Assessment of the Accessibility of the Agriculture Credit Facility (ACF) to Farmers (Small Holder Farmers)

By Daniel Lukwago
Nonner Group
Plot 131, Semawata Road,Ntinda
P.O Box 74733 Kampala
Tel: + 256 (703) 490 167
Email: dlukwago@gmail.com

Background and Context

- The Agriculture Credit Facility (ACF) was established in 2009 by Government of Uganda (GoU) in partnership with Commercial Banks, Uganda Development Bank Ltd (UDBL), Micro Deposit Taking Institutions (MDIs) and Credit Institutions to provide medium and long term loans to projects engaged in agriculture and agro-processing on more favourable terms.
  - Government's contribution to the ACF is interest free to the participating financial institutions (PFIs).
- However, studies conducted by Caritas Uganda and other stakeholders indicated a number of bottlenecks towards the effective implementation of the scheme.

Background and Context -ctd

- Caritas Uganda through the Uganda Farmers Common Voice Platform (UFCVP) and other stakeholders have been engaging government and sensitizing stakeholders (including small holder farmers) on improving access of the ACF loans.

  - Memorandum of Understanding (MoU) was revised and broaden the scope of the facility to cover a wider range of activities including among others investment in biological assets; grain trade; provision of working capital; and increase in access to the facility by MDIs and SMEs.

Objectives of the Study

- **Main Objective**
  - To provide evidence on accessibility of ACF by small holder farmers; challenges affecting uptake of the facility from both the supply and demand side and propose ways to improve uptake of the same.
  - **The specific objectives included:**

a. Establishing if the ACF is meeting its set objectives and benefiting the intended beneficiaries as well as the small holder farmers.
b. Assessing small holder farmer's knowledge of the ACF.
c. Assessing the adequacy of the policy and legislative framework for the facility.
d. Establishing the type of beneficiaries accessing and utilising the facility (esp. small holder farmers).
e. Examining the suitability of the qualification criteria for the facility by the intended beneficiaries.
f. Establishing strategies that can be used to improve knowledge and access of the facility by farmers/ Ugandans.
g. Establishing challenges affecting uptake of the facility from both the supply and demand side.
h. Providing appropriate recommendations for improvement of the facility.

Study Methodology

- The study employed both quantitative and qualitative approaches – mainly making use of document review, interviews, focus group discussions and survey:
  a. *Document review*: collection and analysis of secondary sources of data
  b. *Assessment*: of financial institutions to collect data on their involvement in the ACF
  c. *Key Informant Interviews* (KIIs): to capture stakeholder's views on the ACF accessibility, challenges and remedies.
  d. *Focus Group Discussions (FGDs)*: to capture farmers' views (i.e. verbatim responses or expressions).
  e. *Farmers' Survey*: to capture quantitative information from individual farmers on their access to and perceptions about the ACF.

Scope and Coverage

- The study engaged and interviewed 1,097 respondents both at national, 10 districts, and 10 sub counties.
  - The districts and sub counties were purposely selected by Caritas Uganda; considering regional representation and areas of operation for the UGAPAP project.
  - The farmers' respondents were selected through systematic random sampling.
- The study was undertaken from July to October 2017.

Scope and Coverage

Table 1: Number of Respondents

District	Sub County	Farmers' Survey	FGDs	KIIs				
				Central Gov't	Financial Institutions	LG Officials	Private Sector and NGOs	Total
Amuru	Atiak	77	16		3	4	2	102
Arua	Logiri	81	14		5	8	5	113
Buliisa	Buliisa	80	14		1	7	5	107
Iganga	Nakalama	81	11		3	7	5	107
Isingiro	Kabuyanda	79	17		1	8	5	110
Katakwi	Kapuja	80	9		2	5	3	99
Manafwa	Sibanga	80	27		3	7	1	118
Moroto	Nadunget	81	9		3	5	1	99
Mubende	Kasambya	78	15			7	6	106
Oyam	Kamdini	80	20		3	7	3	113
National Level				3	16		4	23
Total		797	152	3	40	65	40	**1,097**

Challenges faced while undertaking the study

- Failure by some financial institutions to provide information on their ACF operations
- Lack of concrete information on ACF by some financial institutions
- Lengthy bureaucratic process to obtain interviews with banks and government officials.
- Difficulty in obtaining copies of official policy documents & current financial data.
- Inconsistency of information on ACF financing.

