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Experiences with micro finance in improving rural livelihoods: a case for the Farmesa project in East and Southern Africa with focus on Uganda

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Abstract

In sub-Saharan Africa typical goals of rural development include food production and poverty alleviation. Despite varying views on the best ways of achieving these goals, production intensification, exploitation of marginal lands and expansion of trade are among the options often sited. At small holder level accelerated adoption of improved agricultural technologies and practices with focus on markets for enhanced livelihoods are some of the driving factors that can sustain rural development, and that intensification of farming must be part and parcel of the strategies for ensuring livelihood security. This paper focuses on a number of issues related to micro-financial service delivery for food production and poverty eradication as a viable path to enhancing rural development. It defines micro-finance, outlines the needs for micro-finance and characterizes micro-finance institutions that address needs of different levels of recipients. Farmesa's experience in the step-by-step preparation of smallholder borrowers towards timely loan repayment is given. Special reference is made to the performance of the Farmesa's micro-finance initiatives in Kacaboi and Kasenge parishes respectively, in Kumi and Mukono districts of Uganda. The above stated micro-credit initiative attained a 250% increase in community membership from 163 persons (82 female) in 1998 to 471 members (269 female) by June 2004. Accumulated membership savings for the two sites rose eleven fold, from Ushs 1,393,950 in 1998 to Ushs 15,291,000 by June 2004. This compared very favourably to the total offshore funds of about 16,000,000 released to the project over the same period. Accumulated loan portfolio in the two sites was estimated as Ushs 45,750,000 as of June 2004, up from Ushs 3,880,000 during the first cycle in 1998. Total beneficiaries from the micro-credit scheme grew from 171 members in mid-1998 to nearly 2,000 in 2004. Life examples, case studies and lessons on micro-finance as administered by the Farmesa Project are sited. In conclusion, the paper points out some of the salient challenges in micro-finance management and provides proposals for its out-scaling among smallholder farmers and the rural poor in Uganda.

Key words: Financial service, loan, micro-credit, smallholder, farmer

Introduction

In sub-Saharan Africa typical goals of rural development include, among others, food production and poverty reduction. Despite varying views on the best ways of achieving these goals, production intensification, exploitation of marginal lands and expansion of trade are among the options often sited. At small holder farmer level accelerated adoption of improved agricultural technologies and practices is one of the driving forces for sustainable rural development and that intensification of farming must be part and parcel of the strategy for ensuring livelihood security for most of these countries where per capita agricultural land is continuously decreasing. Such intensification is feasible but will require a much-expanded range of sustainable and more productive technologies of which use of improved planting and stocking materials, fertiliser and pesticides, farm tools as well as water for crop production form a vital component. These technologies promise significant field increases, great saving in farm labour, energy and cost and if properly deployed will guarantee sustainable utilisation of land and water resources. For the technologies to have rapid impact however, effective support systems and an enabling policy environment must accompany them.

Today's economic climate in the Developing World is characterised by a variety of structural adjustments in all sectors of national economy. These adjustments have often resulted in complete re-orientation of many national agricultural policies, drastic cuts on public sector expenditure including agricultural support services, such as extension delivery and credit support. Consequently, current farmer complaints often include shortages of inputs including seed, farm equipment, pesticides and more importantly credit: the later being critical to the acquisition of much needed technologies and inputs sited above. Well-administered credit is also a stepping-stone to alleviating rural poverty, leading to general improvement in livelihoods.

Micro-finance and micro-finance institutions

Micro-finance is a service through which an active poor individual "entrepreneur" or an organised group of persons can access small loans with a view to improving incomes, enhancing investment and creating employment. Micro-finance institutions (MFIs) and services are not a new phenomenon in sub-Saharan Africa. In fact, the region has more than twenty years of experience with MFI. Following the well-known success of the Grumeen Bank in Bangladesh with group saving and lending for the extremely poor, (David Hulme and Paul Mosley, 1996), many developmental agencies, including DFID, IFAD, Sida and USAID as well as the World Bank have promoted various forms of MFIs in Africa. In broad terms strategies used by these institutions have included:

a) Formal banks – often business-focused, stringent and rigid in their demands for formal collateral as a security for the credit requested and often charging high lending rates ranging between 18-25% in the case of Uganda.

b) Non-bank micro-finance institutions - which may be companies limited by guarantee or by shares, and often run by local and foreign NGOs/CBOs. These are generally more flexible in their operations and often capable of developing deeper grass-root outreach than traditional banking institutions.

c) Non-bank support institutions - e.g. Co-operatives and credit unions, farmers associations and postal savings banks.

d) Government ministries and organs that administer credit - often as a component of a local or foreign-funded project.

e) Private sector institutions - which offer credits to their clients often to enhance specific production undertakings, e.g. tobacco, cotton, coffee, tea, sugar companies, etc.

f) Small traditional grass-root informal groups - with common interests and knowing and trusting each other for purposes of pooling resources together for self help. The above categories do cut across most African countries South of the Saharan.

