Centenary Bank—Uganda

PROJECT RESULTS AND LESSONS

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Project Overview

The objective of AgriFin’s partnership with Centenary Rural Development Bank was to support the bank’s strategy of increasing finance to the agricultural sector in Uganda. The project focused primarily on three key areas: establishing an agricultural finance department to lead the strategic growth of agricultural loan portfolios; enhancing the bank’s capacity to deliver services to rural clients by developing and expanding alternative channels; and developing staff skills to enable them to serve agricultural clients more effectively. The initial results and lessons from this project are shared below for the benefit of other financial institutions who are seeking to expand lending to the agricultural sector in a cost-effective way.

Results

Establishment of an agricultural finance department which has strengthened the bank’s capacity to offer products and services tailored to agricultural clients’ needs. Centenary established an agriculture finance department which coordinated all activities related to the agricultural financing. The department carried out a strategic review of Centenary Bank’s agriculture finance business, identified opportunities for growth, and made key operational changes that helped improve both bank’s agricultural lending processes as well as products targeted to agricultural clients. Specifically, the department led the development of new agricultural loan products; enhanced the delivery mechanisms via new satellite branches and mobile-based e-banking services; and strengthened the bank’s overall capacity to assess agricultural lending risk by developing new credit scoring tools and training staff to use such tools to assess agricultural clients. As a result, Centenary has seen a significant rise in both number of clients and lending volumes since the beginning of the project (see Figure on next page).

Development of new products to meet the needs of a wide range of agricultural clients. Before the AgriFin project, Centenary offered a single agriculture loan product. In order to expand its agricultural portfolio, the bank developed four new loan products: a production loan, used to finance agricultural labor and inputs; a revolving production loan, which targets clients who have borrowed (and repaid their loans) at least twice from the bank, and as such involves less documentation; a farm asset and equipment loan, which finances the purchase of simple farm or processing equipment; and a marketing loan which is a short-term post-harvest working capital and targets commercial agricultural clients such as collectors, processors and distributors. The new products enable the bank to finance agricultural activities at various stages along the value chain, increasing the number and type of agricultural clients that they can service.

Developed and expanded alternative delivery channels which helped increase outreach into rural areas. The bank established five new satellite branches enhancing its presence in rural areas and enabling it to provide a wide range of financial services to rural clients. In order to expand its outreach even further, the bank also developed a mobile-based e-banking service allowing clients to make loan payments, generate account information, and conduct internal money transfers. The bank also established a customer call center to better respond to clients’ needs and queries. Both the online and telephone banking services enable rural clients, who may be located far from a Centenary outlet, to remotely manage their accounts in an effective manner.
Training in agriculture lending has enhanced the capacity of staff to better serve agricultural clients and assess risk more effectively. Centenary developed an internal pool of trainers who are now training staff in agricultural lending techniques across the banking network. The training is focused on four key aspects of agricultural lending: understanding of agronomics; managing agricultural lending operations; understanding and assessing agricultural risk; and managing and recovering problem loans. This training enables loan officers to better serve new agricultural clients and also make better lending decisions.

Lessons Learned

Bringing services and products closer to agricultural clients is important, but not sufficient to acquire new clients; adequate training of staff is critical to enable them to sell loan products to agricultural clients effectively. Although Centenary’s new satellite branches continue to experience growth in deposits and loans, in several branches growth in agricultural loans is below the volumes anticipated in Centenary’s business plan. The bank attributes this issue to a preference among staff in those branches to lend to non-agricultural clients. The bank attributes this issue to a preference among staff in those branches to lend to non-agricultural clients. The bank attributes this issue to a preference among staff in those branches to lend to non-agricultural clients. The bank attributes this issue to a preference among staff in those branches to lend to non-agricultural clients. The bank attributes this issue to a preference among staff in those branches to lend to non-agricultural clients. The bank attributes this issue to a preference among staff in those branches to lend to non-agricultural clients. The bank attributes this issue to a preference among staff in those branches to lend to non-agricultural clients. The bank attributes this issue to a preference among staff in those branches to lend to non-agricultural clients. The bank attributes this issue to a preference among staff in those branches to lend to non-agricultural clients. The bank attributes this issue to a preference among staff in those branches to lend to non-agricultural clients. The bank attributes this issue to a preference among staff in those branches to lend to non-agricultural clients. The bank attributes this issue to a preference among staff in those branches to lend to non-agricultural clients. The bank attributes this issue to a preference among staff in those branches to lend to non-agricultural clients. The bank attributes this issue to a preference among staff in those branches to lend to non-agricultural clients. The bank attributes this issue to a preference among staff in those branches to lend to non-agricultural clients.

Development of a credit scoring system for agricultural SMEs and micro loans which has enabled the bank to assess risk more efficiently and has enhanced the quality of the agricultural loan portfolio. Two separate credit scoring tools were created: one for micro agricultural loans, and another to assess larger commercial clients. The tools are based on pre-defined parameters to help loan officers measure agricultural clients’ risk and assign a credit score to guide decision for loan approval and pricing. More rigorous credit risk assessment is anticipated to improve the quality of the agricultural lending portfolio even as the bank rapidly expands its lending to the sector.

Designed a village mapping tool that helps the bank identify villages with high business growth potential, enabling the bank to focus its efforts on the locations with the highest new business potential. The tool helps the loan officers map villages in their respective zones by sourcing data on distribution of landholdings, major crops grown, cost of cultivation, yield, and price realization, among others. The information gathered through the village mapping tool helps the bank and its loan officers focus their efforts on the villages with the greatest potential.
clients due to a perceived lower risk. This is because initial staff capacity and knowledge relating to agriculture was low, which limited the branches’ ability to acquire new agricultural clients at higher rates. In addition, farmers in the northern region of the country were not yet organized in groups, which would have made them eligible for financing. They also lacked collateral given that land is communally owned and has no documentation, making it impossible for borrowers to use it for the purposes of obtaining a loan. To address these issues, the bank started providing additional training and business support at these branches in order to help lending staff better serve agricultural clients. The bank has also launched more targeted efforts to market value chain financing to off-takers of key crops that are commonly grown in the three regions where the satellite branches are located.

Automated credit scoring tools can help banks evaluate agricultural clients and price loans more efficiently. Assessing agricultural risk can be challenging and costly, requiring specialized agricultural knowledge and expertise. The bank’s investment in the development of two credit scoring tools have enabled it to dramatically grow its lending to the agricultural sector by automating a significant part of the credit risk assessment process, without the need to either spend significant time and effort in training staff on agronomics or recruiting agronomic experts to act as loan officers.

The establishment of the customer call center has enabled the bank to identify and address issues quickly and enhance the use of banks’ products and services. The call center is an important source of information that the head office is using to monitor and improve the efficiency of services provided at branches across the country. For example, based on client feedback, the head office is able to find out quickly if branches are delaying loan disbursements to clients. In addition, through the call center feedback, the bank has been able to identify areas where staff may need additional training; for example, client feedback suggested that a great number of borrowers were not aware that the bank offers a grace period for loan repayment. Centenary plans to continue to use client feedback in order to further improve its services.