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Performance of the Agricultural Credit Facility in Uganda: What are the trends?

Overview

There is often an assumption that agriculture faces inherent difficulties in mobilizing credit and that this is a binding constraint on expanding agricultural output which justifies government intervention to provide or subsidize agricultural financing.

Although the second National Development Plan (NDP II) and the Ministry of Agriculture, Animal Industry and Fisheries (MAAIF) Development and Investment Strategy (DSIP) emphasize increased access to agricultural financing as a fundamental input to the sector transformation, this may not be achieved if the institutional and policy factors are not well streamlined along the credit market chain to solve the demand factors.

Since the inception of Agricultural Credit Facility in 2009, various areas in the agriculture value chain have been financed under the scheme. With the introduction of Block Allocation under the current Memorandum of Agreement, 2018, a number of micro borrowers have accessed funding from the scheme which is intended to unlock credit to the smallholder farmers who are unable to access funding due to the stringent loan requirements such as collateral by Participating Financial Institutions (PFIs).

This policy brief examines trends in funding, overall physical performance, inclusiveness and investments funded by ACF from FY2011/12 to FY2017/18. The brief uses data from the Budget Monitoring and Accountability Unit (BMAU), Ministry of Finance, Planning and Economic Development (MFPED) and Bank of Uganda (BoU).

Key Issues

- The amount of ACF disbursements are on a declining trend because of various constraints:

1. Delays in loan processing.
2. Inadequate funds disbursed compared to the project needs.
3. Lack of collateral by some farmers – land tenure issues.
4. Poor record keeping by some farmers.

- It has benefited mainly the agro-processing farmers for procurement of machinery. There is limited provision of working capital which is equally important.
- Regional and gender inequalities persist with Northern and Eastern regions, as well as females being disadvantaged in accessing loans.

Background

The Agricultural Credit Facility (ACF) was set up by the Government of Uganda (GoU) in partnership with Commercial Banks, Uganda Development Bank Ltd (UDBL), Micro Deposit Taking Institutions (MDIs) and credit institutions all referred to as Participating Financial Institutions (PFIs). The scheme's operations started in October 2009, with the aim of facilitating the provision of medium and long term financing to projects engaged in agriculture and agro processing. These are focusing mainly on commercialization, modernization and value addition of raw outputs from the Agriculture Sector. Loans under the ACF are disbursed to farmers and agro-processors through the PFIs at more favorable terms than are usually available under conventional loans.

The scheme is administered by BoU and its operations are guided by the Memorandum of Understanding (MoU) signed by all the stakeholders. The scheme operates on a refinance basis in that the PFIs disburse all the loan amount required by a client and seek for a re-imbursement from BoU. The ACF has been implemented in five phases with varying terms as follows:

- ACF I: October 2009-June 2010 (10% interest rate)
- ACF II: July 2010-June 2011 (12% interest rate)
- ACF III: July 2011-February 2013 (10% interest rate)

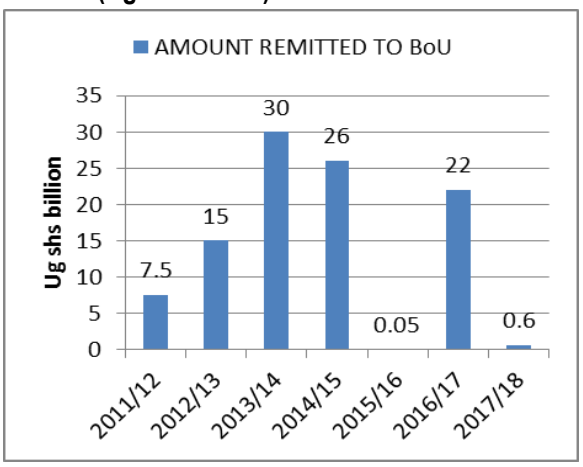
- ACF IV: March 2013- date (12% interest rate)
- ACF V: November 2015 to date (12% interest rate), and includes the Grain Facility (15% interest rate).

Trends of the ACF

1. ACF Funding

The GoU disburses funds to ACF from MFPED, through BoU to PFIs where farmers access this funding. Trends in remittances of this funding from FY 2011/12 to FY 2017/18 have varied (Figure 1).

