

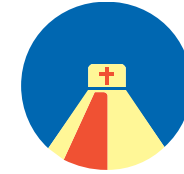
Centenary
Bank

...our bank

INNOVATIVE LENDING MECHANISMS FOR REACHING SMALL HOLDERS

MAY,2015

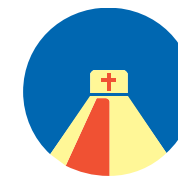
Summary



Centenary
Bank

- Introductory remarks (Uganda's Context)
- Centenary Bank- Ag credit Performance
- Illustration of the banks Lending Methodology
- Challenges of lending to small holders & how these mechanisms speak to them
- Roles and responsibilities of the Bank
- Segmentation of different clients
- Specific policies and procedures that govern lending to small holder
- New products developed
- Alternative delivery channels
- Village mapping tool

Introductory Remarks based- Uganda's Context

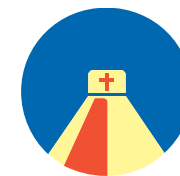


**Centenary
Bank**

Access to credit by Agricultural house holds

Region	Ag-HHs	Ag-HH accessed	%Within region
Central	715,486	63,987	8.9
Eastern	1,069,885	99,802	9.3
Northern	755,701	46,505	6.2
Western	1,033,992	148,523	14.4
TOT(Uganda)	3,585,064	358,817	10.0

Introductory Remarks – Uganda’s context

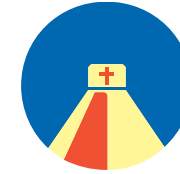


**Centenary
Bank**

Allocation to Ag versus select sectors (shs/billions)

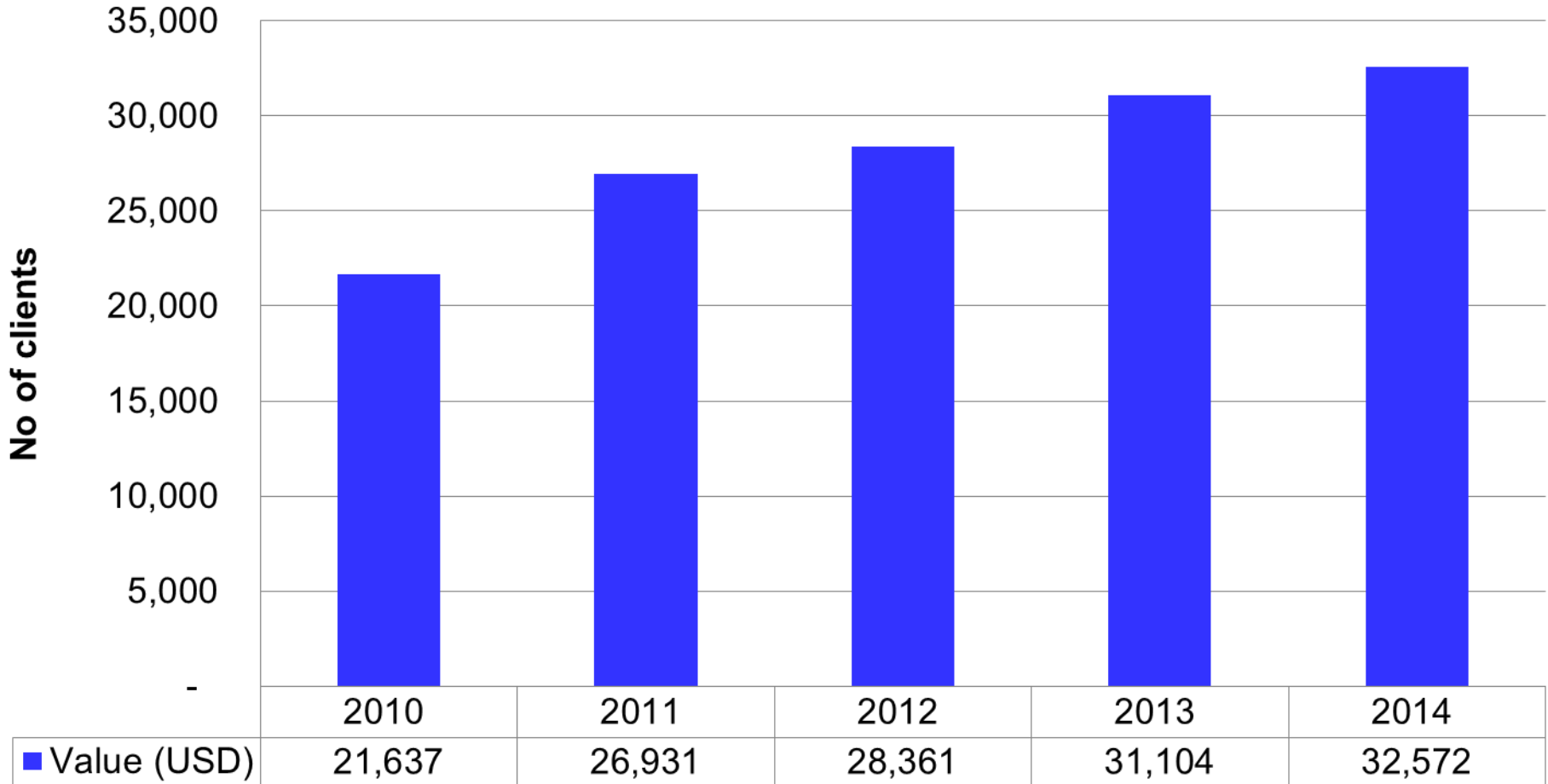
Region	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14
Agriculture	173	231	277	270	379	384
Security	579	560	1,709	984	945	1,046
Works & transport	614	596	742	829	1,651	1,770
Education	771	902	1,093	1,209	1,592	1,555
Health	381	417	122	134	354	382
Water & Environment	94	117	122	134	354	382