Major Findings

Legal, Policy & Institutional framework

- The policy and legal framework for the ACF is inadequate partly because there is no statutory instrument governing the scheme.
  - The facility is governed by the MoU between GoU and PFIs, and the Financial Institutions Act 2004.
- This has led implementation challenges such: as lack of guidelines on the time GoU contribution should be held on the Escrow account; lack of guidelines in dealing with delinquent loans; inadequate measurement of performance; and placing too much responsibility to the PFIs.
- MAAIF which is responsible for the development of the agricultural sector has no specific role in the scheme

Evolution of the ACF

- The ACF has been revised five times and is now in the fifth phase with 16 PFIs.
- ACF V accommodates more farmers and agro-processors under SMEs and has brought on board Grain trading.
- Gov't is in the process of initiating more changes to in order to improve access by the small holder farmers, such as: introducing block fund allocation for MDIs and Credit Institutions (CIs); widening the eligibility scope to cover more items along the agricultural value chain and introducing alternative collateral arrangements.

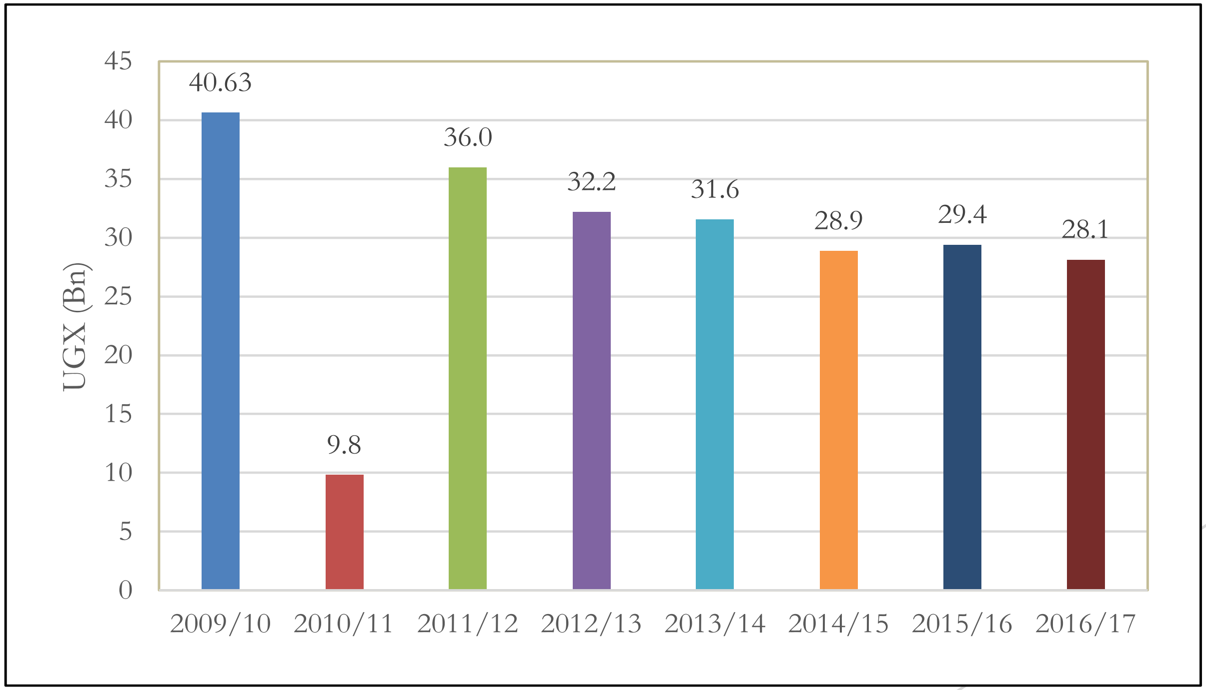
Evolution of the ACF -ctd

Phase	FY	Terms	Interest Rates
ACF I	2009/10	50% equal contribution to loan pool by GoU and PFIs	10%
ACF II	2010/11	33.3% contribution to loan pool by GoU and 66.7% contribution by PFIs	12%
ACF III	2011/13	50% equal contribution to loan pool by GoU and PFIs	10%
ACF IV	March 2013 – Nov, 2015	50% equal contribution to loan pool by GoU and PFIs	12%
ACF V	Nov 2015 to date	– 50% equal contribution to loan pool by GoU and PFIs. – MDIs and Credit Institutions contribute only 30% and GoU 70%	12%

Financial Performance of ACF

- As of June 2017, the total disbursements amounted to UGX 236.55 billion, extended to 391 eligible projects countrywide.
  - GoU had contributed UGX 117.34 billion.
  - There was a significant decline in the disbursements from UGX 41 billion in 2009/10 to UGX 28 billion in 2016/17 partly due to the increase in the interest rates (see Figure 1).