Need for and challenges in micro-finance access by the rural poor

As hinted above the roles of government, private sector and NGOs in supporting rural development have changed tremendously during the past 2-3 decades, so have the organisations for supporting agricultural services, which are the key driving force for agricultural development (Von Pischke J D and Rouse J). Wanzira Basil (2001) notes that during the 1970/80s a majority of agricultural credit was provided by government-sponsored programmes and were usually heavily subsidised. Some of these credits mainly supported well to do farmers procure capital-intensive farm equipment, their spares and accessories. The assumption was that such equipment and implements would, in turn, indirectly help boost smallholder farmer productivity. Similarly, credit and subsidies were also provided for seed, fertiliser and pesticides. It is interesting to note, however that most of these credit schemes did not directly benefit the smallholder farmer and were not sustainable because of very poor repayment.

In the years that followed, a variety of new and local initiatives for savings and credit have sprang up. These initiatives have included savings and credit services provided by Micro-finance Institutions (MFIs) to smallholder farmers and the rural active poor in response to the constraints posed by capital scarcity, the inability of the formal system to reach the landless poor and the limited ability of informal financial markets to meet the needs of the majority of poor people striving to survive in the off-farm sector (Von Pischke J D *et al.*). A key challenge now is to make up for the lost time in agricultural policy and develop strategies towards an appropriate modern approach to agricultural information services and credit by making these services user-friendly, cost-effective, affordable and accessible.

Experience has shown that establishing sustainable financial services within the agricultural development interventions is one of the most challenging tasks. In recent years the vacuum in financial services (as a result of the on-going structural adjustment programmes) in the participating countries has been partially filled by the informal sector (MFIs), which emphasises the practice of small-scale savings and lending. However, Anandajayasekeram *et al. (2001*) observes a number of real challenges in this arrangement, namely:

a) How to get credit cash flow from MFIs into farming yet, a vast majority of successful MFIs have been non-agricultural and concentrate in urban and peri-urban areas.

b) Lack of capacity by smallholder farmers to access formal credit in terms of savings-culture, collateral, knowledge, skills, and organisation.

c) Poor information sharing between banks and small borrowers;

d) Small borrowers not often able to supply all the information required by banks thereby constraining access to credit.

e) High interest rates demanded by the formal financial lending institutions (17-27% pa) vs very low interest rates on banked-savings (3-4% pa), in the case of Uganda.

f) Limited sources of long term finance due to the fact that the financial sector in the region is dominated by commercial banks with a limited number of development banks;

g) Absence of a favourable legal and regulatory framework to facilitate rural lending. What often exist are fragmented policies.

h) Absence of suitable facilities and infrastructure for rural savings.

i) High transaction costs associated with the small credits required by smallholder farmers.

j) Small-scale borrowers often have inadequate capacity to develop bankable projects, lack good corporate governance in terms of transparency in business as well as accountability.

k) Small-scale borrowers often have a weak savings and credit management culture and inadequate knowledge of business as a long-term undertaking.

l) Most banks and MFIs perceive small borrowers as a high risky group to lend to since they often lack a sound track of profitability and long-term relationship with lending institutions. They also often lack collateral. The challenge for the lending institutions is how small and medium scale borrowers should manage risk effectively!

The above issues are critical because small and medium scale enterprises (SMEs) dominate and are at the core of future enterprise development and therefore of economic growth in sub-Saharan Africa. Resolution of these problems will therefore go a long way in reducing the cost of credit for all businesses and in particular to the agricultural sector in the sub-region.

FARMESA's regional experiences with micro-finance

The *Farm-level Applied Research Program for Smallholder Farmers in East and Southern Africa* (Farmesa) was operated in Kenya, Uganda, Tanzania, Zambia and Zimbabwe over a five-year period, 1996 to 2001. The regional program, funded by the Swedish International Development Agency (Sida), started its operations with training of selected stakeholders on participatory approaches working with communities. This was immediately followed by needs assessments in two strategically selected (one high and the other low-resource) districts in each of the five countries. For most of the countries, the initial survey results clearly reflected food security concerns among the key challenges facing farmers (Farmesa 1999-2004). Consequently, initial focus of the program was on improving agricultural productivity with a view to enhancing household food security. In this regard, improved cropping and stocking materials, better agricultural practices, sound soil and water management methods, improved labour saving and productivity enhancement technologies and innovative information generation and sharing methods were introduced and field tested with farmers, mainly using the *Farmer Field Schools* (FFSs) group approach, (Odogola *et al., 2003)*.