Number of customers (Trend for the last 5 Years)

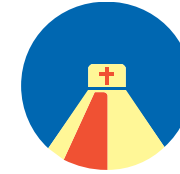


Centenary
Bank

Number of Agriculture Clients for the last five years

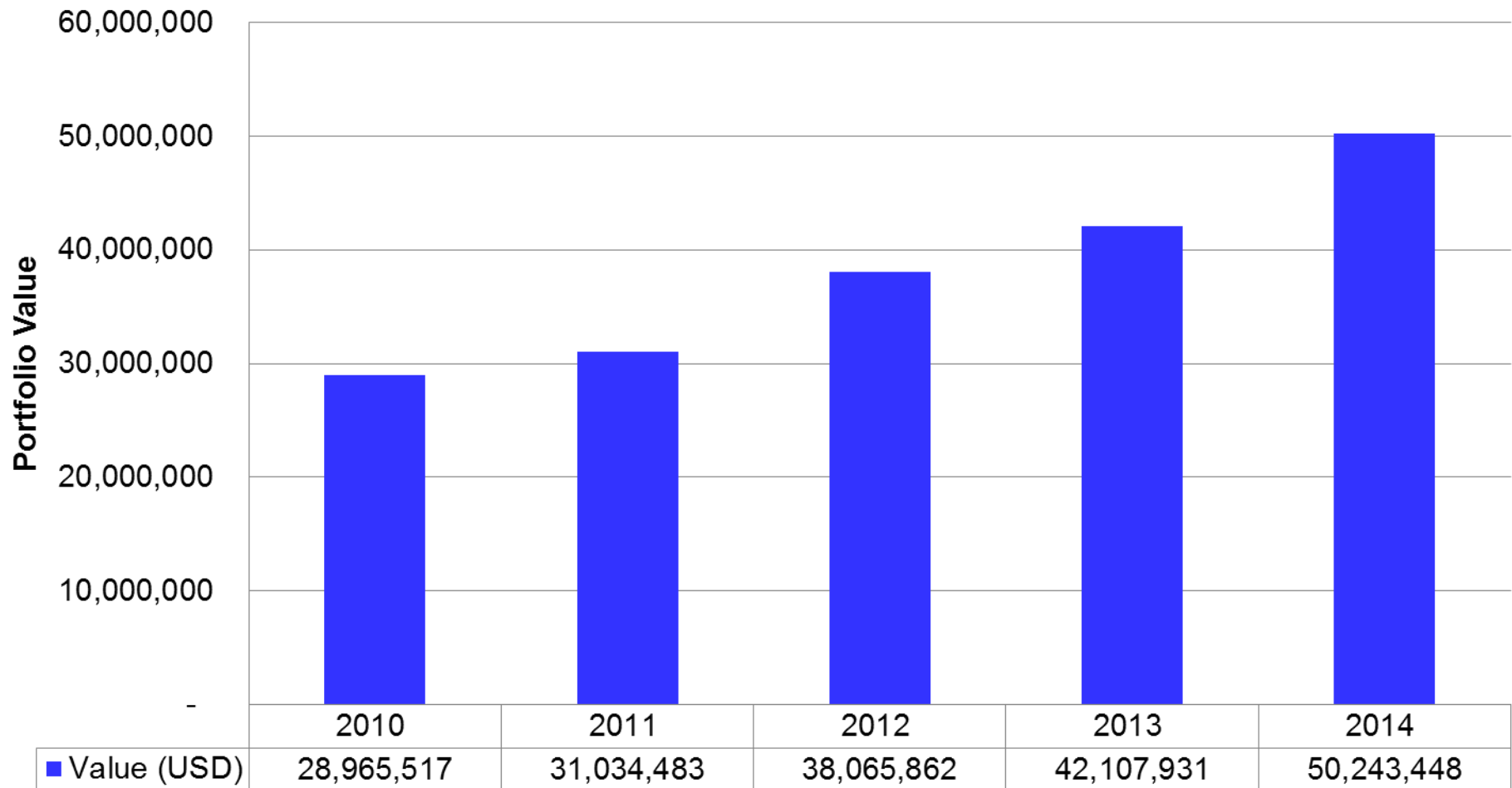