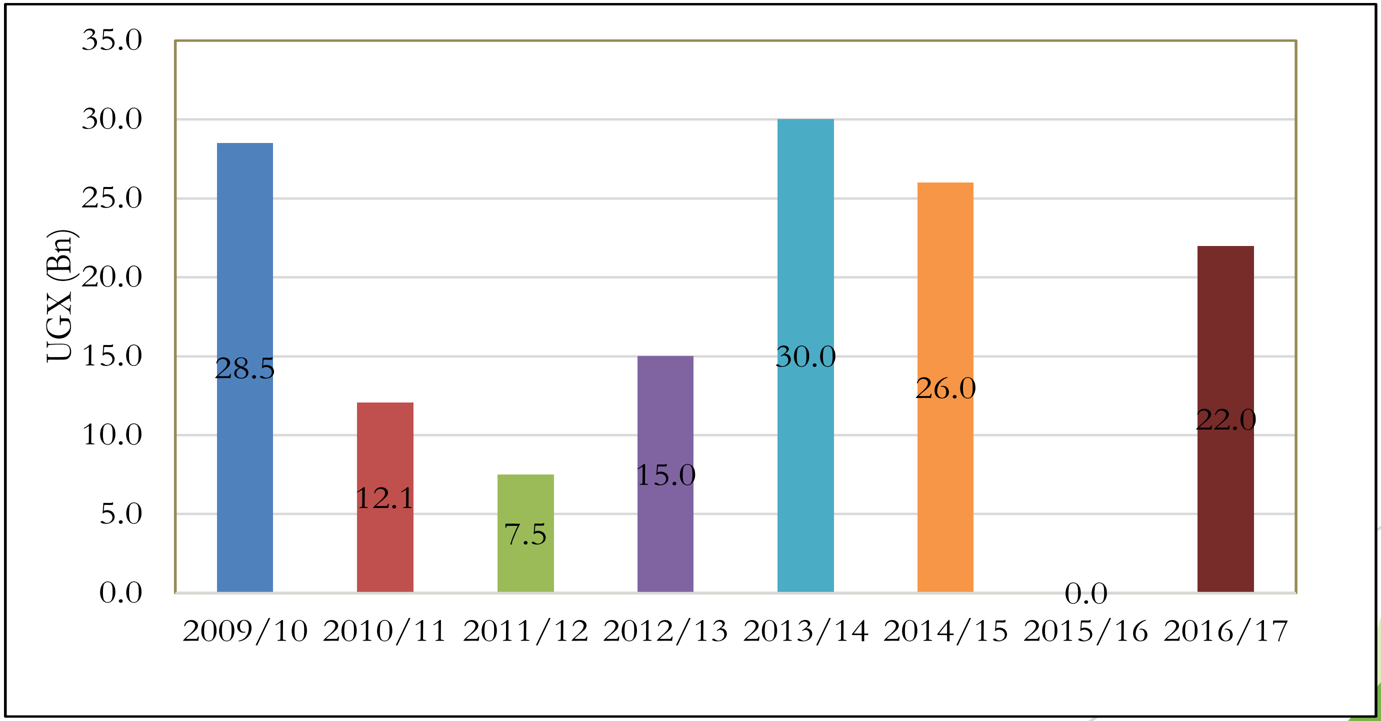
Figure 1: ACF Loan Disbursements



Financial Performance of ACF -ctd

- GoU remittances to the ACF have not be consistent. Since inception, GoU has remitted UGX 141.07 billion to the scheme (see Figure 2). The lowest remittance was in FY 2011/12, where GoU remitted UGX 7.5 billion, while in FY 2015/16 there were no remittances