Figure 1: ACF remittances from FY 2011/12 to FY 2017/18 (Ug shs billion)



Source: Bank of Uganda

As highlighted in Figure 1, from FY 2011/12 to FY 2013/14, the allocations to ACF increased from Ug shs 7.5bn to Ug shs 30bn. However, there was a slight decline in the amount of funds disbursed from Ug shs 26bn in FY 2014/15 to Ug shs 22bn in FY 2016/17. This was due to two main reasons:

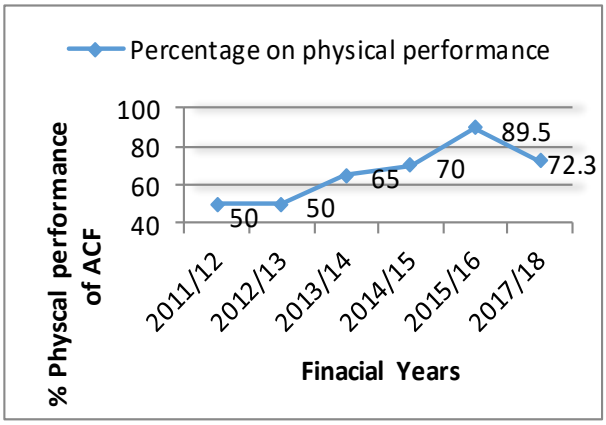
i) Delays in loan processing; Processing and disbursement of funds to beneficiaries delayed by four to twelve months since date of submission of loan applications. Sometimes the disbursements were made off season and hence could not be used in time thus affecting the loan facility. For instance, in FY 2017/18, the delays in processing of loans to some farmers led to less sorghum being procured as the grain price had risen.

ii)Inadequate funding: In some cases, the funds that were provided were less than what was required to deliver the planned output. For instance, in FY 2015/16, an ACF dairy farmer, procured less animals due to less funds disbursed than what he requested for.

2. Overall Physical Performance

The overall physical performance for ACF exhibited in terms of disbursement of credit and establishment of key projects by beneficiaries showed a general upward trend over the years (Figure 2).

Figure 2: Physical performance of the ACF from FY 2011/12 to FY 2017/18



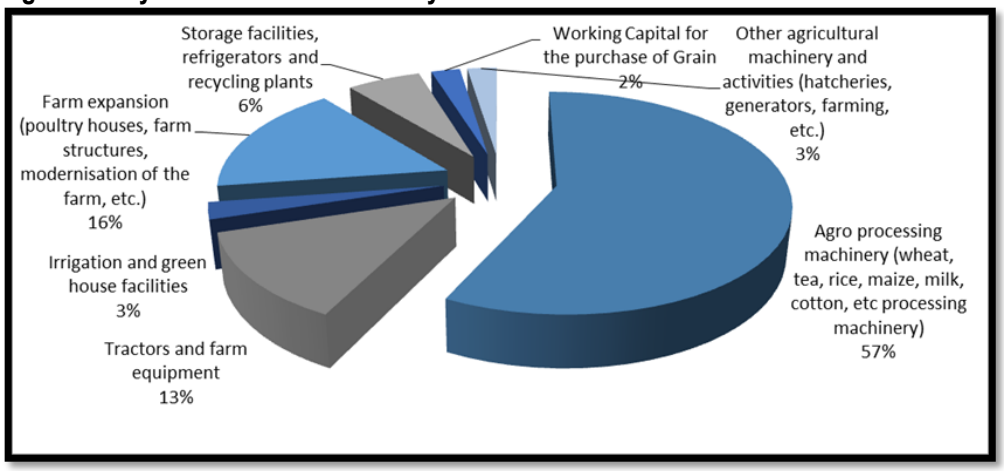
Source: BMAU Monitoring Reports for various years

As shown in figure 2, the ACF physical performance was static at 50% from FY 2011/12 to FY 2012/13 due to inadequate publicity and information dissemination, poor business plans and foreign exchange losses. It however greatly improved from 65% in FY 2013/14 to 89.5% in FY 2015/16, due to an increasing number of beneficiaries who received loans and used it effectively on the intended purpose. This gives credence to the fact that the ACF has ensured increased access to credit by the micro and smallholder farmers. However, there was a slight decline to 72.3% in FY2017/18.

2.1 Investments funded under ACF

The ACF has benefited farmers in the following areas as shown in Figure 3.