Agriculture Portfolio volume-USD (Trend for the last 5 Years)

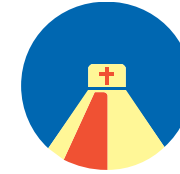


**Centenary
Bank**

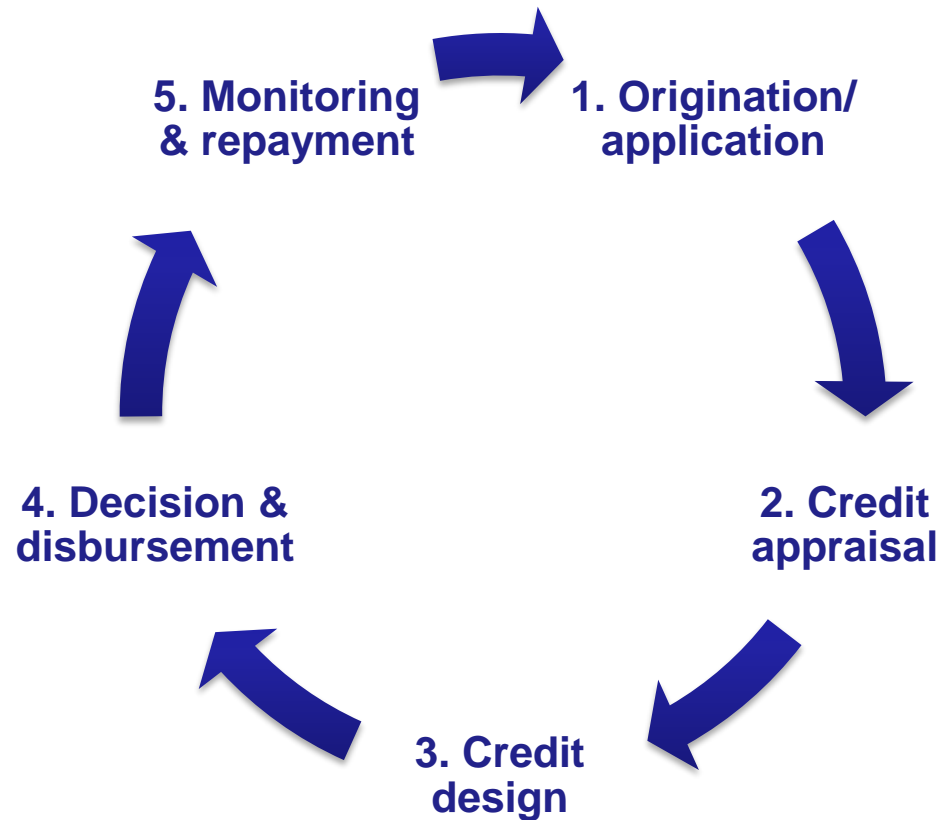
Agricultural Portfolio size for the last five years