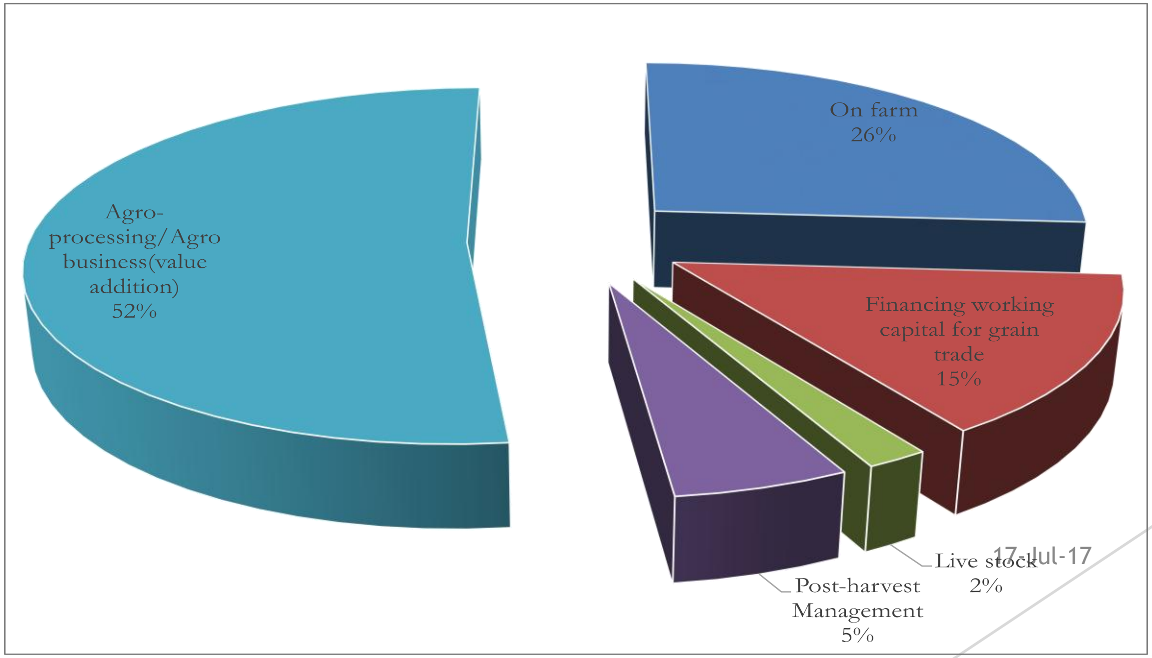
Figure 2: GoU Transfers to the ACF Account



Areas funded by ACF

- Most funding is going to Agro-processing machinery; Farm expansion; Financing capital for grain trade; Post-harvest management; and livestock (see Figure 4).
  - The large spending on agro-processing is consistent with one of the scheme's key objectives, namely, value addition.

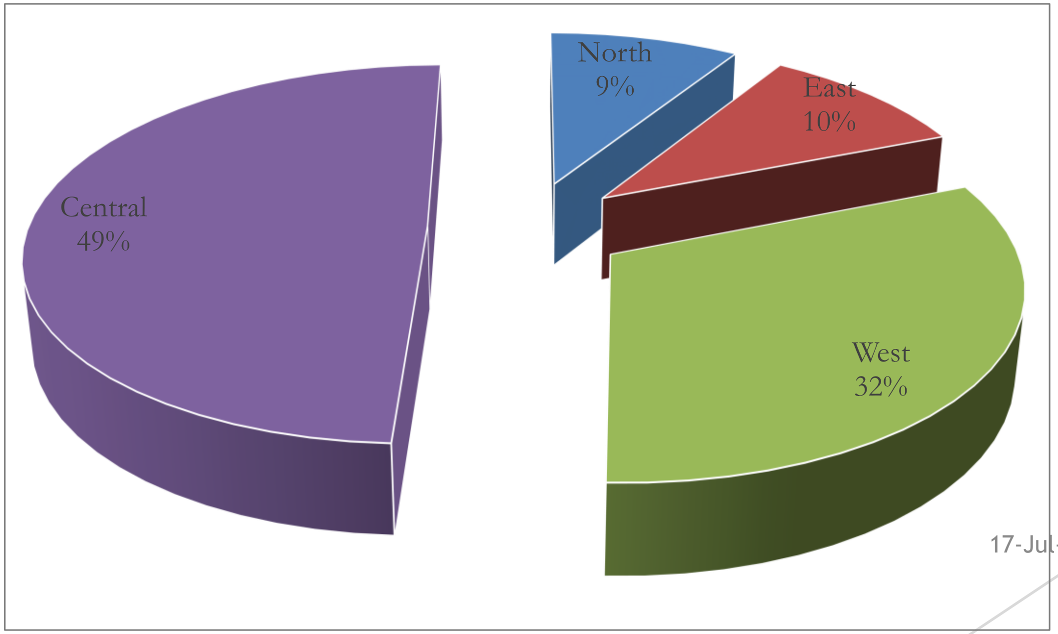
Figure 4: Areas funded by ACF



Regional Distribution of the ACF

- The Central region has since registered the highest number of projects funded followed by the Western region (see Figure 5).
  - According to BoU, this is partly attributed to the land tenure system that encourages individual land ownership which land is used as collateral to secure the loans..

Figure 5: Disbursed and committed ACF Loans by Region as 30th June, 2017



Major Achievements of the ACF

- The scheme has instilled a level of confidence in agricultural lending by financial institutions, even without gov't guarantee.
- The ACF appears to have contributed to an expansion of commercial bank lending to the agricultural sector; between March 2010 & March 2017, total Shilling denominated lending by the commercial banks to the agricultural sector increased by 317 percent.
- Some development partners such as Abi Finance have come on board with guarantee packages.
- Increased value to agricultural projects resulting into improved produce that attract better prices thus increasing farmers' income
- Enhanced farmers and agro-processors access to affordable credit facilities

Major Constraints to the implementation of the ACF

- *Low uptake of the ACF by MDIs*; MDIs are better suited to lending to small holder farmers however, despite gov't guaranteeing 70% of the ACF loans, MDIs have not fully embraced the scheme. For instance, among the 16 PFIs, there is no MDI.
- *Some financial institutions are less willing to co-finance the ACF*; out of the over 33 financial institutions who signed the MoU, only half (16) were actively participating in the ACF as of June 2017.
- *Inadequate absorption of ACF loans*; According to the OAG Report 2016, the loan absorption capacity for the funds provided by GoU falls short by UGX 90.93 billion (see table 4).

