriate delivery mechanism are likely to enhance client retention. Away from just looking at products MED-Net will need to explore other alternatives that are enduring in differentiating it from other market players e.g. offering high quality Customer Service.
FINDINGS

The Current Needs and Preferences
There are numerous needs expressed amongst the low income earners who as already mentioned form the biggest percentage of the rural folks. Just like any other person in the higher income groups these people also need education for their children, better housing, healthcare, investment, responding to emergencies, etc. In any of these circumstances useful cash lump sums are required.

Businesses Capital
In most of the focus group discussion sessions, it was discovered that most people in these areas had some sort of business to supplement the farming activity. The kind of businesses involved in include small consumer retail shops, produce, second-hand cloths, restaurants / eating houses, drug shops among others. All these businesses require some capital to start and many time mid-way some re-capitalization to match the needs in the communities. The level of stocks held fluctuate depending on the time – very much influenced by the agricultural calendar and festive seasons e.g. Christmas and Easter.

Figure 1

### Seasonality Analysis

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<td>Income</td>
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<td>4</td>
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<td>Expenditure</td>
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<td>4</td>
<td>2</td>
<td>1</td>
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</table>

Source: Seasonality Analysis at Kamengo, Mpigi District – scoring on scale 0 - 5
The seasonality analysis above explains the need for financial services as generally experienced in Mpigi district. The high income months are April through to July (the first harvesting period in the year and October through to January (second harvesting period) which is more significant than the first one. There is usually bumper harvest in the first seasons which saturate the market thereby lowering prices – making household incomes less significant. The somewhat less crop production in the second season comes with fairly good prices and this coupled with the festive Christmas season make the whole period the most significant in terms of incomes in the whole year.

There is a relationship between the incomes and savings – people tend to save whenever there is an income. In these periods the need for credit is seen to reduce dramatically, save for the month of November when business people need more money for investment to take advantage of the festive months.

The high expenditure months are September through to February and May through to July. There is a clear expenditure in January/February, May and September which correspond to the school calendar when parents incur huge lump sums for their children’s education. June and July expenditures are mainly for labour used in harvesting, farm inputs and medical care – a time known for malaria and other diseases that become rampant in these warm and damp conditions.

Credit is usually sought around February – April mainly to make up for school fees and for consumption smoothing in the lean month coming immediately after children leave for school. Credit I August and September is for farm inputs and investing in business in preparation for the festive season. Another credit is taken around October and November especially for those in retail business to expand on their business stocks for super sales in November and December.

There is a variation in the pattern as one goes to Masaka and Rakai districts where the second growing season is the one associated with high crop production but with not so good prices.

**Education**

Education is one of the biggest expenditure items in the households. Every person understands the importance of having his/her children educated – one to assure the children’s future. Every household has on average 4 children in primary and 2 in secondary schools. Even with the introduction of Universal Primary Education (UPE) parents still have to spend money on other items such as books and uniforms at primary level. Beyond primary level, there is no government subsidy and parents have to foot all the expenditure.

There are many private schools in these areas and for most parents these are the schools with better standard of education compared to government schools. In all these private schools everything has to be paid for and this makes the whole business of education a big household expenditure item. Looking at the seasonality analysis diagram above, there are three months in a year (February, May and September) where this expenditure is significant because of the three school terms. Throughout the year parents do all it takes to plan for this regular cash outflows.

**Medical**

Healthcare is yet another area of concern to most people in these rural areas. People, especially children suffer from all sorts of sicknesses such as malaria, pneumonia, skin diseases, cholera, etc. The problem has been made complex with the advent of HIV/AIDS which has become a household issue in most families. People have to keep alive and thus inevitably have to spend money whenever any one in a family falls sick.
The spending of money on sickness also follows some trend as shown in the diagram above. Between January and end of March, a period which is typically dry, people suffer from coughs and malnutrition in children since this is generally a low-income period for household to afford good food. And in the months of June through to the beginning of August, malaria is the main thing and stomach related problems. Crops ripen in this period and with the warm and dump conditions mosquitoes reproduce in numbers and cause malaria in most people. Cholera is usually felt most around October, which is a wet season with most people catching the disease through the runoff which is usually contaminated.

With sizeable numbers in a family (an average of 6 people) many people are affected by the diseases and the aggregate expenditure in this direction becomes significant. It becomes a continuous spending if the HIV/AIDS is involved because of the need to treat the frequent ailments associated with the victims. Until the victim is dead, the expenditure is an on-going one.

**Farming**

In Uganda the rural communities depend on farming (both animal and crop farming) to a tune of over 80%. The farming activity is done mainly at subsistence level and very little is sold off for cash. It is in some isolated areas such as Kigumba in Masindi and Kapchorwa where maize is grown on a rather large scale. The story is different in central Uganda save for coffee, and the crops commonly grown include vegetables, fruits, bananas, beans and rice.

Whether for subsistence or for commercial purposes, the farming activity requires some capital input to cater for field preparations, seeds, pesticides, storage, transportation, etc. Every household has to take care of some if not all these activities that require cash lump sums or else life becomes hard. In most areas visited there were apparently two growing seasons (March – July and September – December). Farmers have to incur these costs twice a year and this adds to the burden they have to feel in trying to address them.

Similarly for those involved in raising animals, they have to incur costs in acquiring the drugs, pasture, labor (herdsman) among others. There are also some informal costs such as fines when these animals stray into other people’s gardens or when they just get lost and it takes a few days before they can be located. In every home there is clear evidence of some kind of animal farming and the animals kept include; cattle, pigs and goats. Poultry is also a major activity in some households in these areas.

There are many other things that require cash lump sums that we may not be able to elaborate here. But suffice to say that things like housing, death, ceremonies, clothing and furnishing houses are part of the normal responsibilities for the rural areas as well. These are basically lifecycle events that typically occur in a normal life and there is need for cash to address them.