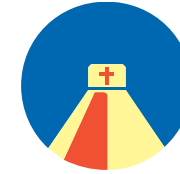
Lending Mechanisms- Direct Lending



**Centenary
Bank**

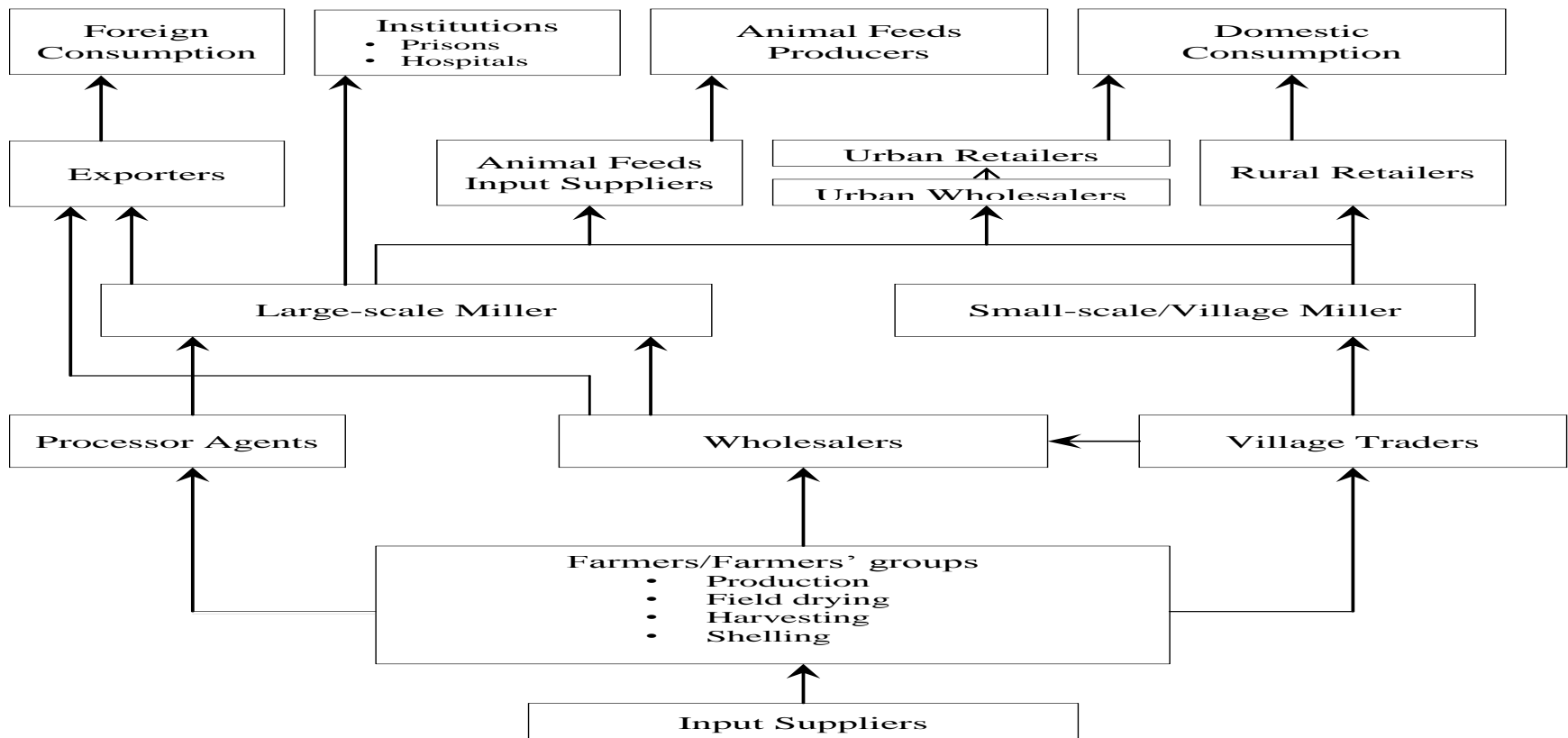


Lending Mechanisms-Value chain

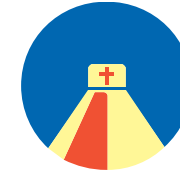


Centenary
Bank

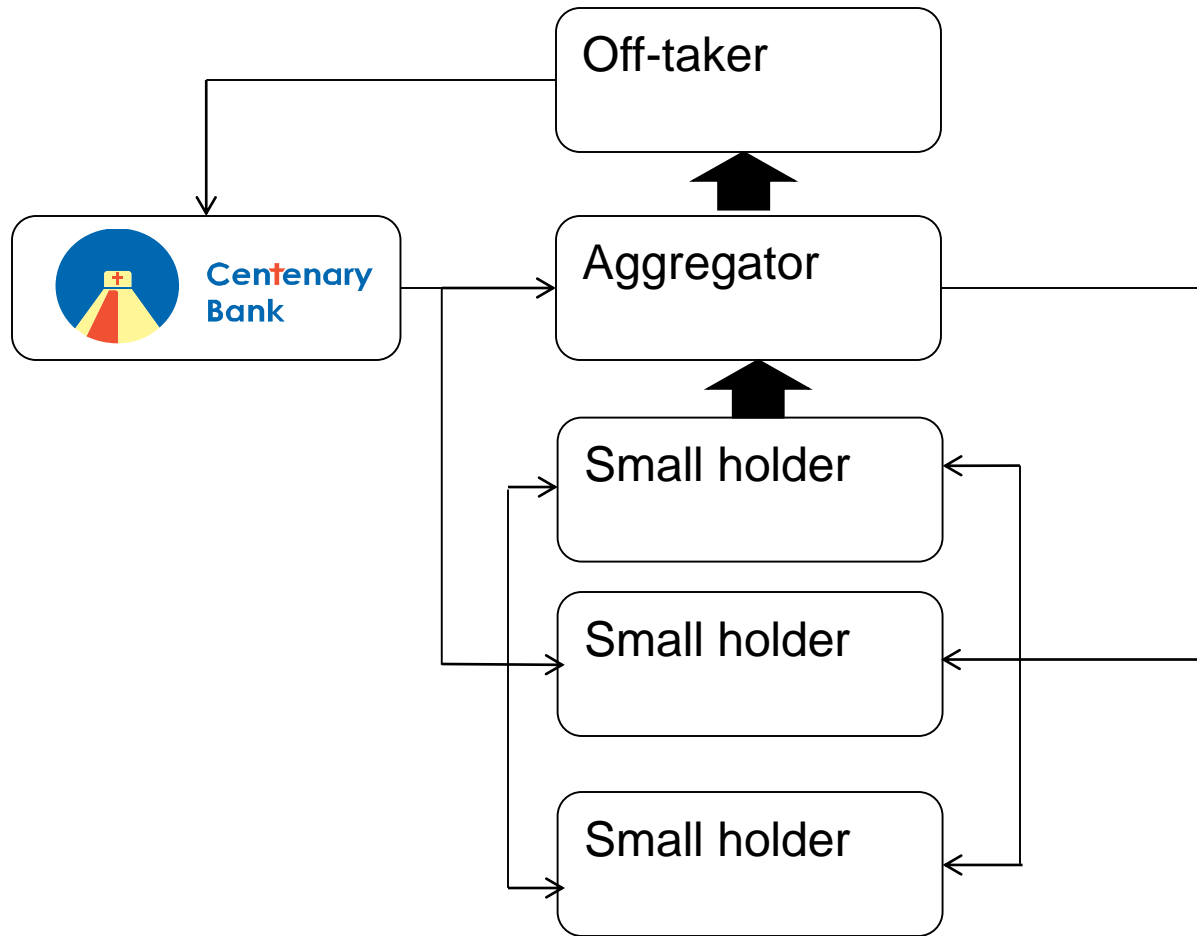
MAIZE GRAIN VALUE CHAIN

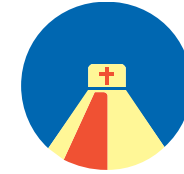


Lending Mechanisms- Value Chain



Centenary
Bank

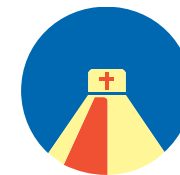




Under the tripartite financing arrangements the following features abound:

- Small holder farmers under their Farmer groups/association produce maize under contracts signed between them and the aggregator
- The Bank finances the association on the basis of contracts executed between them and the aggregator
- Under the tripartite agreement signed between the farmer association ,the aggregator and the Bank, the aggregator agrees to make payments to the association through their account held with the Bank from which association loans are retired
- The aggregator receives financing for working capital to purchase all maize produced, bulks and sells to the off-taker.
- The off taker too makes payment to the bulker through their account held with the Bank from which the existing loan is retired

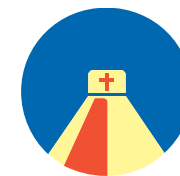
Challenges of Lending to Small holders



Centenary
Bank

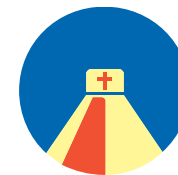
Challenges	Mechanism to deal with the challenge
High transaction costs of lending in the rural areas	Potential mapping guides the selection of villages with the highest potential hence directing lending operations in a cost effective manner Appropriate route planning by loans officers & the use of motorcycles to the field
High risks associated with agricultural lending such as covariant risk, production and market risk.	Risk grading tools for both the Micro and SME agricultural borrowers have been developed to enable ALOs identify and access risk. It also provides a basis for pricing agricultural SMEs and corporate loans.
Moral hazard that may arise from information asymmetry	Incentives such as lower interest rate on subsequent loans to farmers, possibility of top up loans closer client relationship management and longer repayment periods, have been developed to motivate clients to avail as much information required for decision making

Challenges of Lending to Small holders



Centenary
Bank

Challenges	Mechanism to deal with the challenge
<p>Lack of records and thus the longer appraisal periods arising from the need to understand the complex interrelationship between production and consumption expenditures.</p>	<p>Cash flow based & flexible repayment programs structured by ALOs with an agricultural academic background. In addition to this the loans officers are taken through specialized capacity building programs by the Bank</p>
<p>Lack of collateral. Customary land ownership patterns in most rural areas imply the lack of plausible collateral to pledge for lending</p>	<p>Risk sharing schemes such as the aBi Finance guarantee that offers 50% collateral cover to lending towards agricultural value chain activities</p>
<p>Seasonality of Agricultural production</p>	<p>Crop calendar based lending in addition to specialized financing schemes to encourage farmers to purchase irrigation kits</p>



In line with the Bank's mission of providing appropriate financial services, especially microfinance to all people in Uganda, we view our clients as partners

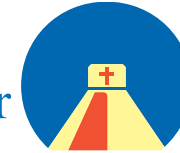
The relationship is usually long term (lending and savings) and the synergies therein include:

- Projects financed have both the Bank's and partners contribution in proportions of 75:25 respectively.
- The Bank employs loans officers who studied agriculture. The essence is to disseminate basic best agronomical practices. This double benefit endears the clients to the Bank
- The bank partners with the Private Sector Foundation to provide literacy sessions to the farmers
- Partners on their part borrow and are expected to repay their loans on schedule in anticipation of the next seasons borrowing/saving.

Roles and responsibilities of the Bank

- Provide financing based on the whole agriculture calendar and adopted to the farming cycle.
- Customize smallholder friendly loan products based on the needs at the different levels of the value chain for all viable enterprises
- Investment in training for ALOs and famers. Specialized capacity building programs for the loan officers and financial literacy programs for the farmers
- Provide appropriate and cash flow based loan financing structures that are developed cognizant of seasonality nature of the sector.
- Development of tripartite based documentation to facilitate financing of the entire value chain
- Ensure client information is kept confidential and that all transactions are done with utmost good faith

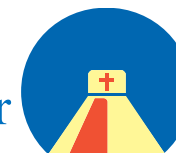
Policies and procedures governing lending to small holder



**Centenary
Bank**

Stage of the process	Specific policy and procedure applicable
Origination	<ul style="list-style-type: none"> • Project undertaken must be an activity within the Agric value chain • Two seasons experience in handling the enterprise for which financing is being sought • Must present a financial card • Project undertaken must be viable/profitable • The applicant should be an owner or tenant on the land on which he/she operates • Movable and immovable collaterals are acceptable. The loan to collateral value is 100:150. Movable collateral are chattels such as cattle, house hold furniture, stock, motor vehicle log books et..et..al. Immovable collaterals include land, lock up shops et..et..al
Relationship Management	<ul style="list-style-type: none"> • Minutes for visits to clients during loan monitoring and recovery stages are captured in a standard client contact documentation form. The discussion includes the implications of not remitting by schedule and consensus in respect to when the amount in areas can be settled.
Loan & repayment dynamics	<ul style="list-style-type: none"> • ALOs are expected to assess all total household income and ensure that the repayment periods are in sync with the length of production cycles and cash flows of borrowers • Amount, loan tenor and repayment structure are determined by the client's cash flow and maturity period of a given enterprise