Following three years of field operations, the communities had significantly attained good levels of empowerment towards managing and owning their own destiny. The series of participatory planning exercises that followed in each of the project sites (1998/99) reflected a new generation of farmers' aspirations and challenges. Top of the list was the problem (across the region) of rampart poverty within communities resulting in farmers' inability to access improved agricultural inputs, information and labour as well as meet basic household needs to improve livelihoods. In August 1998, the program therefore commissioned a study to analyse operations of the then existing micro-finance institutions (MFIs) in the above five countries with a view to establishing their mode of operation and how much they catered for the financial needs of smallholder farmers and the rural poor. The findings and recommendations of the study are well documented in Anandajayasekeram *et al. (2001*).

The study broadly classified activities and approaches of the MFIs under i) *supply led credit approaches* (based on externally generated finance to the beneficiaries through various institutions) and ii) *financial intermediation and institutional building approaches* (based on local savings and promoting members' and leaders' education in rural finance, i.e., rural finance institution building which was largely demand-driven). The existing institutions were also classified as *formal, informal* and *semi-formal*. The term informal finance applied to all transactions, loans and deposits occurring outside the regulation of the Central Monetary Authority (CMA). All regulated finance activities were labelled as formal finance. The term semi-formal was used to refer to the middle part of the continuum between formal and informal activities that may be partially regulated by government agencies through licensing or supervision and may have linkages with the formal financial systems. The then existing formal, informal, and semi-formal MFIs in selected countries in East and Southern Africa are summarised in Table 2.

The negative aspects in a number of the above MFIs, according to the several country reports (Anandajayasekeram *et al. 2001*), were that the funds for lending to smallholder farmers or entrepreneurs were predominantly supply-led, often originating from external donors or government rather than from local savings in the rural economy. Heavy reliance on external funding is not sustainable. Most of these MFIs also charged interest rates below the market rates and in some cases loans were provided interest-free. Such low interest rates often make MFIs fail, as they do not cover transaction costs and have an adverse effect on savings. Appropriate pricing of savings and credit to this regard are critical. The rates should be competitive for credit to attract enough savings. There is also need to closely link credit to a sound savings culture. Focus should be on financial intermediation rather than supply-led credit, ensuring a sense of ownership by the institutions concerned with the people's most common economic activity and investment in human capacity building for efficient management and marketing of credit. Emphasis should also be placed on working with groups, training on bookkeeping, funds management and other related topics, which are considered critical for continuity and sustainability. The study also reflected cases where credit was provided mainly for political reasons: targeting votes or for political good will. Such credit often suffered very low or totally no repayment with very little direct benefits to borrowers.

Following the above study and its lessons, a "Micro-credit Savings and Training" component was launched in each of the five Farmesa countries. The main focus was creating awareness through community sensitisation and training on credit management; providing low-interest credit facility for a cross-section of farmers and the rural poor in the field sites; development of a savings culture, increasing accessibility of farm inputs and information. The credit scheme involved both men, women and the youth, and aimed at developing a sustainable and participatory strategy for loan disbursement and recovery with a view to improving livelihoods.

Each of the five project countries developed a slightly different strategy to run the micro-credit. There was however consensus that encouragement be given to community-based savings and credit schemes facilitated by NGOs, private sector and/or government. In this respect communities were to be the main actors and the other parties playing a facilitating role until the communities develop their own managerial capacity.

FARMESA's experience with micro-finance in Uganda

Needs assessment

The strategy for micro-finance implementation may differ from one community to the next. In the two targeted field sites, Kasenge and Kacaboi parishes respectively in Mukono and Kumi districts of Uganda, the micro-finance activities were initiated by a participatory rural appraisal in each of the above project sites where the Farmesa project was already operational. The exercise was meant to catalogue potential borrower characteristics, identify strengths and weaknesses and opportunities and threats. The survey also obtained indications of needs for micro-finance at individual, group or associations levels. This characterisation was vital in helping the credit executing institution find the best entry point for preparing and dealing with either individuals, groups or associations.

Formation, sensitisation and training of potential loan beneficiaries

Following the needs assessment exercise above, communities were sensitised on what credit is and how it works, who may accesses the credit, how and for what purpose? The sensitisation process enhances recognition that the loans are only for investment in profitable businesses and that beneficiaries must be personally willing to repay the loan and on time. Targeted communities are also made aware of the terms and policies of the lending institution. Emphasis is placed on the development of a savings culture, as this is the key for micro-credit sustainability.

The sensitisation exercise was immediately followed by rigorous training in business analysis and planning, which included the nature of business input requirements, markets, profitability and pricing, constraints and risks in business and risk remedies. Business analysis further emphasised business activities, costs and expenses involved and clear predictions of loan amounts required, forecasts of profits and procedures for loan management. Trained individuals, who complied with the above-stipulated principles, are further required to provide their full names, location and nature of business. These particulars are important, as individuals must be well known to each other to access the loan. Quite often a political and/or civic leadership of the area or a well-known business colleague may be required to support such registration.