**How People Finance Agricultural (Farming) Activities**

**Current Coping Mechanisms**

There are different ways people use to address the numerous needs some of which have been outlined above. This section tries to bring to light a few of the ways the rural people have used in financing agricultural activities. The choice of what means to use largely depends on a few factors such as; what needs to be funded? How much is involved? How accessible is the mechanism? Etc.
Some of the means that have been found to be used more in most areas visited include; ROSCAs, MFIs, Friends and Relatives, Own Savings, In-kind Savings, Household Assets and Banks.

<table>
<thead>
<tr>
<th>SERVICE</th>
<th>STRENGTHS</th>
<th>WEAKNESSES</th>
</tr>
</thead>
<tbody>
<tr>
<td>Own savings</td>
<td>• Easily accessible – no hassle involved</td>
<td>• You are tempted to use the money for anything. Challenge to realize your goals as desired.</td>
</tr>
<tr>
<td>(Cashboxes and saving at home)</td>
<td>• Quick decision making associated with it makes one use the money at the right time</td>
<td>• Can get stolen and therefore not be able to address the purpose for which the money is saved appropriately</td>
</tr>
<tr>
<td></td>
<td>• Identification with the method – you own and control it.</td>
<td>• Amounts involved are usually small and therefore inadequate in funding the required activities.</td>
</tr>
<tr>
<td>In-kind Savings</td>
<td>• Land appreciates in value</td>
<td>• You need the space to rear the livestock and pastures may be a challenge in some places</td>
</tr>
<tr>
<td>(Livestock, produce and land)</td>
<td>• Livestock multiplies and gives increased value</td>
<td>• Can fall sick or die and cause loss leading to unrealized dreams.</td>
</tr>
<tr>
<td></td>
<td>• Identification with the method – you own and control it.</td>
<td>• Will usually sell at a loss when you need to sell it most i.e. during an emergency</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• You often need only part of the sum that it will fetch and end up ‘wasting’ the balance</td>
</tr>
<tr>
<td>Friends and Relatives</td>
<td>• Always close by and can be accessed any time</td>
<td>• Amounts involved are very small</td>
</tr>
<tr>
<td></td>
<td>• Usually people you know and can easily understand your problems</td>
<td>• One has to tolerate abuses and statements that usually under-rate his/her standing in society.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• You borrow from these people, it becomes public information which may affect your security</td>
</tr>
<tr>
<td>Household assets</td>
<td>• Are easily resold</td>
<td>• Usually sell at a loss if sold during time of great need</td>
</tr>
<tr>
<td></td>
<td>• Can be pawned in the event of need</td>
<td>• Need to dispose off a number of them to realize useful lump sum. It is a driver to poverty.</td>
</tr>
<tr>
<td></td>
<td>• Owned and controlled by self</td>
<td></td>
</tr>
<tr>
<td>ROSCAs</td>
<td>• Gives you access to a reasonable lump of money with less hassle</td>
<td>• ROSCAs are usually short-lived. Since members are usually people who are generally related, the effort to recover monies is compromised. They may run for a few cycles and usually the last people to get their turns never benefit from the system.</td>
</tr>
<tr>
<td></td>
<td>• No transaction costs – you don’t have to travel long distances to access your ROSCA</td>
<td>• There is no guarantee that you will get money at the right time.</td>
</tr>
<tr>
<td></td>
<td>• Simple processes and no paper work</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Social Capital – can</td>
<td></td>
</tr>
</tbody>
</table>
### SERVICE | STRENGTHS | WEAKNESSES
---|---|---
Banks | • Have adequate funds | • Processing of loans is usually slow – may get it off-season and in this case becomes a burden.  
• Requirements are costly and onerous/difficult to meet.  
• Very technical in nature which makes it difficult for rural clients who are not very much educated  
• Not located close to the rural folks. |
The money obtained off-season is usually misused.  
• Small amount involved – not enough to fund most farming activities |

MFIs (MED-Net) | • Some of them are close to clients in the rural areas.  
• Have a fair understanding of the needs of the people  
• Some are flexible – not strict on policies that are unfriendly. | • They do not target farmers.  
Borrowers apply for loans in the name of boosting their retail businesses but once disbursed, they are diverted to agricultural activities  
• Cannot obtain sufficient funds for farming activities  
• Many of the MFIs have unfriendly terms such as weekly repayments and upfront savings. |

Money Lenders | • Timely disbursements as long as one fulfills the requirements | • Very high interest charged (10 – 30% per month)  
• They make it hard for the borrower to repay the loan – they always have an intention to retain the asset used to guarantee the loan  
• There can only be one in the whole community – usually in town/trading centres. |

### Trends in the Current Usage of the Available Services
Financial Sector Trend Analyses revealed a prevalence of informal mechanisms and a minimal usage of MFIs or any organized financial service provision (e.g. banks) primarily because of their inability to serve the market in terms of not targeting it, unfriendly terms associated with some of them, located far away and for some not measuring up to the needs (e.g. required amounts) of the prospective clients. The general usage in its order of importance was found to be as follows;  
i) Own Savings/Household Assets  
ii) ROSCAs
iii) Diversion of funds from MFIs
iv) Friends and Relatives
v) Money Lenders and
vi) Banks

In the PRA ranking exercises, it became clear in most places that people used different means to finance their activities at varying levels depending on their availability, convenience, and relevance to their needs (see matrix above). Whichever means currently used it became apparent that there were more limitations associated with each one of them that rendered them inefficient in addressing the needs of this market segment. In Rakai, what many people thought was the right institution to address the plight of farmers (“Rotary”) eventually was captured as to benefit just a few. The approach was to create a revolving fund in the community and after training that lasted about 2 years, funds were disbursed to a few farmers. However there was no follow-up, “Rotary” folded and a few clever farmers held on to the funds and many lost. These and many other experiences explain the afflictions of the poor farmer!