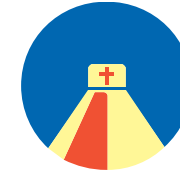
Policies and procedures governing lending to small holder



**Centenary
Bank**

Ag product	Definition & features
Production Loan	<p>Offered for the purpose of financing cultivation expenses for growing crops such as purchase of agro-inputs. Key features include:</p> <ul style="list-style-type: none"> • Cash flow based structuring that takes care of grace periods varying with the nature of enterprise • No principal repayments during the grace period • Maximum loan period of 24 months but development loans may go up to 5 years • Irregular payments can be structured depending on cash flows • Minimum loan amount of shs 100,000 (USD 34)
Revolving production Loan	<p>Offered for the purpose of financing cultivation expenses for growing crops such as purchase of agro-inputs. A farmer is fully appraised once in a period of three years provided there occurs no change in land holding. Key features include:</p> <ul style="list-style-type: none"> • Credit revolves for a maximum period of 3 years • Annual 10% increment in loan limit factored in to cater for escalation in input prices • Loans are availed for each season and retired ahead of the next draw down • Interest charged on declining balance • Outstanding loan at any time doesn't exceed the total limit.

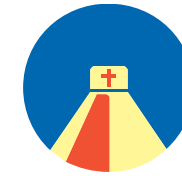
The Bank's Agricultural product suite/Palate



**Centenary
Bank**

Ag product type	Definition & product features
Marketing Loan	<p>Post harvest short term loan targeted at crop producer farmers , processors and wholesalers / aggregators, financing expenses directly related to transportation ,storage and working capital of agricultural produce that is expected to be resold in the future with a margin. Features include:</p> <ul style="list-style-type: none"> • Interest charged on declining balance • Loan tenure of 24 months • Client must have done such business for a period of 12 months • Security acceptable to the bank(Movable and immovable collateral)
Farm Asset & Equipment Loan	<p>Short and medium term loan targeting producer farmers, commercial farmers and processors, for financing small and high value equipment. Product features include:</p> <ul style="list-style-type: none"> • Attractive interest • Equipment financed is taken as principal collateral • Interest charged on a declining balance • Loan tenure dependent on cash flows

Pricing of Agricultural loans

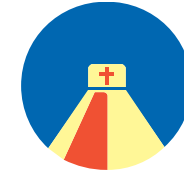


Centenary
Bank

Pricing of agricultural loans depends on the magnitude of risk as ascertained by the assessment process. Samples of available bands

First time Micro Agriculture borrowers <5m (USD 1,724)	42%
Recurrent Micro Agriculture borrowers < 5m (USD 1,724)	34%
Micro Agricultural loans > shs 5m (USD 1,724)	29%
Micro Agricultural loans \geq shs 20m to \leq shs 30m	25%
Agricultural Small & Medium Enterprises \geq shs 30m but \leq shs 200m (USD 10,344 /68,965)	P + 0-6%
Agricultural Corporate Loans >200m (USD 10,344)	P + 0-6%

The Village Mapping tool as a cost optimising initiative



Centenary
Bank

Contents of the tool

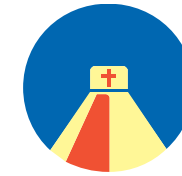
- List of villages in 3 categories including high, Medium & low potential
- Rationale for classifying them this way including the objective & subjective criteria
- Key parameters include, no of customers, distance , potential borrowers, average borrowing and most viable enterprise



Output from the tool

- Grading of villages into high, Medium and low potential. The Bank therefore renders more effort to the areas with high & medium potential.
- Identification of the most viable enterprises per lending zone