Formation and preparation of Community Associations

The above sensitisation and training was followed by a formal launch of a "community association". This is a group of persons in a given community, having common interest and willing to come together in an informed manner, for a common course. Though experience elsewhere indicates an ideal size of a community association for purposes of accessing MF as consisting of 25-35 members, the demand for participation on the Farmesa project activities in Uganda was overwhelming. Consequently, initial MF-groups in Kacaboi and Kasenge parishes had a membership of 50-70 persons. It was these same groups that were taken on, with slight modifications, to form community associations for the micro-credit project. With the training and empowerment later attained, the associations also acted as umbrella organisations for the mobilisation of savings, constant training of its members, supervision of solidarity groups under its jurisdiction and marketing, development of relevant linkages and out-scaling activities.

Development of constitution and byelaws

For the smooth running of its affairs each community association had to develop a constitution with a set of byelaws and regulations in a participatory manner. The constitution covered such aspects as goal and objectives of the association, membership and conditions for joining, management of the association, office bearers, their eligibility, tenor of office and conditions of service; attendance by members, intervals of and procedures at meetings, length of loan cycle, interest rates, discipline and penalties, how to handle other functions of the association, etc. The approved constitution with byelaws was availed to each member of the association.

Election of office bearers

Office bearers for each community association were democratically elected according to the provisions of the constitution. Their tenor of office and terms of service were also clearly stipulated in the constitution.

Formation and preparation of solidarity groups

Experience elsewhere indicates that group savings and lending is the most viable option for the success of a rural micro-finance credit scheme (David Hulme and Paul Mosley, 1996). Prior to the disbursement of the funds therefore, field site communities were encouraged to form themselves into smaller sub-groups called "solidarity groups" consisting of 5-7 members who must be homogeneous in terms of: common interest and commitment, socio-economic characteristics and preferably

Table 1: Lutenda Dev Association finance report as at 15th June 2004

Profits by saving-cycles		Finance activities	
1st cycle	196,395=	Grant from Farmesa	2,500,000=
2nd cycle	648,000=	Total profit	3,160,595=
3rd cycle	1,165,980=	Membership savings	1,786,500=
4th cycle	1,150,250=	Initial group contribut.	300,000=
		Balance in bank	70,000=
Total	*3,160,595=*	*Total*	*7,817,095=*

cultural background. They had to be well acquainted with and have mutual trust in each other. Interpersonal relationship among the solidarity group members is critical, as the group has to receive the loan (with non-conventional collateral) and ensure its repayment by recipient members and is liable for re-payments in case of default by a member. In this case, the solidarity group acts as collateral and a "pressure loan repayment monitor". This minimizes the risk of default by members. In case of default in loan repayment by a solidarity group it will be the entire community association paying the loan.

Development of business plans

Individuals registered under an approved solidarity group and community association may then be requested to initiate their own financial savings in their own names but under his/her own community association. This is one of the basic requirements for accessing the loan. The individual is further expected to identify the most viable enterprise for which he/she may seek a loan. Prior familiarity and experience on the planned enterprise is vital for credit success. The member is then required to prepare and submit a business plan on the identified enterprise. Our experience is that during the micro-finance training process even the least educated, and those who could not read and write were able to prepare a business plan. It was further noted that through the business planning process each individual was able to know exactly how they were to invest the credit funds, had a picture of the profit margin and of viability of the investment to enable him/her eventually pay the loan taken. The business plan further showed a clear opportunity to make voluntary savings and to reinvest in the expansion of the business.

Loan request, approval and disbursement

Having undergone the micro-finance training, initiated individual savings on his/her account (at least 25% of the intended loan), the prospective loan applicant may now lodge his/her application for a loan. The loan application documents must specify the loan amount, the intended business, a detailed business plan for the venture, the amount already saved and the particulars and signatures of the guarantors. In some cases a borrower is requested to indicate holding of a formal security depending on the loan amount requested. The application must also have received full support of the member's solidarity group members before consideration by the Loans Committee. On approval or otherwise of a member's application by the Loans Committee, such a member is informed in writing. The approved loan is then disbursed.

Loan repayment and in-house training

The training and supervision process continues throughout the set repayment period (loan-cycle) to ensure effective and efficient management of the programme. This training focuses business management and trade including records keeping, customer care and profitability of the venture and loan repayment strategies. This loan management process enhances success in meeting the obligation of the loan with minimal problems. The stages are also aimed at ensuring that the borrower benefits from the loan taken.

Role of district authorities and other partners

The district authorities where the project operated facilitated the initial process of opening a bank account for each community association. Later however, each of the community associations themselves spearheaded formal registration with the Registrar of Companies, as this was noted vital for accessing government and other donor support. The associations were also fully responsible for the monitoring of all solidarity groups under their jurisdiction, creating linkages and mobilising other support from within and outside the association.