Key Challenges in Agriculture

Agricultural finance has been one of the most prominent elements of the rural development strategies used by development agencies and national governments. Over the past 40 years, billions of dollars have been provided to support agricultural production and the green revolution. But this financing has long been characterized by poor loan repayment rates and unsustainable subsidies. Accordingly, agricultural credit from some donors and multilateral development banks has dropped dramatically in recent decades and is now often considered too risky. For example, agriculture accounted for 31 percent of World Bank lending in 1979–81, but by 2000–2001 had fallen to less than 10 percent.2

A quick review of the financial service provision in Uganda, there is clear evidence that there is little if any support in the agricultural sector. Centenary Rural Development Bank is probably the only institution that has had a definite agricultural product which, too, has been implemented selectively, with greater emphasis in Eastern Uganda (Mbale and Kapchorwa districts in Eastern Uganda and Mbarara in Western Uganda). This is a clear indication that MFIs and indeed other financial institutions deliberately avoid this sector which as already mentioned is considered to be more risky.

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2 Managing risks and designing products for agricultural microfinance, Occasional Paper, CGAP, August 2005
The CERUDEB Story

The fully fledged Agricultural lending by CERUDEB has implemented in Mbale and Kapchorwa districts basically in the maize production that is grown on large scale compared to other districts of Uganda. The program has been fairly successful here mainly because of the fairly stable climatic conditions around mountain Elgon area, larger land holding necessary for commercial farming, price guarantee by COBAN (buying company in Kampala) and expert extension service. The bank also used an Agricultural Loan Appraisal Spreadsheet (ALAS) that was brought in from Bolivia that had the capacity to scatter repayments – a pattern according to the information on the prevailing conditions.

The problems faced by the bank in the implementation of this programme included:

- Bumper harvests which reduced prices on the market remarkably. This did not only affect the repayments but also discouraged clients in growing more of the crop the following season
- Some harvests were not easy to preserve to take price advantage in the subsequent periods when scarcity pushed prices high
- Difficulty in predicting the prices which made planning difficult
- Climatic conditions that were harsh to the crops grown – dry spells that sometimes too much rains which affected the yields

In the face of these challenges, the bank changed strategy in western Uganda to only fund farmers at point of sale of their produce and selected areas like bull fattening and dairy production. Unlike in eastern Uganda where the product took care of preparation of land, planting through to harvesting and selling, the project in western only comes in at a point when a farmer is in the final preparation to sell off the produce e.g. gathering mattooke (bananas) to a central place for transportation to say Kampala for sale. The project too has embarked on funding only those activities that are certain e.g. diary farming and bull fattening. In general, the bank finds agricultural lending a very risky venture.

In the study that covered Mpigi, Masaka and Rakai, there was an effort to find out what the likely challenges in this sector were. The exercise used this as an opportunity to obtain first-hand information on the current challenges which MED-Net should not ignore in the design of the agricultural loan product. Following hereunder are some of the main issues discovered from the people on the ground:

**Pests and Diseases**

Pests and Diseases have direct effect not only to the cost involved in investing in farming but also the quality and quantity of the ultimate produce. Bean weevils affect mostly coffee and maize usually attacked by smuts (fungal disease) and stock borers (some kind of larvae - caterpillar). In some years, this becomes a serious problem and farmers often incur huge costs to buy insecticides to fight the attacker. Sometimes what you harvest does not match the cost ... you end up losing on the whole deal (Farmer in Kamengo). If the farmers do not wake up to the problem early enough, the ultimate effect will be poor crop yields leading to reduced incomes.
Unfavorable climatic conditions
In the recent times the climatic conditions have changed a great deal and farmers can no longer predict with some degree of accuracy on planting times. There have been years when the rains have either come earlier or later than predicted. In these situations the farmers have lost in terms of the scotched crops or too much rain that eventually affect the yields.

Inadequate acreage
Most farmers interviewed in the study indicated that very few people own large farms. With the small landholding amongst the target populations, it too becomes a challenge to practice commercial farming. We do pay some other people to let us use their land ... it can be for six months or a year (client at Buwama). Most people in these areas visited own between 2 and 3 acres of land which ideally is not adequate for commercial farming. This is also one other reason for the apparent subsistence farming in these areas.

Imperfect Markets
Markets and prices are additional risks associated with agriculture. Many agricultural markets are imperfect, lacking information and communications infrastructure. The prices that crops will sell for are unknown at the time of planting, and vary with levels of production (locally and globally) and demand at the time of sale. Prices are also affected by access to markets. As state-owned marketing organizations are phased out, small farmers face much higher price risks in many countries. And inelastic demand for many agricultural products causes small increases in production to result in large price swings.

Farmers have no real way of knowing how many others are planting a specific crop or how average yields will fare in any given year. Often, a good price one year motivates a lot of farmers to move into the same crop the next year. This shift increases production in the face of constant demand, driving down the price and making the crop much less attractive the following year. This happened in Uganda recently, when a bumper maize harvest in late 2001 and early 2002 caused maize prices (and farmer incomes) to fall, significantly affecting loan repayment in four branches of the Centenary Rural Development Bank. Bumper crops can sometimes cause problems even for well-run microfinance institutions.3

The problem in some areas in Uganda has also been influenced by political forces characterized by farmers being convinced to grow crops like Vanilla and Moringa. Many farmers in Masaka are disappointed since they cannot get market for these crops which at the beginning of the campaigns seemed to be a lucrative business. I grew Vanilla and Moringa on an acre piece of land ... recently, in an attempt to track down those that encouraged us to grow them I was told to eat them myself ...looking at the loss I have made, I am deeply disappointed (farmer in Masaka). These political crops too have added to the pains the farmers have in terms of getting market for their produce.

