




THE AGRICULTURAL CREDIT FACILITY PROGRESS REPORT JUNE 30, 2021

TRANSFORMING THE AGRICULTURE SECTOR THROUGH MECHANISATION




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Abbreviations

ACF	Agricultural Credit Facility
BOU	Bank of Uganda
BMAU	Budget Monitoring and Accountability Unit [BMAU] of the MoFPED
CAGR	Compound Annual Growth Rate
CIs	Credit Institutions
FIA	Financial Institutions Act 2004, Amendments and Regulations
GIZ	Gesellschaft fur Internationale Zusammenarbeit
GoU	Government of Uganda
GTB	Global Trust Bank Limited (Closed)
IAS	Impact Assessment Study
MAAIF	Ministry of Agriculture, Animal Industries and Fisheries
MDIs	Micro Deposit-Taking Institutions
MDAs	Ministries Departments and Agencies
MoA	Memorandum of Agreement
MoU	Memorandum of Understanding
MoFPED	Ministry of Finance Planning and Economic Development
NGO	Non-Governmental Organization
NOMAD	NOMAD Advertising Ltd.
OWC	Operation Wealth Creation
PFI	Participating Financial Institutions
PFMA	Public Finance Management Act
PPP	Public Private Partnership
SME	Small and Medium Enterprises
TWC	Technical Working Committee
ToR	Terms of Reference
TV	Television
UAA	Uganda Agribusiness Alliance
UGX	Uganda Shillings
USSIA	Uganda Small Scale Industries Association
VoU	Visionaries of Uganda

1 Executive Summary

Agriculture continues to play a vital role in Uganda's economy and has over the years determined the pace and direction of the country's overall economic growth. About 70 percent of Uganda's population is engaged in agriculture and in addition to being a source of food security, the sector contributes 24 percent to the national Gross Domestic Product and 34 percent of the export earnings (UBOS 2019/2020). Despite the sector's significant role, it is constrained by several factors that include inadequate infrastructure, volatility of weather patterns, access to finance, among others. To unlock the challenge of access to affordable credit by farmers, the Government of Uganda (GoU) established the Agricultural Credit Facility (ACF) in the year 2009 as a risk-sharing facility with the main objective of supporting commercialisation and modernisation of the agricultural sector.

The ACF continues to facilitate access to finance by the smallholder farmers with 61 percent of the funded projects under the scheme, comprising of micro, small and medium-sized enterprises (MSMEs), which constitute the majority of the agriculture sector in Uganda.

The report for the period ended June 30, 2021 adopted the theme "transforming the agriculture sector through mechanization". Mechanisation facilitates commercialisation of agriculture through transforming subsistence farming to commercial agriculture leading to increased production and productivity. Funding totalling **UGX 102.8 billion** has been extended towards mechanisation constituting **16.6 percent** of total financing under the ACF. Farm machinery and equipment financed include; Tractors and implements, irrigation equipment, feed mills, seed planters, green house facilities among others.

The total loan book under the scheme grew by UGX 30.56 billion from UGX 589.48 billion in March 31, 2021 to UGX 620.04 billion as at June 30, 2021, extended to 1,194 eligible projects.

A cumulative total of UGX 163.27 billion was repaid by the PFIs in respect of the loan instalments due as at June 30, 2021. This represents 51.87 percent of the GoU contribution refinanced to the PFIs. The recoveries have helped to bridge the funding gap by enhancing the capital for on-lending.

The repayment rate under the ACF has been impressive with continuous recovery of the outstanding loans by the PFIs. Out of the total GoU contribution amounting to UGX 314.79 billion refinanced to the PFIs, the non-performing loans were UGX 5.5 billion with a non-performing asset (NPA) ratio of 1.8 percent compared to the overall ratio of **5.4 percent** for the commercial banks as at June 30, 2021.

The increasing demand for the ACF loans is reflected in the pipeline (loan applications under review) at BoU amounting to UGX 90.14 billion with the corresponding GoU contribution of UGX 46.51 billion. As at June 30, 2021 the facility had a fund balance of UGX 25.49 billion and if the pipeline applications are to be approved, there will be a funding deficit of UGX 21.12 billion.