Figure 3: Key investments financed by ACF from 2009 to 2016



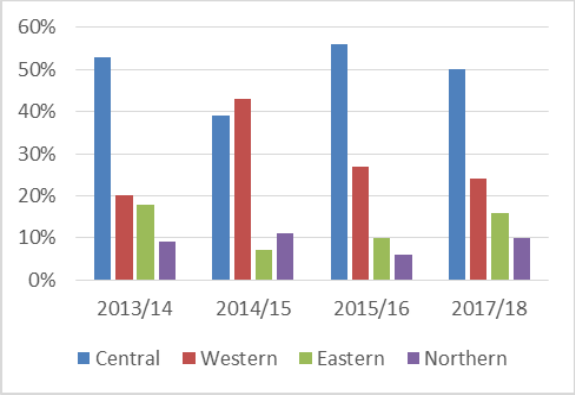
Source: Bank of Uganda ACF Report FY 2016/17

Most of the loans received from institutions were used for agro-processing where farmers procured machinery. This in return increased production and productivity, enhanced food, juice, milk and improved firm and household incomes. Other beneficiaries used the funds to expand farm operations.

3. Regional distribution of beneficiaries

Several firms/farmers have been accessing the ACF in the four regions of North, East, West and Central.

Figure 4: Regional distribution of ACF



Source: BMAU Monitoring Reports for Various Years

As shown in Figure 4, the regional distribution of loans shows wide inequalities in access to ACF with most loans accessed by beneficiaries from the central and western regions. The least served were the northern and eastern regions. This is mainly due to;

- Most firms/farmers in Uganda especially in northern and eastern regions were not aware of availability of ACF and its opportunities.
- Most financial institutions have high interest rates that prevent farmers from seeking credit.
- Poor record keeping by some farmers made it difficult for lenders to appraise their loan requests.

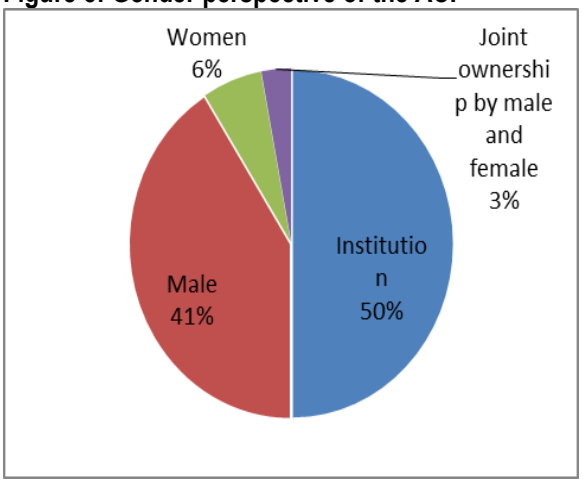
Despite the regional inequality, in FY 20171/18, the ACF Marketing and Outreach Strategy greatly improved especially in the underserved areas. This

was due to farmer sensitization through workshops, pre-briefing, promotional meetings, newspaper adverts and trade foras across the county. This upgraded efficiency and publicity of the facility.

4. Type of beneficiaries

Majority of the borrowers of the ACF were male. The inequitable access to credit by females was attributed to low access to information, and lack of collateral. To that effect, few women were engaged in commercial farming and value addition yet it is the main focus of the ACF. For instance, in FY 2017/18, the cumulative proprietors of firms that benefited from ACF for the period FY 2011/12 to 30th June, 2018 were joint ownership by male and female (3%); women (6%); male (41%) and institution (50%) (Figure 5).

Figure 5: Gender perspective of the ACF



Source: BMAU Report FY 2017/18

Conclusion

Despite inequitable access to the ACF by women and the regions of Eastern and Northern Uganda, the Facility has extended loans to the tune of Ug shs 307.80bn to 492 eligible agricultural projects across the country. The aggressive ACF approach resulting in increased participation by some less active PFIs, while active financial institutions developed complementary innovative financial products for the Agricultural Sector. It is also envisaged that the scheme uptake will continue to improve during the subsequent quarters.

Recommendations

- The MFPED should set a standard timeframe for BoU and commercial banks to process, approve and disburse loans. This should be within a fixed period not exceeding one to two months from date of submission of application, and in adequate quantity as per the planned outputs.
- The BoU and MFPED should further improve the design and implementation of the publicity and marketing strategy for the ACF especially targeting the North and East of the country.
- The BoU and PFIs should address needs of men and women in the ACF programme, to reduce the inequitable access between the sexes.
- The BoU should restructure the ACF to cater for a higher proportion of working capital (from current 20% to at least 30% of the total loan amount).

References

- http://www.bou.or.ug
- The Republic of Uganda Memorandum of Agreement for the Agricultural Credit Facility, May 2018
- MFPED, Budget Monitoring Reports for FY2011/12 to FY 2017/18.
- Agricultural Credit Facility Progress Report

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