Technical support
Most respondents in this exercise who were basically farmers claim to have inadequate knowledge in the recommended farming practices. This is the work that should be offered by the Agricultural Extension Workers. Unfortunately, the level at which it is being offered leaves a lot to be desired. In some instances, farmers have been asked for bribes to access the knowledge – which defeats the whole purpose. There too were claims that Extension Workers are no longer available for the rural

3 Managing risks and designing products for agricultural microfinance, Occasional Paper, CGAP, August 2005
folks. As long as people continue using their rudimentary approaches to agriculture, it fails to be a reliable source of income to these masses.

Agriculture is widely considered more risky than industry or trade. Thus, it is not surprising that agricultural lending projects have had poor repayment performance. Weather, pests, diseases, and other calamities affect the yield of crops—substantially in extreme cases. Such risks are higher for farmers engaged in monoculture of crops that are particularly sensitive to the correct use of high-quality inputs or the timing of harvesting. Risk in agriculture can also be traced to farmers seeking to increase their incomes through higher-risk, higher-return cropping strategies.
The Current Potential for an Agricultural Loan Product

External Factors

**Stable households**

People in the rural areas unlike in urban centres, are relatively stable and there are no chances that they will disappear without having to repay their loans. Looking at the things they own such as land (however small), animals, different other crops, their social networks (capital), it is unlikely that in the face of difficulties in servicing the loan one would think of leaving the area. In urban areas, where people simply rent houses and owning just a few things find it easy to re-locate to other places. MFIs have had rough times in tracking down such clients in urban or per-urban areas and to some extent contributed to high delinquency levels. MED-Net in exploring this strength can be a useful backing in assuring better repayment rates.

**Diversified activities (not only farming)**

As already observed, households in the rural areas do not depend on only one activity for income generation – a number of them are undertaken at the same time. In a typical household, farming for both short/long-term crops is done. Short-term crops like beans, peas, maize and vegetables (cabbages, tomatoes, onions, etc) will be found in every homestead. The long-term crops include bananas and coffee.

Apart from crop farming there will always be a few heads of cattle, pigs, goats and poultry as another line of income generation. People do a number of things to just cushion themselves from some of the risks we mentioned above. Failure in one crop does not mean an end to life, for people have to survive from another income from the sale of animals or poultry. In some cases some of the people in these communities are employed as teachers and in some other places such as the local authorities and NGOs where they are assured of some steady monthly income. Some people offer casual labour e.g. at building sites of just digging for the others. This also is another source of income for these people.

Activity diversification is another strong case for assuring loan repayments as long as this is done with full disclosure of the responsibility to repay whether or not the activity that was funded yields any income or not.

**Existing experience in using MFIs’ products**

There is an increased awareness on microfinance operations in most places the team visited. There is hardly any village that has not had an experience in terms of people borrowing from MFIs such as FINCA-Uganda, Pride, MED-Net, UMU, UGAFODE, etc. *We know how serious these MFIs are if you borrowed from them. You have to abide by their strict rules...weekly repayments, savings,* exclaimed one of the respondents in Masaka.

Piggybacking on this experience makes work easy for MED-Net in advancing the agricultural loans in these areas. Clear and targeted messages need to be crafted to re-enforce these principles early on before launching the product. Even after the launch, consistent reminders need to be done to step further the awareness frontier.
Limitations with the Current Mechanisms

The fact that this market is currently underserved and the potential for intake is significant once the challenges are overcome and an attractive product put out to the market is yet another opportunity to go for. Farmers have used different means (see how people finance their farming activities above) right from the informal through to formal institutions and as already discussed these have had their own problems. Taking an example of ROSCAs, they have been known for being associated with very small amounts on money that are not adequate to the needs expressed. They too have been short-lived thus no assurance of continued support to clients.

Centenary Rural Development Bank has offered its agricultural loan product selectively and its impact in the central and southern regions is almost non-existent. Other providers (MFIs) have deliberately avoided this sector in the face of the risks associated with it. All these factors present this sector as one that has least or no competition at all and a well designed product with the right support in terms of the human expertise and systems is likely to thrive well there.

World Vision Networks

An already existing network of Area Development Programs (ADPs) in these areas where research was conducted offers MED-Net yet another opportunity of using an existing infrastructure in targeting the farming population. The ADPs have huge local capacities (means of transport, human resource, goodwill, etc) which front a smooth entry point for MED-Net to serve this market. The challenge here is having the two entities sharing the same belief that the operations are business rather than charity and that both entities are responsible.

The most obvious advantage here is the existing communication front in the ADPs in terms of the Community Development Facilitators (CDF). Little effort is needed from MED-Net to identify and sensitize communities or groups for that matter about the alternative financial service. This, however, needs to be well planned so as to avoid a scenario where the CDF see it as an additional workload. Furthermore, the CDFs should be in the right position to pass on the appropriate messages as required by MED-Net to assure consistency of communications.

MED-Net’s Capacities

Competent and Experienced Staff: MED-Net boasts of a competent management many of whom have more than six years experience in the MF operations. Three of them have developed competences in market research and product development. Concerning the development and launching of an agricultural loan product both management and staff have the capacity to generate institutional ownership and enthusiasm. Front line staff and credit officers are highly regarded as friendly, down to earth and respectful. They are in daily contact with the clients.

MED-Net partnership with the World Vision Area Development Programmes (ADPs) in reaching rural communities: A big market exists within the ADPs. In working with ADPs, the ADPs staffs have aided MED-Net’s outreach growth mainly through identification and recommendation of potential clients to MED-Net. This partnership has at all times supported MED-Net in accessing grants for loan funds.

Operational Framework: MED-Net has developed a number of operational frameworks to guide operations and ensure quality in our programmes. They include the institutional marketing strategy, risk management framework, credit operations policies and guidelines and finance and audit framework.
**Information System:** MED-Net is implementing a loan tracking system called “eMerge” which automatically generates loan data and reports. The system is more accurate as compared to previous excel based system that the institution was using. The system’s other advantage is its use of audit trails and other such control. It is also used across all levels; Credit Officers’ use of expected repayment schedule ahead of time in loan tracking on a daily basis; accounting-for a one-off data entry. The target is to conclude the bridging of the automated accounts systems with eMerge.

