Credit facility boosts agriculture

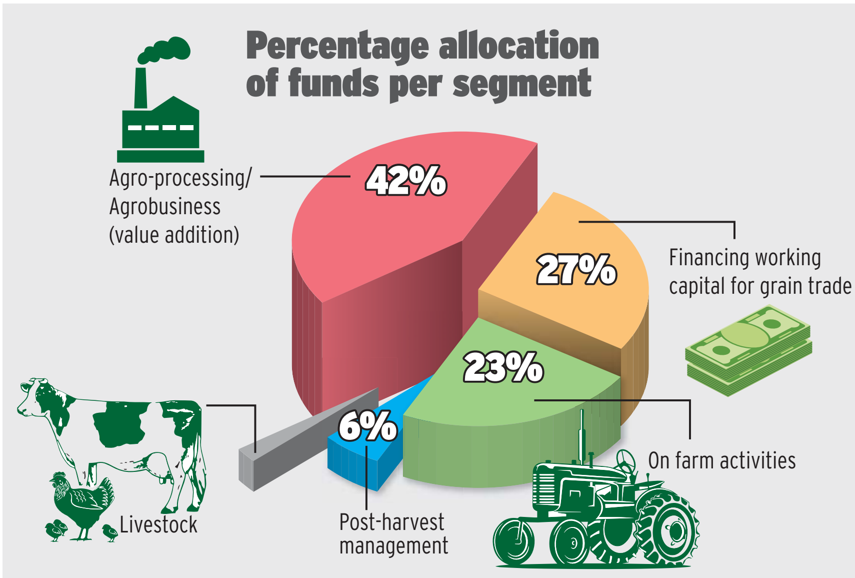
By Benon Ojiambo

More than 10 years ago, the Agricultural Credit Facility (ACF) was just an idea. Even when it kicked off in 2009, applicants could hardly put together loan-worthy documents to acquire credit from the participating financial institutions, according to Joanita Babumba, the deputy director of the facility, at Bank of Uganda.

To address that challenge, the central bank embarked on a sensitisation campaign. The effort has eventually paid off, according to implementers of the facility. They say considerable success has been registered in achieving the set objectives.

The ACF was set up in 2009, as a risk-sharing mechanism between the Government and the Participating Financial Institutions (PFIs). These include commercial banks, the Uganda Development Bank, Micro Deposit Taking Institutions (MDIs) and credit institutions

The key objective of the scheme is to facilitate the provision of medium and long-term financing for projects engaged in agriculture and agro-processing.



Introduction of the grain facility

There was also introduction of the grain facility, to address the drastic fall in grain prices, especially maize, following bumper harvests.

This was informed by the bumper harvest in 2018 that saw maize prices fall to as low sh200 per kilo, from about sh1,000 at the time of planting. Under this arrangement, Joanita Babumba, the deputy director of Agricultural Credit Facility, says the facility provides working capital for grain trade to facilitate mopping up of the excess grain by the grain traders.

"Total disbursements and commitments for grain trade stood at sh107.19b as at end of March, for 50 sub-projects," she noted.

Officials say the share of loans to the agriculture sector by the financial players regulated by the central bank has more than doubled, from 5.1% in July 2009, to 12.7% in March 2019.

They also allowed for the extension of collateral-free loan facilities up to sh20m, to commercially-viable small and micro enterprises.

Good performance?

Simon Rutega, an advisor to the Financial Markets Development Committee at Bank of Uganda, says the ACF model of partnership between the Government and PFIs, is one of the best business models in terms of structure. Rutega says the model enables them to mobilise risk capital from different sources.

"The fact that the Government provides the resources means that we can lower the interest rates and the diverse participating financial institutions means that you have different distribution channels," Rutega says.

Performance

Babumba describes the overall performance of facility as "encouraging during its 10 years of operation".

Her judgement was based on the number and value of loan applications that Bank of Uganda, the fund administrator, has received and processed over the 10-year period of implementation.

In figures

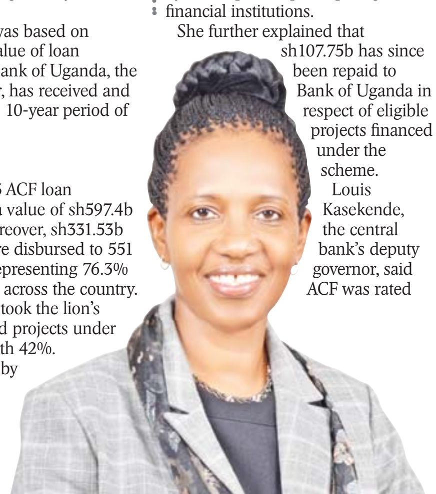
Babumba says 723 ACF loan applications with a value of sh597.4b were received. Moreover, sh331.53b worth of loans were disbursed to 551 eligible projects, representing 76.3% of the applications across the country.