Performance of the micro-finance initiatives in Kumi and Mukono field sites

Establishment and preparation of community associations

The Farmesa micro finance component has been executed in Uganda for nearly five years beginning June 1998. The component focused creation of awareness on MF, development of sustainable and participatory strategies for loan disbursement and recovery based on the Farmer Field Schools (FFSs) approach, and improving livelihoods of smallholder farmers and the rural poor. The objectives of the MF scheme have been attained through the systematic sensitisation and training of community members and stakeholders, formation of community associations and solidarity groups each with clear leadership structure, establishment of byelaws, training on business planning, management and marketing, and development of relevant vertical and horizontal linkages.

Loan portfolio status: 1998 to 2004

Initial funding for the credit scheme ranged between Ushs 1,000,000 to 1,300,000 for each of the initial community associations, two in Mukono and two in Kumi districts. In the course of time more allocations were made. Meanwhile some of the funds allocated to the associations were later withdrawn by the project and used in the establishment of another two associations each in Mukono and Kumi. Each district now runs four community associations, the initial two having now operated for five years and the new ones

Table 2: Sources of agricultural-based rural micro-finance in selected countries in East and Southern Africa.

Type/Source	Kenya	Tanzania	Uganda	Zambia	Zimbabwe
Informal					
ROSCAS					
• Merry-go-round	x				x
• Non registered self-help groups	x	x	x	x	
• Individuals (relatives, traders, etc)	x	x		x	x
• Commercial lenders	x	x	x	x	
Semi-formal					
• Governmental sponsored program	x	x	x	x	x
• NGO operated MFI	x	x	x	x	x
• Community-based organisations (CBOs)	x	x	x	x	x
• Savings & credit schemes/co-operatives	x	x	x	x	x
• Input credit schemes (community based)	x	x	x	x	x
• Village banks					
Formal-supply-led	x				
• Rural banks		x	x		
• Building banks	x				
• Commercial banks	x	x(NBC/ot			
• Co-operatives		hers)	x	x	x
• Rural Development Banks	x	x*	x		x
• Finance Companies	x	x			
• Stock markets (exchange)	x	x*			x
• National Micro Finance Bank		x			
• Savings & Credit Societies(S) Bank(B)	Yes		x (S)	x(B)	
• NGOs registered as company			x (R)		x(C)
• LTD by guarantee (R)/Credit (C)			x		
• Government sponsored Org.	Yes	x	x	x	
• Input supply schemes	x				x
Semi-formal					
• Government sponsored programmes		Yes	x		
• Co-operative societies	x		x	x	
• Community Based Org.	Yes	x	x	x	
• Savings and Credit Co-op	Yes				x
• Societies (SACCOS)	x				
• Employee savings	x	x			
• Development Projects	x				
• MFI NGOs			x	x	x
• Village Banks	x	x	x	x	
• Registered self-help groups	x		x		

for only two and a half years. In total Ushs 8,741,000 were released by the project for the four community associations in Nama sub-county, Mukono district by June 2004 with almost an equivalent amount going to the four associations in Kumi district over the same period.

Initial membership of the original two community associations were 74 persons (35 female) in Kumi and 89.persons (47 female) in Mukono, a total of 163 members. The figurers by June 2004 were 252 persons (142 female) in Kumi and 219 persons (127 female) in Mukono, a two and a three-fold increase over the four-year period. According to Anandajayasekeram *et al, 2001,* the initial membership savings for Kumi by August of 1998 was 535,950/= while Mukono had 858,000/= saved. By June 2004 however, accumulated membership savings for Mukono had risen almost ten fold to Ushs 7,091,470. Correspondingly, cumulative membership savings for Kumi by 2004 stood at Ushs 8,200,000/=. It is worth noting that the cumulative membership savings in each of the field sites to-date stands close to the total offshore funds of 8,741,500 released to each site over the same period. This indicates why communities were readily willing to give some of the funds saved back to the project to establish new groups in each of the districts. Accumulated loan portfolio (funds currently in circulation) in Mukono is Ushs 25,116,300 while in Kumi the figure stands at Ushs 20,640,000. The difference between the current loan portfolio, Kumi and Mukono stems from the more viable projects that communities in Mukono tend to target as opposed to those in Kumi. Total beneficiaries from the micro-credit scheme in Mukono stand at 837 persons (414 female) as opposed to about 1,270 persons (640.female) in Kumi field site, Table 3. In each of the two field sites, the project has drawn beneficiaries outside the original parishes and has even

Table 3: Summary position of financial and membership status at closure of each loan cycle, Kumi district, 199 - June, 2004.