Major Constraints to the implementation of the ACF-ctd

Table 4: Utilization of ACF

FY	GoU (UGX)	PFIs (UGX)	Gap (UGX)
2009/10	30	28.5	1.5
2010/11	30	12.1	17.9
2011/12	30	7.5	22.5
2012/13	30	15.0	15.0
2013/14	30	30.0	-
2014/15	30	26.0	4.0
2015/16	30		30.0
To-tal	**210**	**119.1**	**90.9**

Major Constraints to the implementation of the ACF-ctd

- *Inadequate marketing of the scheme*: It's the role of the PFIs to market the scheme. However, the PFIs are not doing a good job towards marketing the scheme.
  - Only 4% of the farmers interviewed during this study got to know about the ACF from PFIs.
  - Some stakeholders interviewed at local levels noted that, the dissemination of information on ACF is ineffective, partly because, they left out extension workers who are in direct contact with the small holder farmers.
- *Increase in number of delinquent loans*; According to OAG, delinquent loans increased from UGX 2.22 billion in 2014/15 to UGX 3.13 billion 2015/16.
- *Inadequate Monitoring and Supervision*: In addition to creating a conflict of interest, BoU has inadequate capacity (esp. human resource) to effectively monitor and evaluate the scheme.

Utilization of ACF

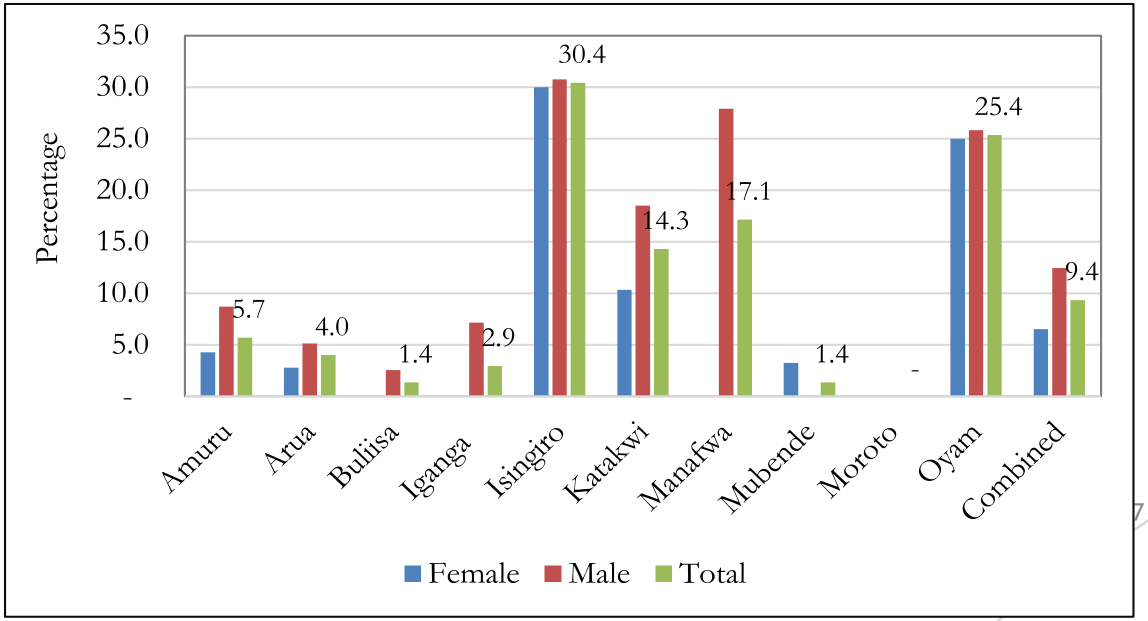
- *Criteria for accessing the ACF*
  - The main objective of ACF is to *promote commercialization of agriculture through provision of medium and long term financing to the agricultural sector*. Thus, is largely targeting medium to large scale farmers
  - Small scale farmers can only qualify for small loan amounts (less than 5 million). However, the minimum loan amount BoU can reimburse a PFI is UGX 10 million.
  - The criteria of accessing ACF is set by PFIs; modalities set by these institutions are not suitable for small holder farmers

Utilization of ACF -ctd

- *Awareness about ACF*

- Majority of the farmers and stakeholders interviewed in the 10 districts were not aware of the ACF.
    - Only 9.4 percent were aware of the ACF. The lowest level of awareness was reported in Moroto, Mubende, and Buliisa, at 0%, 1.4% and 1.4% respectively.
        - Male respondents were more aware of ACF at 12.5%, compared to Female respondents at 6.5% .