Agro-processing took the lion's share of the funded projects under the programme with 42%. This was followed by financing working capital for grain trade and on-farm activities that took 27% and 23%, respectively.

On the other hand, post-harvest management took 6%, while livestock took the least, 2%.

In addition, sh30.54b had been committed for projects pending fulfilment of disbursement conditions by the respective participating financial institutions.

She further explained that sh107.75b has since been repaid to Bank of Uganda in respect of eligible projects financed under the scheme.



Joanita Babumba, the ACF deputy director

Louis Kasekende, the central bank's deputy governor, said ACF was rated at a score of 76.2%, compared to the overall sector rating of 61.8% as at end of last year.

He was citing finance ministry's April 2019 edition of its routine performance assessment of programmes in the agriculture sector.

This fund, Kasekende said, was only beaten by the Uganda Coffee Development Authority (UCDA) .

"The many good stories of the firms and farms that have been expanded in terms of size and output and whose productivity has improved are testament to the impact of the ACF," Kasekende said.

He also said the ACF had a low non-performing loans (NPL) ratio of about 1%, compared to 6.9% for the overall agricultural loan portfolio of the banking sector.

Amendments made

Last year, amendments were made in the original framework that guides implementation of the facility and were aimed at, among other things, adopting more flexible terms to bring on board small and medium enterprises (SMEs).

The amendments also reduced the minimum loan tenure from 24 months to six months and removed the cap for maximum lending amount to projects that add significant value to the country as may be determined by the central bank, upon justification by the financial institutions.

Block allocation

One of the key components of the 2018 amendment was the introduction of the block allocation, where beneficiaries can access loans of up to sh20m, using alternative collateral requirements, other than land.

This was aimed at unlocking credit to the smallholder farmers who are unable to access funding due to the stringent loan requirements by the PFIs, one of which is collateral.

Under this allocation, a financial institution can only submit loan applications for a maximum of sh1.5b at a go.

"Under this arrangement, micro borrowers have so far accessed sh457m, out of which sh302.9m was financed by the Government," Babumba said.

Other initiatives

The central bank also proposed other different initiatives aimed at improving agricultural financing through increased access to the credit facility.

Babumba said commercialising the agriculture sector will also require improving the financial literacy of the smallholder farmer, to keep proper books of accounts that can be relied upon by prospective lenders.

She called for co-ordination and consolidation of all the various government interventions. Such a move would generate economies of scale and impact the sector more meaningfully and in a sustainable manner.

Government efforts should continue on the provision of free quality inputs, such as coffee seedlings and the set up of dedicated funds, like the Microfinance Support Centre and the youth livelihood programme.

Challenges

According to Joanita Babumba, the deputy director of Agricultural Credit Facility, challenges cut across nearly all actors in the implementation of the programme — from financial institutions, to creditors.

The challenges range from inadequate public awareness, submission of incomplete information to implementing financial institutions being more interested in advancing their credit, which is more expensive.

Babumba says one of the major challenges has been delays in settling claims for loan losses from the PFIs owing to the lengthy process of verification by the Auditor General and parliamentary approval, something that has left many participating institutions uneasy.

She also cited incomplete information submitted by some of the PFIs, which increases the turnaround time in the loan approval process.

"PFIs do their due diligence under their credit policy, but as the fund administrator, we also have to do our due diligence. We do not second-guess what the PFIs have done. Some PFIs submit information in bits and pieces," she said.

"PFIs should submit the applications with supporting documents, like audited financial reports and valuations to reduce the turnaround time for the approval process," she adds.

Babumba also said the public lacks awareness about the ACF, with some potential beneficiaries still unaware of its existence. She adds that several PFI branches located outside Kampala are not well informed about the scheme.

The central bank also noted that PFIs are interested in advancing their own agricultural loan products at higher interest rates, rather than extending the ACF loans with interest rate capped at 12% or 15% per annum to prospective borrowers.

However, Babumba said they are continuously dialoguing with financial players, to entice them to extend more ACF loans than their own agricultural products.

"It is a dialogue to keep them in the partnership. We do not impose on them. We are trying to bridge the financial gap in the agriculture lending in this country. It is not about the banks' profitability. You need to be part and parcel of economic development of the people in this country," she noted.