**Linkages:** MED-Net has developed linkages with other institutions, like the government of Uganda through the Ministry of Finance, Planning and Economic Development and Bank of Uganda. It links up with the MicroSave and with the USAID Rural SPEED Project among others. It is a member of the Association of Micro Finance Institution of Uganda (AMFIU), Microcredit Summit, and International Network of Alternative Financial Institutions (INAFI). It collaborates with SUFFICE among others and enjoys good working relationships with peer organizations and is an active member on the National Consultative Forum for Micro Finance in Uganda. This linkage is key in sharing lessons and experiences and drawing funding for capacity building and product development.

**Transformation into MDI:** MED-Net is presently operationally self-sufficient. A Strategic Business Plan has been designed and implemented to guide the transformation process. MED-Net is making plans to transform into a Deposit taking MFI (Tier 3) by 2008. The present focus therefore is on resolving ownership issues, capitalization and capacity building for both management and staff.

**Support from the Board:** MED-Net boasts of a good, professional and committed board with diverse skills and business experience. The Board is keen in pushing the frontier in financial service delivery especially in the rural areas. It has special interest in the development of the agricultural loan product as a key step in reaching out to these areas.
## Initial Product Concept

### Matching Products to preferences

The needs and preferences that came up consistently were:
- Access to financial support
- Flexible terms (repayments, grace periods and longer loan periods)
- Affordable price
- Friendly staff

The concept presented below attempts to integrate these needs with the institutional concerns to come up with an appropriate product offering to this section of the population that has hitherto been considered unreliable and risky.

<table>
<thead>
<tr>
<th>Features</th>
<th>Details</th>
<th>Perceived Benefits</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Brand Name</strong></td>
<td>MED-Net Agricultural Loan</td>
<td>Easy and synonymous with the target group and therefore not confusing to the public</td>
</tr>
</tbody>
</table>
| **Target market** | MED-Net’s target is the rural farmer who needs a useful lump sum to finance activities such as crop farming animal rearing or poultry. This is the section of the population that has been neglected by most financial institutions on the grounds that the sector is risky or poor infrastructure to enable proper delivery of the financial services. | • Scale up production  
• Job creation |
| **Objectives** | • To enable the rural clients have access to financial services  
• To reduce the hassle the rural people experience in accessing the current mechanisms that have unfriendly terms | • Increased household income  
• Job creation.  
• Improved household health  
• Secure food security |

### Product design

#### Access requirements
- Borrower must be living in the rural areas where both World Vision and MED-Net have operations.
- The borrower must have a good repayment record based on any available information from the community
- Borrower must be an owner of land (whether with title or land sales agreement – Kibanja) where the financed activity will be based
- The borrower must be involved in
- The product is responsive to the needs of the rural people
- Gives you financial discipline and ensures achievement of your goal
<table>
<thead>
<tr>
<th>Features</th>
<th>Details</th>
<th>Perceived Benefits</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>more than one income generating activities</td>
<td></td>
</tr>
<tr>
<td></td>
<td>▪ LC recommendation for each member in the group</td>
<td></td>
</tr>
<tr>
<td></td>
<td>▪ Good Record keeping</td>
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</tr>
<tr>
<td></td>
<td>▪ Knowledgeable in the activity to be financed</td>
<td></td>
</tr>
<tr>
<td></td>
<td>▪ Proof of ability to make monthly savings</td>
<td></td>
</tr>
<tr>
<td><strong>Collateral/Guarantees</strong></td>
<td>▪ A base group of 5 people who know each other well and trust-worthy</td>
<td>▪ An easy loan for those without collateral – they can use group guarantee</td>
</tr>
<tr>
<td></td>
<td>▪ Additional collateral in form of household items will be required</td>
<td>▪ Flexible since you can also use household items to secure the loan</td>
</tr>
<tr>
<td></td>
<td>▪ The loans to be insured with AIG</td>
<td></td>
</tr>
<tr>
<td></td>
<td>▪ Compulsory savings to a tune of 15% of the loan amount</td>
<td></td>
</tr>
<tr>
<td><strong>Loan Term</strong></td>
<td>Any period from 4 - 12 months</td>
<td>▪ Flexible and reasonable period - long enough</td>
</tr>
<tr>
<td></td>
<td></td>
<td>▪ No endless repayments</td>
</tr>
<tr>
<td><strong>Grace period</strong></td>
<td>Two months</td>
<td>▪ Allows you time to organise and use your finances</td>
</tr>
<tr>
<td><strong>Repayment Frequency</strong></td>
<td>Monthly</td>
<td>▪ Enables you to pay in small and manageable instalments</td>
</tr>
<tr>
<td><strong>Loan size</strong></td>
<td>Range between Ush 200,000 and 2m depending on the business needs and the capacity to repay the loan</td>
<td>▪ A broad range which is likely to cover most prospective clients - flexible</td>
</tr>
<tr>
<td></td>
<td></td>
<td>▪ Suited to the needs of the rural people</td>
</tr>
<tr>
<td><strong>Price</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Interest rate</strong></td>
<td>3% per month</td>
<td>▪ Affordable</td>
</tr>
<tr>
<td><strong>Method of interest calculation</strong></td>
<td>Flat rate</td>
<td>▪ Easy to compute and instalments understandable to customers – affordable</td>
</tr>
<tr>
<td><strong>Application fees</strong></td>
<td>Ush 5,000</td>
<td>▪ Affordable</td>
</tr>
<tr>
<td><strong>Loan commission</strong></td>
<td>None</td>
<td>▪ No extra costs</td>
</tr>
<tr>
<td><strong>Monitoring fees</strong></td>
<td>None</td>
<td>▪ No extra costs</td>
</tr>
<tr>
<td><strong>Insurance/Other fees</strong></td>
<td>1.25% - Fire, natural disasters &amp; permanent incapacitation)</td>
<td>▪ Guarantees payment in case of insured risks</td>
</tr>
<tr>
<td><strong>Late penalty payments</strong></td>
<td>0.5% per month on instalment in arrears</td>
<td>▪ Enhances repayment discipline &amp; guaranteed fast subsequent loans</td>
</tr>
<tr>
<td><strong>Promotion</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Features</td>
<td>Details</td>
<td>Perceived Benefits</td>
</tr>
<tr>
<td>----------</td>
<td>---------</td>
<td>--------------------</td>
</tr>
</tbody>
</table>
| **Marketing information** | ▪ Brochures and Fliers  
▪ Sensitization by the Community Development Facilitators from the ADPs and MED-Net Credit Officers | ▪ Well informed & knowledgeable customers  
▪ Building relationships between the clients and MED-Net |
| **Awareness Campaign** | Village meetings, Market days. Sensitization campaigns facilitated by MED-Net Credit Officers. | ▪ Incentives |
| **Advertising** | Signposts, radio | Constant awareness |
| **Place/Access** | | |
| **Location** | 1st piloted in Mpigi and Masaka BUT later in all ADPs where MED-Net has presence after a successful pilot-test | ▪ Financial services closer to people |
| **Positioning** | | |
| **Slogan/tagline** | “The Farmer’s Pride.” | Building self esteem of low income people by being able to generate more income for their households |
| **Benefit statement** | An agricultural loan that helps the rural people generate more income for their households | |
| **Unique selling proposition** | The only one of its kind | |
| **Corporate image** | Transforming lives with responsive financial services | MED-Net cares about your life |
| **Product image** | It is for the Rural Person | The farmers’ Pride |
| **Physical evidence** | | |
| **Repayment schedules** | Provided on loan disbursement | Clarity of instalments |
| **Clear application forms** | Yes | Brief and easy to understand |
| **Copy of the loan agreement** | Copy provided to client | It is your right |
| **People** | | |
| **Customer service** | ▪ Positive staff attitude in customer handling  
▪ Competent staff in handling this product | You are valued - the reason we MED-Net exists |
| **Process** | | |
| **Application to disbursement time** | ▪ 1-2 weeks  
▪ Disbursements will be done at the right time. Off-season | Fast |
<table>
<thead>
<tr>
<th>Features</th>
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<th>Perceived Benefits</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>disbursements will not be encouraged</td>
<td></td>
</tr>
<tr>
<td><strong>Length of application forms</strong></td>
<td>2 pages</td>
<td>Not tedious – fast to fill</td>
</tr>
<tr>
<td><strong>Clarity of application forms</strong></td>
<td>Simple, clear and easy to understand</td>
<td>Easy to understand</td>
</tr>
</tbody>
</table>