2 Government Remittances to the ACF Escrow Account

Since its inception, GoU has remitted **UGX 188.78 billion** to the ACF to cover disbursements and PFIs have matched the GoU contribution in line with the MoA (2018). The commercial banks and UDBL contribute 50 percent to each loan on-lent to a farmer or an agro-processor while credit institutions and micro deposit-taking institutions contribute 30 percent of the loan value. The remittances from Government include **UGX 1.80 billion** advanced to cater for ACF marketing activities. Table 1 below highlights a breakdown of the GoU remittances to BoU as at June 30, 2021.

Table 1: GoU annual funding to the ACF

FINANCIAL YEAR	AMOUNT REMITTED TO BOU ESCROW A/C	Transfer to ACF Capital A/C	Transfer to Operations A/C (for ACF Publicity)	BALANCE ON ESCROW A/C
2009/2010	20,599,434,400	20,599,434,400	0	0
2010/2011	19,964,478,648	7,905,978,648	0	12,058,500,000
2011/2012	7,500,000,000	19,558,500,000	0	0
2012/2013	15,000,000,000	15,000,000,000	0	0
2013/2014	30,000,000,000	0	0	30,000,000,000
2014/2015	26,000,000,000	30,000,000,000	0	26,000,000,000
2015/2016	50,586,800	0	50,586,800	26,000,000,000
2016/2017	22,000,000,000	0	0	48,000,000,000
2017/2018	600,000,000	26,050,000,000	600,000,000	21,950,000,000
2018/2019	400,000,000	0		22,350,000,000
2019/2020	600,000,000	21,950,000,000	550,000,000	450,000,000
2020/2021	47,863,451,700	47,713,451,700	600,000,000	0
TOTAL	190,577,951,548	188,777,364,748	1,800,586,800	0

Source: Bank of Uganda

3 Cumulative Loan Applications and Disbursements

BoU has received cumulative loan applications totalling 1,463 with a total loan value of UGX 987.82 billion. Disbursements have also progressively increased since inception from UGX 21.02 billion to 38 beneficiaries when the scheme's operations started in 2010 to UGX 620.04 billion disbursed to 1,194 beneficiaries (including 314 beneficiaries under block allocation). The cumulative GoU contribution accounts for UGX 314.79 billion. Table 2 and Table 3 below show disbursements since inception as well as a detailed breakdown of both loan applications and disbursements per PFI as at June 30, 2021.

Table 2: Disbursements per year

YEAR	TOTAL LOANS DISBURSED(GOU+PFI)	GOU CONTRIBUTION
2012	86,345,018,933	41,881,471,047
2013	118,532,643,425	57,975,283,293
2014	150,154,554,535	73,786,238,848
2015	179,021,755,565	88,219,839,363
2016	208,421,339,003	102,919,631,082
2017	236,616,898,747	117,385,592,954
2018	268,875,826,761	134,794,556,961
2019	408,623,581,891	207,031,690,525
2020	581,269,049,778	294,963,824,469
2021	620,039,989,778	314,793,294,469

Source: Bank of Uganda

Table 3: Loan Applications and Disbursements per PFIs as at June 30, 2021 (UGX)