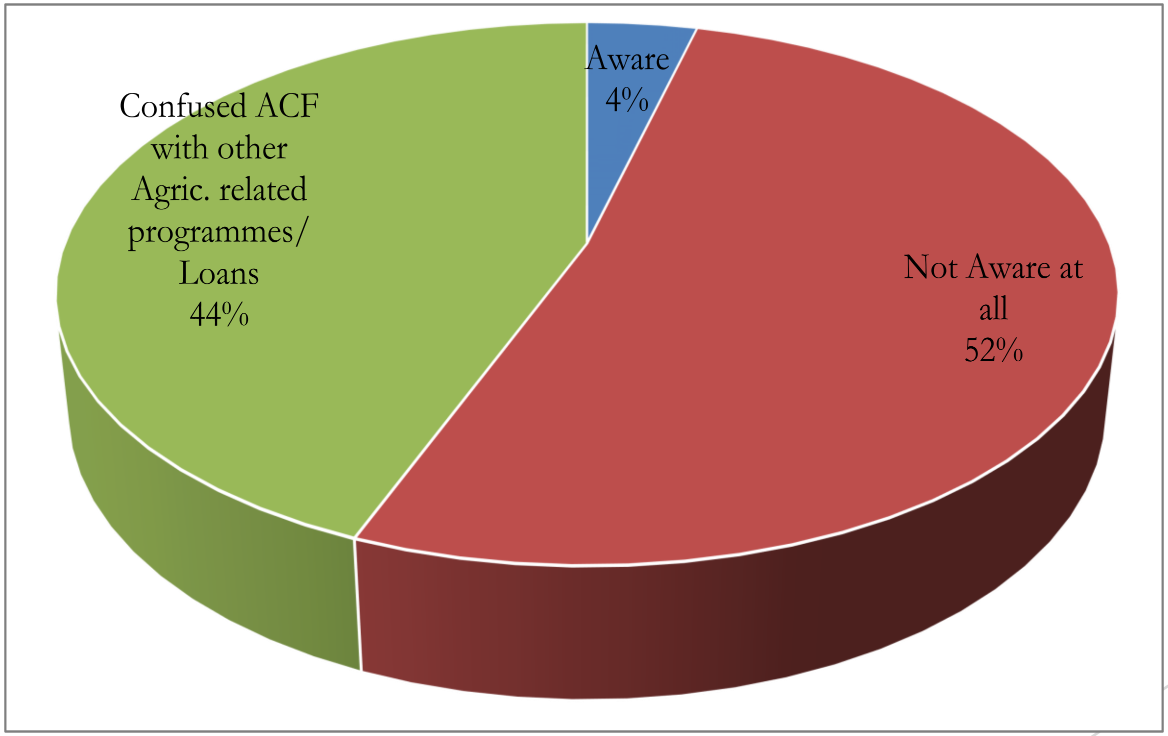
Figure 7: Awareness of ACF by Farmers



Utilization of ACF -ctd

- *Awareness about ACF*
  - On the side of key informants (LG officials, NGO actors and private sector), only 4% of the respondents in 10 districts were aware of the ACF (had knowledge of the criteria / modalities of the facility) (see Figure 8).

