

AGRIBUSINESS

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By Vision Reporter

While improved access to finance is a key enabler

to developing profitable agricultural ventures and ensuring food security, access to affordable credit is still a challenge, constraining Uganda's agricultural sector from realising its full potential.

According to Adolfo Cires, an international co-operation officer in charge of agribusiness and land at the EU mission in Kampala, the agricultural sector needs the longest patient capital for bigger investment programmes, but it is not currently available in the country.

Alonso describes agricultural financing in the country as a challenging one, as it is characterised with low supply and high demand for funds, limitations from would-be borrowers.

"Commercial banks and pension funds are not willing to finance the sector as they are bankrolling government programmes," he says.

Bank of Uganda statistics indicate that despite the sector employing the biggest number of Ugandans and is the backbone of the country's industrial activity, household incomes and food security, commercial bank lending constitutes only an average of 7% of the total private sector credit.

According to the Uganda Agribusiness Alliance chief executive officer, Edward Katende, smallholder farmers still find it hard to access credit because banks consider them risky.

Katende says in addition to the low level of credit to the sector, agricultural loans are mainly short and medium term, while the terms and conditions for accessing them are also not conducive for smallholder farmers. They also have to deal with collateral related challenges and contend with high lending rates, currently averaging 25%.

Commercial banks are reluctant to lend to the agriculture sector because they consider it risky while those that lend to the sector do so at commercial loan terms, which is costly for farmers.

According to Katende, improved access to agriculture finance is crucial in providing funds for farm investments in productivity, improve post-harvest practices, ensure smooth household cash flow, enable better access to markets and promote better management of risks.

Easy access to agricultural finance to boost productivity



Some of the trucks that were showcased in a past agricultural show. Many farmers would like to own such trucks to improve their yield quantity, but lack funds

Access to finance can also play an important role in climate adaptation and increase the resilience of agriculture to climate change, thus contributing to longer term food security.

However, Katende notes that while banks consider smallholder farmers to be risky, there is also a challenge of lack of preparedness on the part of farmers to effectively utilise the borrowed funds while others divert it, instead of using it for the intended purpose.

Government's help

The Government's earlier attempt to increase access to agricultural finance through the Agricultural Credit Facility (ACF), which was launched in 2009 in partnership with commercial banks and micro deposit-taking institutions, has had little impact.

Although the facility seeks to enable agricultural enterprises acquire long term loans at a low interest rate of 10% per annum, with a maximum grace period of three years, it is alleged that farmers have shunned the scheme, which is administered by Bank of Uganda.

Available data indicates that although the ACF had sh58b available for onward lending to agribusinesses in the 2015/16 financial year, only 14% or sh8.1b of it was utilised, leaving sh49.9b sitting idle on accounts of commercial banks, despite agricultural enterprises being in need of financing.

It is alleged that some

Way forward

The Uganda National Farmers Federation president, Charles Ogang, says any attempt to improve agriculture financing should take into account the business realities faced by smallholder farmers, including the lack of farmers/agricultural banks, low education levels, the dominance of subsistence farming and the lack of access to modern financial instruments.

He adds that the above conditions mean that new and innovative institutions are required to reach smallholder farmers. Farmers also need longer-term agricultural financing for longer-term investments in better storage facilities, mechanisation and processing, among others.

banks hold onto ACF funds and lend out their own funds for high interest or disguise the ACF funds as their own funds and lend it out at high interest rates; something agribusinesses say has discouraged them from accessing the funds. Banks, however, refute the allegations.

Rethink ACF

Katende says while the ACF does not have a minimum amount to lend to farmers, banks set their own minimum amounts and those that would want to lend to smallholder farmers find it uneconomical to take every transaction application to Bank of Uganda for approval.

"Some banks, such as Post Bank, would want to lend to farmers, but one cannot take all the forms to Bank of Uganda for approval," Katende says. He says there is need to review the ACF to ensure that a bank

that wants to lend to a large number of smallholder farmers is allowed to fund farmers first and deal with Bank of Uganda approvals later, to facilitate quicker accessibility.

"ACF was structured for a particular segment of the value chain, but that could have been an over statement because we have a small size of the market targeted under the ACF. Even where you have big actors, such as processors, they are producing below capacity because primary level production has not been facilitated to boost production.

Katende adds that Uganda Agribusiness Alliance will today discuss ways of re-imagining agricultural finance in Uganda at the ongoing 2017 annual Source of the Nile National Agriculture show in Jinja, to, among others, find lasting solutions to the finance challenge.

Agriculture financing law

Katende also notes that UAA, under its agricultural finance platform that brings together a number of stakeholders, including banks, insurance companies and civil society, is advocating for an enabling government policy that deliberately finances smallholder farmers, who have been ignored by banks.

The UAA chairperson, Victoria Sekitoleko, also recently urged the Government to urgently put in place an agricultural finance policy to help farmers transform from subsistence farming to commercial agriculture through co-ordinated financing strategies.

She adds that having an agriculture finance policy will guide sector players to harness the country's full agribusiness potential and help salvage a sector that is responsible for the livelihood of a majority of Ugandans.

"Agriculture is the backbone of Uganda's economy, but we do not have a policy. We need it urgently so that all players along the value chain including banks, insurance companies and farmers work in partnership to support the growth of the sector. This will also help us address production constraints," she says.

She alluded to the challenge of limited access to credit by smallholder farmers, saying that it is affecting their ability to generate sustainable income from their farming enterprises

as well as the country's ability to attain food security.

Financing options

Apart from commercial banks, Katende says farmers can also access funding from the Microfinance Support Centre that lends to SACCOS at concessional rates. Other agencies, such as the ABI Trust that provides guarantee funds and technical assistance programmes can also be of help to farmers.

Additionally, farmers can access funds from the Uganda Development Bank, which provides agricultural loans at interest rates of between 12% and 16%, depending on the source of funds, which is lower than the commercial bank average of 25%.

The European Fund, in partnership with the International Fund for Agricultural Development and the National Social Security Fund launched a \$12m (about sh48.8b) Yield Uganda Investment Fund early this year to help agribusinesses access flexible and affordable finance to support production.

The fund targets agriculture-related businesses across the value chain including supply of agricultural inputs, production, agro-processing, post-harvest storage, distribution, transportation, communication and certification. The fund sought to provide innovative and tailored financial solutions using equity, quasi-equity and debt to agribusinesses with potential to generate strong financial returns and significant social impact.

To benefit from the Fund, however, agribusinesses ought to have capital of between \$300,000 (about sh1.1b) and \$2.5m (about sh8.9b). This leaves out majority of Uganda's smallholder farmers because they operate with very little capital, despite producing almost all of the country's agricultural output, cumulatively.

"The fund is part of the solution, but it does not address the entire financing challenge because it targets large and well established agribusinesses yet some are already accessing funding from commercial banks," Fred Muhumuza, an economist, says.