Morukaleng Credit and Savings Farmer Group

Particulars	L/cycle 1		L/cycle 2		L/cycle 3		L/cycle 4		L/cycle 5		L/cycle 6		L/cycle 7		L/cycle 8		L/cycle 9		L/cycle 10	
Membership	M	F	M	F	M	F	M	F	M	F	M	F	M	F	M	F	M	F	M	F
by gender	17	17	25	16	28	18	34	24	35	32	33	32	46	50	43	43	45	49	3	44
Loan	1,230,000		1,970,000		2,830,000		5,480,000		5,380,000		7,680,000		5,540,000		6,920,000		8,250,000		8,220,000	
Savings	574,100		881,000		942,200		888,500		1,114,100		1,391,500		1,614,150		2,105,100		2,126,650		2,368,600	

Emorimor Credit and Savings Farmer Group

Particulars	L/cycle 1		L/cycle 2		L/cycle 3		L/cycle 4		L/cycle 5		L/cycle 6		L/cycle 7		L/cycle 8		L/cycle 9		L/cycle 10	
Membership	M	F	M	F	M	F	M	F	M	F	M	F	M	F	M	F	M	F	M	F
by gender	22	18	20	17	24	21	21	29	31	31	24	37	32	34	34	33	34	45	37	51
Loan	900,000		2,335,900		2,815,000		3,650,000		3,465,000		5,020,000		5,600,000		5,820,000		5,420,000		6,020,000	
Savings	232,500		592,300		1,111,950		793,700		2,403,150		1,383,000		1,928,450		2,309,450		3,175,000		3,275,300	

Morukileng and Emorimor Community Associations

Particulars	L/cycle 1		L/cycle 2		L/cycle 3		L/cycle 4		L/cycle 5		L/cycle 6		L/cycle 7		L/cycle 8		L/cycle 9		L/cycle 10	
Membership	M	F	M	F	M	F	M	F	M	F	M	F	M	F	M	F	M	F	M	F
by gender	39	35	45	33	52	39	55	53	66	63	57	69	78	84	77	76	78	94	83	95
Loan	2,130,000		4,305,900		5,645,000		9,130,000		8,845,000		12,700,000		11,140,000		12,740,000		13,670,000		14,240,000	
Savings	806,000		1,473,300		2,054,150		1,682,200		3,517,250		2,774,500		3,542,600		4,414,550		5,301,650		5,643,900	

spilled over to the neighbouring sub-counties. Particularly in Mukono district, project activities now have an umbrella body for the entire sub-county of Nama.

Loan recovery

Loan recovery is the sole responsibility of the respective solidarity groups and community associations as opposed to the case in most MF schemes where close monitoring and recovery of the credit lies with the lending institution. During the first two years of the project, loan recovery ranged between 96-100%, but the figure dropped to 85-90% when Farmesa project staff pulled out at the end of the project in 2001. Following months of self-governance by the communities themselves, improvements in their self-management and monitoring procedures have enhanced loan recovery, now standing at an estimated 90-95% in the two field sites, save for the newly-formed Olupe field site in Kumi district where loan recovery performance is below 75%.

The generally good performance in credit recovery, has not totally been without a cost: More stringent penalties on defaulters have meant that some members have had to leave the association, while stringent scrutiny of incoming members means that only a few qualify for recruitment. This has resulted in the community membership growing much slower than anticipated by Farmesa project leadership. The maximum loan that a member can now access has also exceedingly gone up from Ushs 30,000 in 1998 to shs 500,000 as at mid-June 2004. The capacity and effectiveness of utilising such a relatively large loan may consequently reduce. There may be need for the community associations to cautiously open up while maintaining stringent monitoring of activities.

On a happy note, during their series of community meetings at Nama sub-county in Mukono district at the end of June 2004, all the community associations in Mukono (some of whom had an interest rate of 7.5% per cycle) have now agreed on a uniform interest rate of 15% per six-month loan cycle, i.e 30% per annum. The community associations in Kumi have all along maintained an interest rate of 15% per cycle, and are even speculating to raise this to 20% per cycle. The interest rates approved by the associations are actually well above the current bank rates in Uganda, which stand at about 18-27% per annum. Members are of course aware of this fact, but prefer having a higher interest rate to rapidly build their personal savings and hence be able to access larger loans. What is important is that loan re-payment is still moving on well.

Other benefits of the loan scheme

There are many other benefits that have accrued from the Farmesa micro-credit initiative both in Mukono and Kumi districts. Membership has exceedingly grown over the period, so has the associations' capacity to guide and manage the scheme. Members are also now accessing much bigger loans and able to invest big. Business enterprises have been greatly scaled up and diversified. Whereas initial loans in the two sites were for petty trades: in sisal ropes, thatching grass, pancakes, local brew, second hand clothing, poultry, milk vendoring, stone quarrying, trade in small quantities of agricultural produce, etc, today's loans are for formal retail shops, butchery (involving several small ruminants or a cow or more slaughtered daily), poultry farming 200-300 broilers/layers, livestock keeping and piggery, strategic farming targeting high-value crops (vanilla, chillies, hot pepper, okra, coffee, fruits and vegetables, etc), exporting fruits and vegetables, trade in assorted crops and livestock, hotel management and retail-shop keeping, grain milling, etc.