The concept aims at setting parameters that are in line with the clients’ current capacity levels and at the same time making it easy for MED-Net by ensuring all loans are repaid with reasonable supervision costs. It thus attempts to maximize collective action from appraisal through to loan collection. This concept also takes into account the pricing and features of similar product offered by competitors like Centenary and attempt to reach a mid ground that is feasible for both parties i.e. Clients and MED-Net.

The pricing and figures presented in this concept were suggested by the participants in the study and represent their abilities and capacities to the loan. However, the institution will also need to carry out a thorough costing and pricing exercise to determine if indeed these figures are viable. At the end of the day, institution and clients will need to reach a compromise position that allows the institution to viably serve its customers and to maintain business relationships that are enduring and useful in assuring desired repayments.
IMPORTANT ISSUES TO CONSIDER

Base repayments on the Aggregate Household Income
By recognizing that farming households have multiple sources of income, and therefore multiple sources for loan repayments, treating the aggregate household cash flow is paramount. Some institutions treat rural clients like the sophisticated financial managers, and indeed they are, therefore working to build a complete financial relationship with them is necessary. In this light, MED-Net should make clear to its clients that repayment is expected regardless of whether a crop turns out as expected. By de-linking crop and livestock loans from strict adherence to a particular production cycle and, instead, treating farming households as financial units, MED-Net can provide the agricultural loan product in the rural areas with less hassle.

Use existing Social Structures in Product Delivery
There exist many informal groups in rural areas that would be useful in guaranteeing the loans and also as a mechanism for information sharing which is important in assuring clients’ loyalty to the program. Many of the rural folks have had an opportunity to borrow from an MFI under the group system. There is a wealth of knowledge amongst the prospective clients on how the system works and this will cost MED-Net little effort to go this way. The groups will enable MED-Net to gather the relevant information in assessing the clients to be. The usual group characteristics should be emphasized such as; members with good knowledge of each other, good track record, those within reasonable reach and responsible for each others’ acts. This mechanism that puts the responsibility of ensuring loan repayments to the group also cuts down on the monitoring costs associated with tracking individual members.

Crafting Clear Messages and Consistent Communication
Clear messages need to be drafted in a Clear, Concise, and Client language. The communication should aim at bringing out only those points that are relevant such as benefits and features of the product. Other issues that need emphasis are the core group elements that help it stay together and responsible. An analysis of the agricultural sector has proved that it is a risky one and to avoid this, the concept herein emphasizes basing the repayments on the aggregate household income. This must be brought out clearly so that clients have full knowledge that whether or not the funded activity is successful, the loan has to be repaid. This will avoid confusion and enhance responsibility on the part of the client to repay the loan.