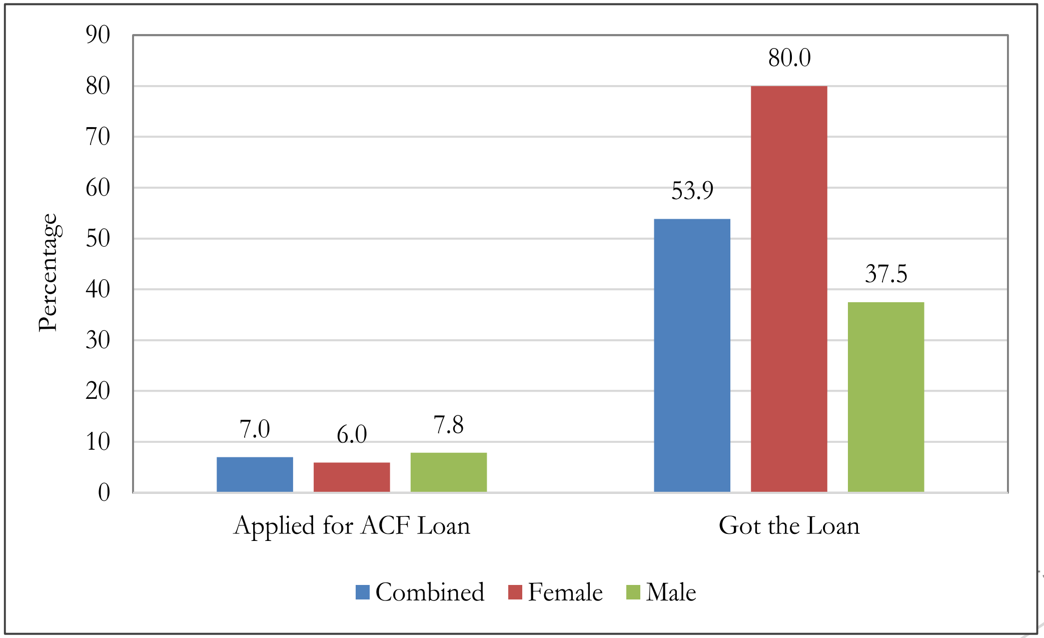
Figure 8: Awareness of ACF (LG, NGOs & Private Sector)



Utilization of ACF -ctd

- *Access by small holder farmers*
- This study found that only 7% (13 in number) of the small holder farmers interviewed in the 10 districts, had applied for ACF loans, of which only 54% (7 in number) had actually got the loan (see Figure 10).
  - No small holder farmers in Amuru, Arua, Buliisa, Iganga, Mubende, Moroto, and Oyam had applied for ACF loan.

Figure 10: Access to ACF Loans



Utilization of ACF -ctd

- *Access by small holder farmers*
  - The major reasons reported by farmers as to why they have not applied for ACF loans included: lack of information on how to access the ACF loans; not interested/ fear to borrow / risky to borrow; lack of collateral; failure to meet the criteria for accessing ACF loans; the financial institutions in my area don't provide such loans; and high interest rates
    - Some financial institutions up-country branches don't offer ACF loans; those interested in borrowing have to apply at their headquarters in Kampala.

> "…*when the farmer approaches the bank, they are told that ACF loans are not offered at the branch, but at the Headquarters in Kampala, which makes it hard for the farmer to access the loan."* – NGO Leader, Iganga.

Challenges affecting uptake of the ACF by PFIs

- *Moral hazard:* Some financial institutions are fearful of the danger of some borrowers deliberately failing to pay, on the pretext that ACF is government money.
- *Inadequate appraisal by some of the PFIs* leading to delays in the loan approval process thereby lowering the number of loans approved under the Scheme.
- *Conflict of interest by some PFIs:* Some PFIs prefer to market their own agricultural loans on commercial basis which are profitable and yielded higher interest compared to loans given under ACF.
- *Lengthy procedures:* Processing an ACF loan takes a lot of time. PFI staff are required to follow-up with BoU which makes the administrative costs of securing ACF high yet BoU requires that charges do not exceed 0.5% of the total Loan amount.

Challenges affecting uptake of the ACF by Farmers -ctd

- *Inadequate information about the ACF.* Most stakeholders and farmers at local levels are not aware of the ACF and how to access it.

  "*I have not applied for ACF because the information regarding ACF loans is not clear I don't know where to start from*" – Female FGD Participant, Kapujan S/C Katakwi

- *Lack of adequate collateral*. Small holder farmers have to present collateral if they are to acquire any loan, yet many of them don't have sufficient collateral.

  "*We don't have collateral security to get loans because when I need a big loan, they will ask for my house, a land title and a guarantor who I cannot get to stand in for me*"- Female FGD Participant, Sibanga S/C, Manafwa.

- *Lengthy procedures*: Small holder farmers noted that the process of applying for a loan facility especially for agricultural purposes is tedious and unpredictable.