Members have also created jobs within their localities. Those in trade would normally hire several persons to assist in the business. There have also been cases of strategic partnerships developed, for which reasons all community associations have now attained formal registration with the Registrar of Companies under the Ministry of Trade and Industry. The Lunada community association managed to lobby an American micro-credit NGO who is due to initiate the association to a grant of Ushs 38,000,000 to assist orphans in Kasenge Parish, Mukono district. The Lutenda Community association grows high value crops (vanilla, chillies, hot pepper and okra). The association has already secured linkage with a Ugandan entrepreneur, who exports the above items twice weekly to Europe and the Middle East at a weekly earning of Ushs 500,000 - 600,000 to the association. Within two-years of the 50-member community associations' operations, it has managed to make a profit of Ushs 3,160,595/=, as shown in Table 1.

Improvements in livelihoods are clearly evident in the two communities in Kumi and Mukono: households now feed and dress much better, they can afford sending their children to school and meet hospital bills. Several cases have built themselves permanent houses, purchased a new bicycle or motorcycle, acquired a money-generating facility, i.e a shop, saloon room, grinding mill, etc. There has been a general improvement in the standing of individuals and the communities at large and there is general feeling of the project's contribution to development in the communities. In a recent survey in the project sites in Kumi and Mukono districts, people proud of the general unity of purpose that has been attained through joint project activities. Quarrels that used to be within households and within and across communities are no more.

The culture of savings and loan repayment is firmly catching on, to the extent that at the end of June 2004, the leadership of Farmesa felt encouraged to inject into the four community associations in each of the districts, another 10,000,000/= each. In response, the associations in Mukono have now decided to come under a single umbrella for micro-credit management in their sub-county of Nama, and to immediately contribute part of their savings to establish other two new associations in their sub-county. There will soon be six community associations in Kumi and another

Table 4: Summary position of the Farmesa micro-credit mini-project in Mukono district, 1998 - 2004.

Name of community association	No of cycles	Membership			Members saving	Capital from Farmesa	Interest rate applied	Capital accumulation from interest	Other financial sources	Total capital accrued	Loan beneficiaries		
		Male	Female	Total							Male	Female	Total
Lunadda	10	17	36	53	1,642,770	3,100,000	10%	1,329,700	-	6,072,400	138	97	236
Nakakiika	10	22	25	47	1,261,100	3,814,500	7.5%	286,100	-	5,361,700	195	221	416
Lutenda	5	29	31	60	1,786,500	2,500,000	15%	3,160,500	300,000	7,747,000	61	58	119
Buwama	5	24	35	59	2,401,100	2,760,000	15%	774,100	-	5,935,200	29	38	67
Totals	-	92	127	219	7,091,470	8,741,500		5,550,400	300,000	25,316,300	423	414	837

Source: Figures compiled by James Nugerwa, Farmesa Field-site Officer, Mukono District

six in Mukono from the four initiated by Farmesa in 1999. There is now general appreciate of the immense opportunities for micro-finance contributing to improved livelihoods through eradicating rural poverty. The strengths of those communities that have performed best with the field sites, have hinged on having a flexible arrangement where the credit facility is not tied to a specific enterprise but rather focuses businesses that realise quick returns, facilitating re-invest into agricultural production for enhanced household food security. Participatory decision-making and transparency among the members has been a key factor of success of the programme with equal hearing of both the female and male voices and both sexes working together to ensure efficiency and effectiveness. Time management was a core factor in ensuring that members use their time profitably. Careful selection of the solidarity group is vital for the success of MFI. Wherever possible, self-selection should be encouraged. Members should determine the rules that govern the group activities, savings, lending, repayment, default etc. Operations of the groups must be transparent.

The mini projects clearly demonstrated that the small farmers could save. Organised farmer groups can be motivated to initiate MFI with very little external assistance. The external assistance is needed to complement the initial savings by group members and provide the necessary training. The external assistance can be effectively withdrawn without affecting the scheme.

Challenges and lessons learnt

Below are some of the salient lessons learned by Farmesa and challenges observed based on three-year field activities under direct supervision by the project, followed by two years when communities fully managed the credit themselves.

There is a genuine need for mini-financing of agricultural-related production and income generating activities among small-scale resource poor farmers, especially women. Field experience clearly demonstrated that this category of loan recipients could save their own funds, access credit for investing on viable enterprises of their own choice and be able to pay the loan and on time. Organised farmer groups can be motivated to initiate MFI with very little external assistance as has been demonstrated by Farmesa. The external assistance is needed to complement the initial savings by group members and to provide the necessary training. Such assistance can later be withdrawn in a phased manner without affecting the scheme. This was proved both in Kumi and Mukono field sites where over 50% of the external funds used to establish the initial two community associations in each of the districts were later withdrawn from these associations to start new ones in near by parishes. Trained farmers from the old groups effectively participated in the training that developed the new groups.