MED-Net will need to carry out an extensive education and sensitization campaign to emphasize key messages to bolster its corporate image with the people in these areas and win their trust. This should enable it engage in relationship marketing that involve identifying and establishing, maintaining and enhancing relationships with customers and other stakeholders so that the objectives of all parties involved are met. This marketing perspective should emphasize the three main elements; interactions, relationships and networks. The process should enable clients to understand the program better and enhance loyalty. The use of materials like the Frequently Asked Questions (FAQ) guides (see Appendix A) will be useful in enhancing this understanding.

Clients’ Motivation
MED-Net will need to motivate clients by timely disbursements and flexible terms. In almost all the PRA discussions conducted during the course of this study, respondents expressed a strong preference for a product that allowed them to have access to credit at the right time to take
advantage of the prevailing situation. The product should be affordable and delivered by a friendly staff force.

In reaching out to rural clients, one of the greatest challenges will be how to lower transaction costs for them by bringing the service closer to their communities. Leveraging on the existing ADP infrastructure is likely to bridge this gap.

**Strengthening Information Sharing between MED-Net and ADPs/WV**

There is need to strengthen information sharing between MED-Net and World Vision operations (ADP-level operations) to assure success of this product. The current situation indicates there is very little collaboration if any between the two entities. *We do not know what they do ... what we know is that we contributed to their seed capital to start their operations and they never came back. We have budgeted for their operations, which was a directive from head office ... so we expect them to come and pick the money and go their way* (an ADP officer in Masaka). In Rakai the impression the ADPs have about MED-Net is that it lends money to the rich.

The apparent gap between the two institutions will need to be bridged say in having quarterly meetings where progress reports are presented and agreeing on the areas for collaboration. World Vision head office will need to emphasize this act of having the parties to meet and share information if it has to be grounded. This is a necessary thing to do if MED-Net is to effectively use the existing ADP system to offer its services to the rural people. This will assure change in staff attitude and effectively embrace the new changes leading to building an enabling culture for the proposed services.

**Improve decision making Process**

It has been cited that the decision-making process at MED –Net and indeed World Vision as a whole as being slow. In the current competitive microfinance market, the ability to take fast decisions is vital in defining the institutional success. The point here is to be able to have a competitive edge in the market; we are getting to a situation where MFI’s will offer fairly similar services and what are seen to be the differentiating factors will basically be hygiene factors. In this kind of environment keeping ahead of the competition requires reasonably quick decision-making.

**World Vision mission Versus MED-Net’s Sustainability**

World Vision is known for charity or relief – giving support to the under-privileged such as the orphans, the HIV/AIDS affected, etc. on the other hand MED-Net is supposed to generate income and has to run its operations as a business. *How do we harmonize these divergent approaches? We want to see MED-Net’s intervention directly involving our target population e.g. child-headed families* (ADP staff – Rakai Birungi Byokka).

The culture (humanitarian) amongst ADP staff is an established one that has endured for a long time and they “see the world through the eye of humanitarian”. There is need for the two parties to agree on the minimum guidelines that will support co-existence of MED-Net and World Vision. These have to be developed, documented and communicated to all staff to avoid what would seem to be “preaching of two different gospels”.

**Resident Expertise**

Having in place a person with technical expertise in the agricultural sector may be immensely important. As was observed the extension work is no longer functional in most areas and the
farmers’ access to useful farming tips made hard. To reduce on the cost of this resource, the person could be based at the regional level and support farmers in several ADPs.
CONCLUSION

Serving the agricultural sector in Uganda as has already been discussed in this report is not an easy job. Using the words of one of the respondents who was involved in offering the agricultural loan product a few years ago at CERUDEB; “It is a Very Risky sector”. Many factors contribute to the complexity of the sector; unreliable climatic conditions, landholding issues, pests and diseases, price fluctuations and also the country’s politics. Interestingly, this is the sector that employs over 80% of Uganda’s population and they continue to survive in the face of these problems. There must be something that enables them to continue living and address their lifecycle needs just like people in other sectors. This mystery of their survival is the departure point for programs that want to extend their frontiers.

How can these people be helped? The government initiatives such as the Plan to Modernize Agriculture (PMA) basically emphasize improved practices and improved varieties that result in improved outputs/yields. But this alone is not the solution; how can price be managed? Is it possible to work backwards from guaranteed prices to panning production? There are no structures to support farmers like price guarantees for produce as is done in developed economies. This leaves a lot of questions unanswered.

By studying the way the people are able to address their needs based on their current coping mechanisms, there is some green light that a product developed in line with the situation on the ground is likely to do well. The limitations associated with the coping mechanisms and the people’s sophisticated financial management skills in managing risk present an opportunity to exploit. The readiness that MED-Net has and the existing mechanisms such as the ADPs, serves it with the road map needed to serving this market.

In the first instance, MED-Net will have to establish a formal Pilot Test Team and Protocol for the test, to address gaps in market research, and to point out areas for improvement in systems and the product prototype. MED-Net appears to have an adequate foundation for initiating the transition to launching into agricultural lending, given substantial management commitment to product development and training.

The first job by the PTT will be to conduct the concept test. Concept testing is the process of presenting the product concept as designed from the research findings back to a few people in the target areas and assessing their reactions. These reactions are very useful in refining the concept into a prototype which the team can cost and price ready for the pilot test. The same process is useful in the drawing of the Benefit Statement (see Appendix B) that the marketing department will use in developing the necessary marketing materials.

There is a series of activities that make up the formal process of product development, and one of the most important is pilot testing of the product. The pilot testing process can be broken down into ten steps which, if followed carefully, can minimize the chance for a loss of control of the test and provide valuable information that management can use to improve the product. If all steps are followed, management can ensure a successful decision about the roll-out of the product in its final form.
These steps complement each other in a comprehensive manner, and flow easily from one activity to the next:

1. **Composing** the Pilot Test Team
2. **Developing** the Testing Protocol
3. **Preparing** All Systems
4. **Modeling** the Financial Projections
5. **Formalizing** the Objectives
6. **Documenting** the Product Definitions and Procedures
7. **Training** the Relevant Staff
8. **Developing** Customer Marketing Materials
9. **Commencing** the Pilot Test
10. **Evaluating** the Pilot Test

These are the steps that will guide the team at MED-Net to comprehensively consider all information necessary for a successful pilot test. It is after a successful pilot test that the product can be rolled out gradually into other areas of operation.
Appendix A: Frequently Asked Questions (FAQ)

These should be presented at all times e.g. public presentations, during staff and client trainings, translated, printed and conspicuously posted in the ADP offices or MED-Net banking halls. This will help address a lot of questions before they arise, hence saving time. Presenting them will further emphasize the message on the benefits of the Agricultural Loan Product.