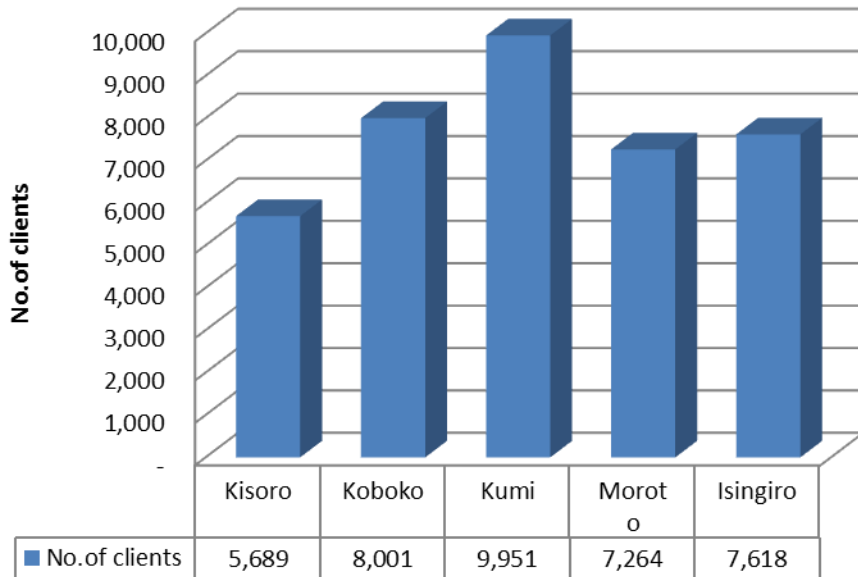
Alternative Delivery Channels



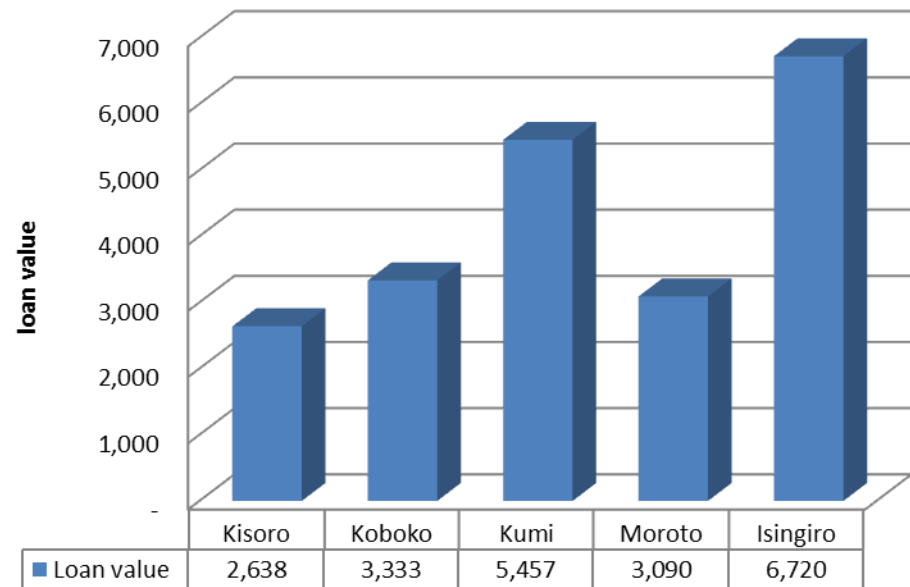
**Centenary
Bank**

a) **Sattelite Branches:** Sattelite branches are small outlets /service centers with relatively fewer staff/resources that a branch, established in rural areas to increase financial access. In collaboration with the World Bank five sattelite branches were setup. These include; Isingiro, Moroto, Koboko, Kumi and Kisoro

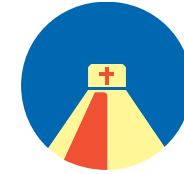
Number of clients by satelite Branch



Loan value (000,000)



Alternative Delivery Channels



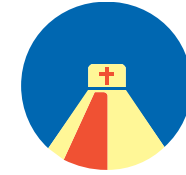
Centenary
Bank

b) Cente Mobile; The platform houses all the e-options available for the client. The platform that was established in 2013 currently serves 300,000 registered users.

Cente mobile menu options

- Push and pull option that allows clients to move money to and from the account and mobile.
- Loan installment settlement with funds sent to the account
- Settlement of utility bills e,g water, electricity etc.
- Balance inquiry
- Fund transfers

End



Centenary
Bank

End