Challenges affecting uptake of the ACF by Farmers -ctd

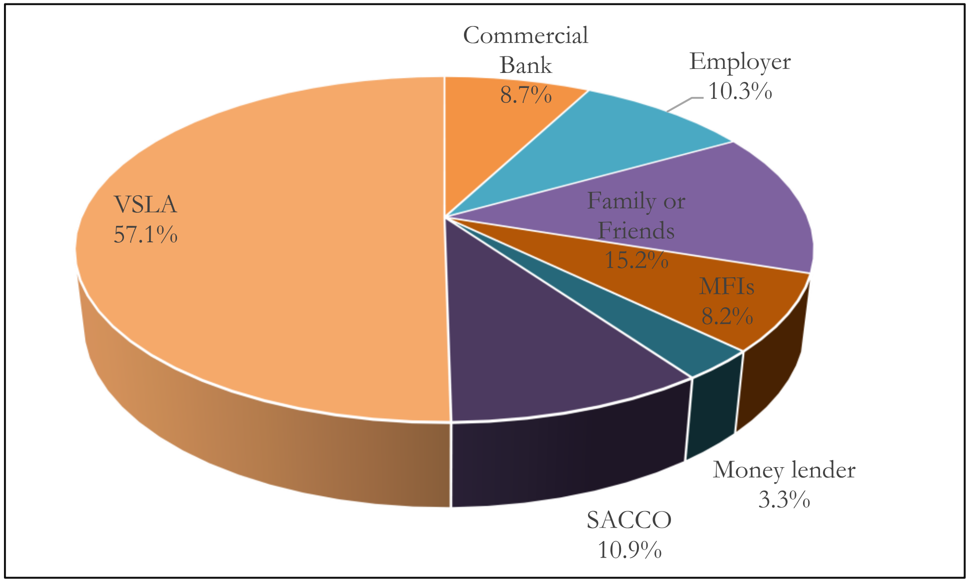
- *High interest rates*: Despite the fact that interest on ACF loan is 12 percent, however, most farmers complain that it's still high given the nature and risks associated in Uganda.
- *Absence of formal financial institutions*. The absence of financial institutions in districts like Amuru, Oyam and Katakwi has had a tow on access to agricultural credit including ACF.

"…the long distance travelled to access loan is so much; the points I can borrow from are in Hoima and Masindi; transport to and fro Hoima is UGX 30,000 which is expensive since one has to make numerous trips to the Bank to process the loan and thus not being cost effective. I might spend UGX 120,000 on transport to get a loan of UGX 600,000 which is not viable." – Youth Male FGD Participant, Buliisa S/C, Buliisa.

Challenges affecting uptake of the ACF by Farmers -ctd

- *Negative perceptions about commercial banks*. Many small holder farmers fear to lose their property like homes, household items and land, in case of failure to pay back loans.
  - Thus, majority of the farmers don't consider banks as a viable source of credit. This study found that only 8.7% of them had borrowed money from a commercial bank in the last one year (see *Figure 12*)

Figure 13: Source of agricultural credit for farmers



Recommendations

- **Government:**
  a. MoFPED should expedite the development and enactment of the statutory instrument for the ACF
  b. MoFPED should put measures to ensure effective monitoring of the entire operations of the scheme.
  c. BoU should ensure effective implementation of the ACF marketing strategy to increase awareness of the scheme.
  d. The ACF should be revised to offer block fund allocations to Credit Institutions (CIs) and MDIs so support SMEs and small scale borrowers.
  e. The MoU should be revised to include clauses that would benefit small holder farmers, for instance, include provisions for use of tripartite agreements as collaterals.
  f. The ACF should leverage the Uganda Agricultural Insurance Scheme through partnering with the banks to cover systemic risk faced by the majority of small holder farmers.
  g. Should consider transforming the ACF and other scattered agricultural financing initiatives into a rural or agricultural development bank.

Recommendations -ctd

- **Financial Institutions:**
  a. Should increase awareness of farmers about the ACF through extensive dissemination of correct information on the scheme
  b. All financial institutions in Ugandan should embrace the scheme and fully support its implementation
  c. Should sensitize small holder farmers, teach them how to write proposals and give them financial literacy training sessions to enable them access and effectively utilise borrowed funds
  d. Should employ and train agricultural loans officers who can interact and understand farmers better and can provide appropriate advice on borrowing and utilisation of borrowed funds
  e. Should develop innovative approaches and appropriate lending methodology that enables them lend to small holder farmers.

Recommendations -ctd

- **Farmers:**
  a. Farmers' organisations should disseminate information about available financial products such as ACF amongst members.
  b. Farmers should organise themselves in cooperatives and producer associations in a bid to increase access to agricultural credit.
  c. Develop a saving culture among themselves through VSLA and SACCOs.
  d. Ensure proper record keeping for any enterprise they are engaged in and enhance their financial literacy.

Recommendations -ctd

- **Caritas and UFCVP partners:**
  a. Disseminate information about ACF to specific target groups that they are working with to increase farmers' awareness about the facility.
  b. Should sensitize and train farmers on how to form groups / associations through which they are can access agricultural loans including ACF.
  c. Should sensitize small holder farmers, teach them how to write proposals and give them financial literacy training sessions to enable them access and effectively utilised borrowed funds.
  d. Build capacity of emerging groups especially VSLAs and SACCOs and raising their financial and entrepreneurial capacities.
  e. Advocate for a designated institutional home fully mandated to handle agricultural finance policy in Uganda.

THANKS

VERY MUCH!