Emphasis should be on encouraging and strengthening the culture of savings among communities. This is key to sustainability. Careful selection of members for a solidarity groups is vital for the success of MFI. Wherever possible, self-selection should be encouraged and no solidarity group should consist of only members from a single household. Members should determine the rules that govern group activities, savings, lending, repayment, default, etc. Operations of the groups must be absolutely transparent. Positive attitudes, discipline and maturity are prerequisites for the success of the MFI scheme. Good records and sound financial management are essential. All members should be aware of the procedures and must have unconditional access to all records at all times.

Field experience also indicates that with proper introduction, it would take 1-2 years for a MFI activity to stabilise and sustain its savings and credit scheme. The initial savings by the community should be made one of the conditionality for accessing the credit, and intending applicants must undergo an induction/training course on credit management to be able to operate in an informed premise. The major beneficiaries of the Farmesa MFI mini-projects were women. Female members proved more reliable in payment and were more trusted as treasurers. It is imperative to include female members in formulating MF schemes.

Learning for small-scale farmers can be relatively cheap and less risky if community groups are empowered to manage the basic activities of MFI, while assisting staff and institutions (research, extension, NGO/CBO) are used to facilitate initial mobilisation of savings and training, and establishment of necessary linkages. Effective collaboration and linkages with relevant ministries, institutions, NGOs, development partners and commercial banks would improve the cost effectiveness of the scheme.

The security of funds/savings in the rural areas needs to be addressed. Lack of security for money in rural areas could discourage savings in some instances. Farmesa's experience encourages, where possible banking of members' funds on the day the funds are collected. It is also important to intensify supervision and regularise collection of savings and repayment of loans to avoid borrowers lapsing and defaulting. This emphasises need for utmost transparency and vigilance by each solidarity group and community association.

The estimation of true cost of micro-financing initiatives requires much closer attention. Due to the start up cost and cost associated with ground working, training and capacity building and process of documentation, the initial cost may look higher, but once the activity is regularised the operating cost definitely become low.

Conclusion, way forward and implications for wider adaptability

The positive experiences gained on the project clearly demonstrate the need for support to the MFI industry in Uganda to enhance expansion of its outreach. Government, development partners and NGOs/CBOs, through their credit programs should open up affordable funds for lending to smallholder farmers and the rural poor. The main challenge is finding the appropriate entry point, management framework, and the right institutions to manage the credit. It is beyond doubt that micro-finance is one of the potential vehicles for uplifting household income levels, increase investments, create employment and improve the standards of living of the majority of the poor women and men in Uganda.

There is need to adapt micro-finance service delivery techniques to the specific circumstances of low-income clients as well as build indigenous capacity for domestic savings mobilisation for investment purposes in order to reduce dependency on offshore funds. Developing sustainable MFIs with appropriate financial packages and support services is vital. These should include business training, business information, research and technology, etc. that build the capacity of both the MFIs and the entrepreneurs to be able to upgrade their enterprises to sustainable levels, and develop the desired linkages within the private sector. "Best practices" that may contribute to successful community based credit and savings oriented micro-financing institutions could be summarised as: sustainable pricing, delinquency control, financial reporting and information management, appropriate techniques and products, gender considerations, governance, savings-led credit schemes, group lending, capacity building and training, favourable legal framework, strict monitoring and follow-up, economic viability of the investment, and effective linkages with other organisations. Building self-regulating code of conduct and mechanisms and dynamic performance standards with the industry. The efforts must be supported by related efforts to build institutional capacity aimed at promoting popular participation in private sector development and development activities generally.

It is important to adopt a comprehensive information, education and communications (IEC) programme to facilitate the development of positive savings and credit culture, business, ethics, participatory democracy, members sense of commitment to their institutions. Developing institutional linkages between grass-root financial intermediaries and MFIs with the mainstream financial authorities is also important. Smoothly functioning rural financial markets should be the ultimate goal of interventions directed to agricultural credit. *Financial intermediation* is the involvement of one or more third parties in the process of channelling funds from the source of funds (savers) to the ultimate users, i.e., the farming community. Intermediation plays a catalytic role in the saving and credit scheme. This role can be taken by NGOs, private sector, and to a limited extent by the government.

It was also observed that though restricting credit to agricultural enterprises has a direct effect on adoption of improved technologies and improved food production and security, investment in agricultural enterprises was not always the most profitable option as this could leads to lower capital productivity than when the investment is free. The realities on the ground are that income generated from untargeted loans is actually invested in agricultural production and positively contributes to improving household and rural livelihoods in general. If the loan scheme has to primarily target agricultural-related activities, for equity reasons, despite the risk of lower returns on capital, one approach for effective targeting between agricultural and non-agricultural activities, is to have two differential interest rates with rates higher for the non-agricultural activities, and lower for the agricultural loans. The lower rate would then encourage borrowing towards agriculture.

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