

Farmers on edge over new financing rules

By Ali Twaha

Ugandan farmers are expected to be on edge as commercial banks move to implement new reporting rules that will most likely see many farmers cut off from a subsidised line of credit from the Government.

In an effort to bridge the financial gap in 2009, the Government partnered with commercial banks, Microfinance Deposit Taking Institutions (MDIs), credit institution and Uganda Development Bank Limited to set up an Agricultural Credit Facility (ACF).

Under the programme, the ACF was to support the medium to long-term scale commercial farmers and enhance capacity for value-addition. But stakeholders are starting to feel the heat that comes with the implementation of the International Financial Reporting Standard 9 that took effect on January 1, 2018.

Addressing journalists at Imperial Royale Hotel on Wednesday, David Kalyango, the chief internal auditor at Bank of Uganda (BOU), expressed concern that commercial banks will "invest a lot in modelling your behaviour", which will trigger a contraction on extension of credit on the Government programme.

ACF operates under a Memorandum of Understanding (MOU) under the Ministry of Finance, Planning and Economic Development. Both Government and participating financial institutions contribute 50% of any loan given to a farmer or agro processor.

The key objective of the programme is to promote



Kalyango and Christine Alupo, BOU director communications, during a press conference on farmers' access to agricultural credit at Imperial Royale Hotel, Kampala recently. Photo by Juliet Kasirye

commercialisation of agriculture through provision of medium and long-term loans to farmers and agro processors at more favourable terms aimed at boosting value-addition.

At least 416 eligible projects have received a disbursement amounting to sh261b. The funding line catered for farm activities and machinery improvements, working capital for trade, livestock and post-harvest management, among others.

According to Kalyango, the responsibility to recover the loan from the farmer is not with BOU, but the commercial bank." Banks charge a 12% interest on the loans given under ACF.

An agricultural risk assessment carried out in 2015 estimated that the country loses

between \$606m and \$804m annually due to pests, post-harvest losses and diseases in crops and livestock. Losses resulting from drought alone peak at \$44m, the study found.

As a result, agriculture remains one of the risky ventures for banks and insurance companies.

In 2017, the non-performing loans ratio fell from 10.5% in December 2016 to 7.2% in September as a result of decline in lending.

Consultations ongoing

Further consultations on the new reporting standards are ongoing, but officials from the banking sector say the lack of data among SMEs will hamper debt provisioning required under the new rules.

Wilbroad Owor, the executive director Uganda Bankers

Association, told *New Vision* recently that commercial banks are still seeking more guidance from the sector regulator.

Kalyango said AFC is now focused on supporting SMEs, who constitute the largest pool of borrowers. With credit provision, experts say commercial banks may also pay more in taxes, which might increase their operational costs.

"If you make a provision, it eats into your reserves. If they fall below levels required by the Financial Institutions Act, BOU may ask for more capital, so they have to discuss this," he said.

Some participating financial institutions are still risk averse on lending to the agricultural sector and prefer giving their own under commercial terms. Others are simply unwilling to participate.