PFI	NO OF APPLICAT IONS RECEIVED	VALUE OF LOAN APPLICATIONS AT BOU	NUMBER OF PROJECTS DISBURSED	PERCENTA GE NO. OF PROJECTS DISBURSED	TOTAL DISBURSEMEN T	PFI CONTRIBUTION	GOU CONTRIBUTIO N
		(UGX)	(UGX)	%	(UGX)	(UGX)	(UGX)
PBU	469	46,481,600,000	406	34.0	37,431,143,234	13,506,489,617	23,924,653,617
DFCU	253	158,175,158,752	240	20.1	141,059,595,433	70,818,868,821	70,240,726,612
SBU	171	317,965,613,715	137	11.5	185,050,359,557	92,973,394,417	92,076,965,140
EBU	120	63,970,426,760	74	6.2	17,572,746,512	8,786,373,256	8,786,373,256
OBUL	118	14,284,649,600	98	8.2	11,474,561,600	4,962,024,800	6,512,536,800
CERUDEB	86	25,827,955,688	62	5.2	21,735,030,480	10,963,019,914	10,772,010,566
UDBL	56	87,623,570,093	46	3.9	71,776,941,033	35,912,518,517	35,864,422,517
HFB	48	17,791,844,223	42	3.5	14,911,822,366	7,455,911,183	7,455,911,183
BOB	35	100,495,000,000	21	1.8	59,921,016,446	29,960,508,223	29,960,508,223
BOA	18	15,900,000,000	13	1.1	10,525,000,000	5,262,500,000	5,262,500,000
Absa/BBU	14	48,957,929,377	8	0.7	10,455,233,114	5,227,616,557	5,227,616,557
TBL	13	23,940,000,000	8	0.7	17,200,000,000	8,600,000,000	8,600,000,000
FTB	13	2,866,000,000	10	0.8	2,116,000,000	1,058,000,000	1,058,000,000
Pride	11	220,000,000	11	0.9	220,000,000	110,000,000	110,000,000
KCB	10	11,380,540,000	6	0.5	5,180,540,000	2,673,770,000	2,506,770,000
DTB	8	14,748,000,000	3	0.3	3,300,000,000	1,650,000,000	1,650,000,000
CBL*	6	19,565,000,000	2	0.2	2,080,000,000	1,040,000,000	1,040,000,000
GTB*	3	175,000,000	1	0.1	30,000,000	15,000,000	15,000,000
MCB	3	1,140,000,000	0	0	0	0	0
OBL	2	5,500,000,000	2	0.2	2,600,000,000	1,650,700,000	949,300,000
SCB	2	5,000,000,000	2	0.2	5,000,000,000	2,500,000,000	2,500,000,000
TFB	2	400,000,000	2	0.2	400,000,000	120,000,000	280,000,000
IBUL**	2	5,410,000,000	0	0	0	0	0
TOTAL	1,463	987,818,288,208	1,194	100.0	620,039,989,775	305,246,695,305	314,793,294,470

Source: Bank of Uganda *Defunct PFIs **Changed name to Exim Bank (U) Limited ***Former Barclays Bank of Uganda Ltd.

From Table 3 above, out of UGX 987.82 billion worth of loan applications received at BoU, UGX 620.04 billion (62.77 percent) were financed as at June 30, 2021. Stanbic Bank (U) Ltd, DFCU Bank Ltd, Bank of Baroda (U) Ltd and UDBL continue to dominate utilisation in terms of loan value. This is due to the fact that the majority of their clientele are mainly medium to large scale borrowers engaged in large scale farming and agro-processing. PostBank (U) Limited (PBU) had the highest number of beneficiaries under the scheme accounting for 34.0 percent of the total number of projects with a loan value of **UGX 37.4 billion**. These are basically MSMEs with small loan sizes including those that benefitted under the block allocation arrangement

4 Repayments and outstanding ACF balances

PFI's are billed bi-annually in June and December and only remit funds realized in cash from borrowers. Given that the ACF is a risk-sharing scheme, GoU contributes 50 percent to the loans submitted through commercial banks and UDBL, and 70 percent to loans submitted through MDIs and CIs. The PFI's are expected to repay to BoU only the principal as per the provisions of the MoA (2018). Recoveries or reflows are used to fund new loan requests from other eligible borrowers since ACF is a revolving scheme.

As at June 30, 2021 a total of **UGX 163.27 billion (51.87 percent)** of the GoU contribution amount refinanced to the PFI's had been repaid. An amount of **UGX 151.52 billion** was outstanding in loans disbursed through the PFI's. The repayment of the ACF loans however is tagged to the loan periods granted to the end-borrowers under the scheme's guidelines. The status of GoU contribution refinanced to each PFI, repayments made to BoU and outstanding loans owing from the PFI's as at June 30, 2021 is indicated in Table 4 below:-

Table 4: Cumulative Disbursements, repayments and outstanding balances per PFI as at June 31, 2021