1. What are the requirements for me to qualify for this loan?
   a. You must have land – Freehold, Leasehold or Kibanja
   b. A person with good reputation
   c. Must be in a group
2. What is the minimum amount I can borrow?
   a. Any amount between Ush 200,000 and Ush 1,000,000
3. How much do I have to pay for this loan?
   a. Interest 2.5% per month
   b. Application fee of …. 
   c. 
4. When I borrow, what do I get to show that I have the loan?
   a. Loan Agreement
   b. Repayment Schedule
   c. Passbook
5. How long does it take to process this loan?
   a. Two weeks
6. How do I benefit from this loan?
   a. Helps you finance your farming activities
   b. Sharing of information with the other members of the group
   c. 
7. What is the difference between this loan and the ones you have at MED-Net?
   a. This is specifically for farmers in the rural areas
   b. You have a grace period of 2 months which is lacking in the other products
   c. 
8. What is the repayment frequency?
   a. Monthly
9. What happens if I miss a payment or want to break the contract?
   a. A 0.05% penalty per month on the installment due is charged
10. Can more than one person borrow from the same household?
    a. No
11. Can I be allowed to stagger my repayments depending on how I get my income?
    a. Yes
12. Do I get money I have applied for or you buy the items I need for my activity?
    a. Yes, you get the money not the item.
Appendix B: Key Benefits of the Agricultural Loan Product

It is important to remember that customers do not buy products and services; they buy benefits or value they expect to derive from them. Based on the field research, the following benefits will be consistently communicated everywhere all the time without fail during each of the presentation whether to individuals or groups. The following benefits should be incorporated in all the presentations including brochures, letters, personal selling etc.

The Agricultural Loan Product offers the following benefits;

- **It’s easy to access:** It takes up to only two weeks from application to disbursement and one does not need to have collateral to access it.
- It is **affordable** to the rural people since only 2.5% is charged as interest …
- It **protects money from competing needs** since you can commit all the money to the planned activity and not used on unintended purposes.
- **It’s flexible:** You can borrow any amount from Ush 200,000 to 2,000,000 depending on ones’ capacity and the requirements too are flexible.
- It is **computerized, fast and accurate** – computers allow for fast and efficient service.
- It has an **instant personal account statement** – the computer gives you an instant statement any time any day you ask for it.
Appendix C: Focus Group Discussion Guide (Clients)

**Welcome**
- Thank you for coming – we are grateful for your time.
- We are from Head Office - MED-Net
- We are holding these discussions to get your ideas on how we can best serve the rural farming folks
- Details of the discussions and your names will be kept confidential – so please feel free to express your opinions.
- As first step we should introduce ourselves – tell us your names, what you do,

<table>
<thead>
<tr>
<th>Core Questions</th>
<th>Related Probes</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. What do people in this area do for a living?</td>
<td>Related Probes</td>
</tr>
<tr>
<td>2. Can you list 4 – 5 most important economic activities in this area? Why this order?</td>
<td>Is farming one of the economic activities undertaken in this area?</td>
</tr>
<tr>
<td>3. How do people here finance these farming activities?</td>
<td>Probe for different farming activities including crop and livestock activities.</td>
</tr>
<tr>
<td>4. What do you like about the current financing mechanisms?</td>
<td>Can you also list 3-5 most important farming activities? Why this order?</td>
</tr>
<tr>
<td>5. What are your dislikes about these means of mechanisms?</td>
<td>Probe for formal, semi-formal and informal coping mechanisms</td>
</tr>
<tr>
<td>6. If there was an institution thinking of helping people here to finance their farming activities, how should it do it?</td>
<td>Probe around the 8Ps</td>
</tr>
</tbody>
</table>

**Closure**
Thank you for your contributions in this discussion. Do you have any questions/comments for us?
Appendix D: Focus Group Discussion Guide (Staff)

**Welcome**
- Thank you for coming – we are grateful for your time.
- We are from Head Office - MED-Net
- We are holding these discussions to get your ideas on how we can best serve the rural farming folks
- Details of the discussions and your names will be kept confidential – so please feel free to express your opinions.
- As first step we should introduce ourselves – tell us your names, what you do,

<table>
<thead>
<tr>
<th>Core Questions</th>
<th>Related Probes</th>
</tr>
</thead>
<tbody>
<tr>
<td>2. What in your experience are the main agricultural activities can that can be funded in your areas of operations?</td>
<td>Can you arrange them in their order of importance?</td>
</tr>
<tr>
<td>3. How have people financed these activities?</td>
<td>Probe for formal, semi-formal and informal coping mechanisms</td>
</tr>
<tr>
<td>4. What are MED-Net’s capabilities in handling an Agricultural loan?</td>
<td>Staff competencies?</td>
</tr>
<tr>
<td>5. What are your feelings on MED-Net delivering this product through ADPs?</td>
<td>Systems appropriate?</td>
</tr>
<tr>
<td>6. How should MED-Net best deliver this product to the target market?</td>
<td>Decision-making close as possible?</td>
</tr>
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</table>

**Related Probes**
- What the strengths?
- What are the weaknesses?
- Probe around the 8Ps

**Closure**
Thank you for your contributions in this discussion. Do you have any questions/comments for us?