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Commercial banks are key players in the agri-business value chain

There is a common misconception that commercial banks in Uganda have limited interest in financing farming or agricultural projects. After all, the sector is not efficiently organised, is largely uninsured and dominated by small holders with low income and, therefore, one would assume are unattractive to banks.

While it is true that most commercial banks in Uganda are not ideally structured to finance individual small holder farmers directly, the reality is that they still play critical roles within the sector, making them an indispensable part of the overall ecosystem.

First and foremost, their presence in rural areas where the economy is largely driven by agriculture means they are heavily involved, for instance, 50 per cent of all Stanbic branches are located up-country.

This role is accentuated during peak harvest and trading periods when banks provide large scale buyers and aggregates with the much needed short-term facilities in form of advances, revolving lines of credit and unsecured loans used to purchase agric produce from the thousands of small holder farmers.

In Lira District, for example, during the peak trading period, Stanbic Bank makes available about Shs20 billion per month in revolving credit to the oil-seed value chain alone.

Secondly, banks facilitate value addition

by offering the long-term loans used by entrepreneurs and investors to build factories, storage facilities and packaging outlets. This is key for the national economy because it helps the country generate exports and bring in the much needed foreign exchange.

In 2017, Uganda earned \$500 million in exports from agricultural products, and while someone might imagine the bulk of this came from large scale exporters, on the contrary, a lot was generated by mid-size businesses.

One such company is Rusekere Growers Tea Factory, owned by Erisa Kakyomya. He has prudently used a series of loans from Stanbic and managed to scale up his operations from 1.5 million tonnes of processed leaf in 2012 to 3.5 million today, the majority of which is exported. Rusekere Tea Company employs 250 direct workers and 1,200 indirectly through out-growers and other service providers.

Thirdly, commercial banks are instrumental in the modernisation of agriculture across the country, by enabling automation and mechanisation to take place. Banks provide farmers with vehicle and asset financing, making them more efficient and productive allowing them to scale up their operations to meet market demand.

Such facilities include leases for farm equipment, loans for the purchase of trucks,

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delivery vans, hire of plant and machinery, among many others.

Lastly, in a role that is often overlooked, commercial banks through their treasury departments, provide advice to farmers and other sector players dependent on imported agric inputs on future exchange rate fluctuations helping them save money by hedging in forward rates for extended periods.

This is significant for such importers when you consider the fact that the Ugandan Shilling has lost 30 per cent of its value against the US dollar over the past 18 months.

Looking to the future, the advent of Agency Banking and Bancassurance, will definitely be a game changer as far as the relationship between banks and farmers is concerned given that formal financial services will now be a lot closer to the people.

In theory, this should make it easier for them to access small loans and other financial services, which is a vital prerequisite to bringing them out of poverty.

In order for this to happen successfully, however, a conscious effort needs to be made by the banks, agricultural stakeholders and government to increase financial literacy, which is still one of the major hindrances towards driving the uptake of formal financial services.

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