ACCESS TO FINANCE FOR RURAL HONEY TRADE

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Bees for Development's Comic Relief-funded Uganda Honey Trade Project is working in Kamwenge in south-west Uganda with a beekeepers' co-operative society (KABECOS) to increase people's incomes. By serving as a bulking and marketing intermediary organisation, the aim is for KABECOS to access higher value national or international markets where the honey price per kilogram should be higher, and where larger volumes of honey are needed and are readily absorbed. The costs (mostly of transport) for getting products to market are more manageable when shared, and the steady demand from more distant markets should inspire an increase in production as people gain confidence that there is a serious, reliable market for their honey. The Project is now facing directly the challenges that hold up rural African honey trade.

The need for financial services

Honey harvesting is a seasonal activity: in Kamwenge harvests are during February-April and September. During these periods KABECOS must be able to purchase enough honey for the whole year. In a recent survey KABECOS members expressed a universal preference for cash payment on delivery of their honey, rather than the current system of payment at a later date when onward sale by KABECOS is complete. In addition, honey purchases in September 2010 were very low compared to previous years' records — possibly due to adverse weather. KABECOS noted that members were selling honey to local beer brewers, because they pay cash for honey, albeit only ever taking small quantities.

Why it is hard to access finance for honey trading

Access is growing fast through mobile phones and other channels but the penetration of financial services in Uganda is low. Only 15% of people in rural areas of Uganda have bank accounts, although a further 54% of the rural population has some level of interaction with financial services — the majority using informal sources, for example a group saving and lending scheme with no legal status, a money lender or an employer. On top of this, small businesses and agricultural lending are traditionally regarded as high risk for financial institutions and there is a long history of failed agricultural banks in developing countries. Fundamentally the problem from the banks' perspective concerns lack of reliable information in these sectors. Small businesses are hard to value if they do not keep comprehensive records or own valuable assets. Agricultural output may be jeopardised 100% by the weather, rainfall (or lack of it), pests and diseases, and all of these factors are impossible to predict. This makes such risks difficult to quantify and consequently difficult for banks to deal with through their normal approaches of risk pooling and setting aside capital. In addition, if small loans are administered in the same way as large ones, the banks' costs may be higher than its returns.

The full costs of loan applications are high

The low quality of financial services on offer is another significant reason for their low uptake in Uganda. Convenience and affordability are essential to the accessibility of financial products. But the application for a loan to finance just 0.5 tonnes of honey purchasing in Kamwenge took three full months (from an initial meeting on 6 January to loan...
approval on 4 April), and imposed indirect costs on KABECOS as follows:

1. Time of Board members:
   • Meeting of all nine Board members to pass a resolution to open an account with the bank offering a loan
   • Two Board members filling out forms and providing passport photos in application to be signatories to the account
   • Meeting again of all Board members to pass a resolution specifically authorising this loan application (although a resolution covering loan applications already existed).

2. Expenses of Board members in the above.

3. Cost of transport for the loans officer to physically inspect the land offered as collateral.

4. Costs of getting the chair person of 'Local Council One', a legally recognised council of elders, to verify that the land title is good.

5. Costs of staff time spent at the bank:
   • Director, KABECOS: seven meetings
   • Business Development Officer, KABECOS: six meetings.

6. Costs of staff time in co-ordinating and following up all of the above were also significant.

On top are the direct loan charges made by the bank, totalling UGX105,000 (€30.75; US$44.30) (over 5% of the loan value):

- Application fee 30,000 (€8.77; US$12.63)
- Loan arrangement fee 40,000 (€11.68; US$16.84)
- Loan insurance 20,000 (€5.85; US$8.42)
- Credit bureau card 15,000 (€4.39; US$6.32)

These costs are all incurred before loan approval, which is not guaranteed, so they may lead to nothing.

**Expensive loan**

An effective annual interest rate of 42% is payable on the outstanding loan balance. Accessing large amounts of finance at this cost (even if it were possible) would be unaffordable. However, the small maximum size of the bank’s initial loan offer means that Kabecos already has enough honey in stock to finance its repayments.

**APPROPRIATE TRAINING FOR BEEKEEPERS**

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The word *Appropriate* is defined as ‘suitable for the occasion or circumstances’, and this is my theme for this article. I spent December 2010 in Uganda working with subsistence farmers in a rural community.

**LIDEFO**

In Autumn 2010 I was approached by Liberty Development Foundation (LIDEFO) who plan to advance beekeeping and honey processing activities in the area around Kasese. Their stated aim is to persuade people - especially those with the fewest resources – to take up beekeeping because of its ability to be a source of income with minimal labour and capital investment. They were looking for technical support to achieve their goals. I exchanged several e-mails with LIDEFO about the work they were trying to do and they requested a summary of my circumstances and qualifications. The result of which was my visit to Kasese in December 2010 to see what could be done.

Kasese lies at the base of the Rwenzori Mountains which has snow capped peaks despite lying on the equator. A short distance away lies the Queen Elizabeth National Park. The district is one of the poorest areas in Uganda, and this region has struggled with development compared with other parts of the country. I was told by the LIDEFO Founder and Director, Daniel Ngangasi, that the first secondary school in Kasese was built only in 1975, while other parts of the country, like the capital Kampala, had these schools in 1875. Farming is the principal occupation and everyone seemed to have a small plot of land to grow their own food. Most people work on the land, even young children.