PFI	CUMULATIVE AMOUNT DISBURSED	CUMULATIVE REPAYMENTS	OUTSTANDING BALANCES (GoU)
	(UGX)	(UGX)	(UGX)
GTB*	15,000,000	15,000,000	-
Pride	110,000,000	52,500,000	57,500,000
TFBL	280,000,000	70,670,922	209,329,078
OBL	949,300,000	949,300,000	-
CBL*	1,040,000,000	1,040,000,000	-
FTB	1,058,000,000	159,814,131	898,185,869
DTB	1,650,000,000	1,455,000,000	195,000,000
SCB	2,500,000,000	2,500,000,000	-
KCB	2,506,770,000	1,436,168,095	1,070,601,905
Absa/BBU	5,227,616,557	970,246,104	4,257,370,453
BOA	5,262,500,000	5,072,500,000	190,000,000
OBUL	6,512,536,800	3,081,072,662	3,431,464,138
HFB	7,455,911,183	4,963,953,496	2,491,957,687
TBL	8,600,000,000	6,072,222,223	2,527,777,777
EBUL	8,786,373,256	1,216,966,691	7,569,406,565
CERUDEB	10,772,010,565	4,428,225,272	6,343,785,293
PBU	23,924,653,617	11,865,790,717	12,058,862,900
BOB	29,960,508,223	20,834,495,908	9,126,012,315
UDBL	35,864,422,518	25,813,743,387	10,050,679,131
DFCU	70,240,726,611	34,549,429,847	35,691,296,764
SBU	92,076,965,139	36,727,481,840	55,349,483,299
Total	314,793,294,469	163,274,581,295	151,518,713,174

Source: Bank of Uganda *Defunct PFI's

5 Funds Committed

Committed funds result from projects approved by BoU but partially disbursed by the PFIs or where the pre-disbursement conditions stipulated in the loan offer letters issued to the PFIs are yet to be fulfilled. Some of the conditions are submission of proof of disbursement to the eligible borrower and a duly executed Promissory Note to BoU. As at quarter end, committed funds amounted to **UGX 23.19 billion** of which GoU contribution equivalent is **UGX 11.86 billion**. Table 5 below shows a breakdown of committed funds per PFI as at June 30, 2021.

Table 5: Committed Funds per PFI and the GoU contribution as at June 30, 2021

PFI	Amount of Committed funds(PFI)	GoU Commitments
	(UGX)	(UGX)
Absa Bank	88,167,485	44,083,742
BOB	4,850,000,000	2,425,000,000
CERUDEB	2,535,487,000	1,267,743,500
DFCU	6,239,263,254	3,119,631,627
EBUL	130,000,000	65,000,000
FTB	600,000,000	300,000,000
OBUL	763,000,000	381,500,000
PBUL	1,370,000,000	947,000,000
SBU	4,000,000,000	2,000,000,000
TBL	400,000,000	200,000,000
HFB	100,000,000	50,000,000
UDBL	2,119,606,158	1,059,803,079
Total	23,195,523,897	11,859,761,948

Source: Bank of Uganda

Most of the committed funds are for capital expenditure for acquisition of agro-processing machinery that require a longer time for importation and installation.

6 Performance during the Quarter ended June 30, 2021

During the quarter ended June 30, 2021, 45 new applications were received which was a 7.1 percent increase in loan applications received at BoU from 42 applications during the previous quarter. Of this, 44.4 percent of the applications belonged to the micro small and medium enterprises with loan amounts not exceeding UGX 100 million. This is consistent with the fact that the highest number of beneficiaries under the ACF are small and medium enterprises. The loans disbursed increased by UGX 22.29 billion from UGX 8.37 billion in the previous quarter to UGX 30.56 billion in the quarter ended June 30, 2021. The increase is attributed to a grain facility amounting to UGX 25 billion that was refinanced during the quarter under review.

The number of restructured projects remained 97 with an outstanding GoU contribution of **UGX 31.6 billion**. With the second lockdown however, there is likely to be an increase in loan restructuring resulting from the reduction in business activity due to the pandemic and lockdown measures instituted on a number of businesses including agribusinesses. BoU extended the period for covid-19 credit relief and loan restructuring guidelines to September 30, 2021 to allow financial institutions to restructure loans for borrowers that were adversely affected by the pandemic.

