Creditors to lessen risk in agriculture

By Benon Ojiambo

Many a time, access to adequate finances has been fronted as the silver bullet for the transformation of the agricultural sector.

With this in mind, the Government established the Agricultural Credit Facility (ACF) and, according to Bank of Uganda, the fund's administrator, the programme has registered success over the 10 years it has existed.

The Agricultural Credit Facility is a government programme set up in 2009 to provide medium and long-term financing to projects engaged in agriculture and agro processing through a risk-sharing mechanism between the Government and participating financial institutions (PFIs).

PFIs include commercial banks, Uganda Development Bank Ltd (UDB), Micro Deposit-taking Institutions (MDIs) and credit institutions.

However, financial players argue that despite the risk-sharing mode employed in the facility, there remains a risk in extending the agricultural sector.

During a dinner to mark 10 years of ACF recently, they highlighted the need to holistically improve agriculture's entire production and value chain.

Holistically improving agriculture's production and value chains, financial players say, shall entice the financial sector to extend more credit to the sector.

A farmer spraying oranges. Many educated youth are engaging in agriculture, making the sector credit worthy

Wilbrod Owor, the executive director of the Uganda Bankers' Association, says in the recent years, there has been vast interest in the agricultural sector, from educated youth.

"Agriculture used to be shunned as a village activity, but many young people are now engaged in at least one form of agriculture," Owor said.

"Any mechanisms to de-risk the appetite for lending to the agricultural sector are welcome, so that we can extend more credit to agriculture, like we do for other sectors, such as trade, manufacturing and real estate," he added.

He explained that ACF has a 50% or 30% guarantee framework from government and the agricultural insurance scheme as some of the frameworks that help to increase appetite in lending to the agricultural sector.

Joanita Babumba, the deputy director of the ACF at Bank of Uganda, says even before ACF was birthed, agricultural financing was happening, but under very harsh terms, like costly interest rates.

AGRICULTURE LENDING IS HIGH RISK. NO BANKS WANT TO LEND MONEY TO THE SECTOR BECAUSE OF THE ASSOCIATED RISKS

"Agriculture lending is high risk. No banks want to lend money to the sector because of the associated risks with it such as climatic changes, poor post-harvest handling, pests and diseases," Babumba said.

She explained that as at end of March this year, the total number of ACF loan applications was 723, while the loan value was recorded at sh597.4b as of the same period, from an initial capitalisation of sh30b during the first year's programme implementation.

She added that loans worth sh551b were disbursed, representing 76.2% of the total loan application value.

"This implies that there has been an increase in appetite for agricultural financing over the 10-year period," Babumba said.

With growing interest in the agricultural sector, especially from the youth, she explains that there is need to de-risk the agricultural sector, so as to encourage the private lenders to consider increasing their lending to the sector.

"This will require the provision of a holistic set of support mechanisms dealing with the entire production and value chain from land rights, quality control and timely provision of inputs, information and extension services to post-harvest handling and marketing of the produce," she states.

Government efforts should be complimented with the formal financial institutions investing in building internal capacity to better understand the risk profile of agriculture, according to Louis Kasekende, the Deputy Governor of the central bank.

This, Kasekende expects, should be undertaken by establishing financial solutions that are well-tailored to the intricate characteristics of the farmer and the agriculture production cycle as a whole.

This was alluded to by Owor, who said the banking sector is taking the initiative of discussing different aspects of the agricultural sector like de-risking, financing and investment, to create jobs and champion financial inclusion.

"Agriculture has its own risks. You cannot structure a payment of agricultural facility on a monthly basis. You have to do it seasonally, the way we structure school loans to pay termly," he added.