Table 6: ACF Scheme Quarterly Performance

Portfolio Classification	30-Jun-20	30-Sep-20	31-Dec-20	31-Mar-21	30-Jun-21
	UGX	UGX	UGX	UGX	UGX
Total Loan Portfolio-UGX (Disbursed)	520,416,946,602	525,997,126,602	581,269,049,778	589,484,149,778	620,039,989,778
Cumulative GOU Contribution (UGX)	264,104,044,754	267,198,362,881	294,963,824,469	299,515,374,469	314,793,294,469
Number of Loan Applications Received	38	74	61	42	45
Value of New Loan applications (UGX)	12,101,000,000	16,984,600,000	33,766,357,500	19,403,440,000	7,884,790,000
Number of Loans Disbursed	31	41	50	42	41
Total Value of Loan Disbursements (UGX)	65,181,437,902	5,580,180,000	55,271,923,176	8,365,100,000	30,555,840,000
GoU Contribution - Loan Disbursements	32,727,290,824	3,230,890,000	27,765,461,588	4,551,550,000	15,277,920,000
Committed Funds	41,536,385,036	46,090,994,786	22,024,811,948	23,384,466,948	11,859,761,948
Repayments - GOU Contribution	5,209,895,570	4,404,299,893	6,434,031,030	9,907,351,039	4,811,299,027
Amount in Arrears (GOU Contribution)	5,694,835,437	2,693,840,855	14,655,065,882	6,247,714,843	18,488,047,300
Number of Delinquent Loans	22	22	23	23	23
Value of Delinquent loans (UGX)	5,821,898,740	5,821,898,740	5,506,898,740	5,506,898,740	5,506,898,740
NPLs Ratio	2.20%	2.18%	1.87%	1.84%	1.80%

Source: Bank of Uganda

Recoveries during the quarter amounted to **UGX 4.8 billion** which was only 20.6 percent of the expected loan repayments from the PFIs as at June 30, 2021. The reduction in loan repayments from the PFIs is attributed to the impact of the pandemic as many businesses experienced a decline in business activity including the agricultural sector with constraints such as access to both inputs and markets for outputs due to control measures such as transport restrictions, quarantine, social distancing and bans on weekly markets. The non-performing loans remained at **UGX 5.51 billion** (of the total GoU contribution refinanced). A summary of the quarterly performance is highlighted in table 6 above;

7 Utilization of the Funds under the Scheme

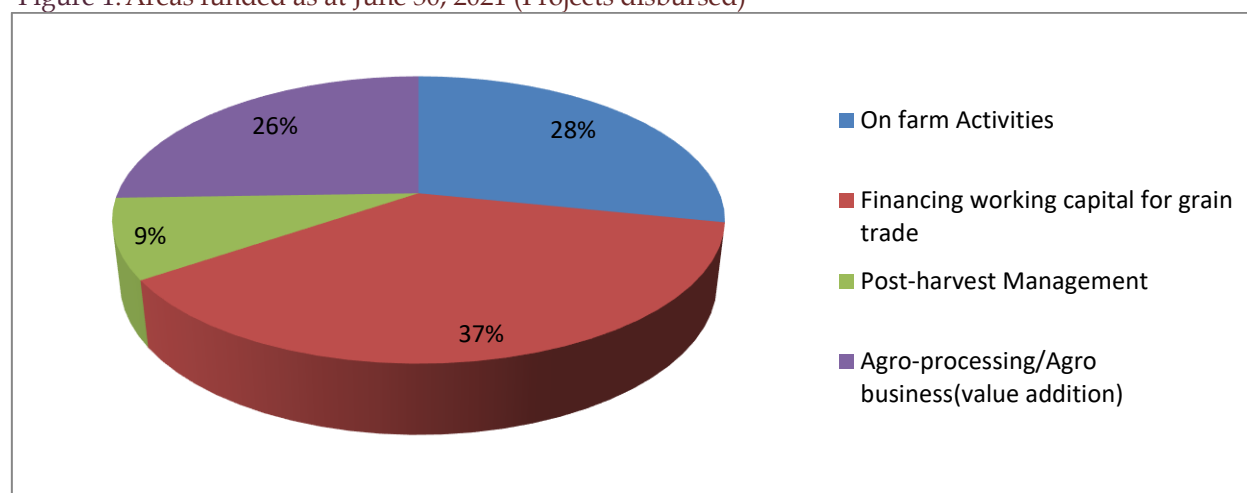
The ACF has demonstrated that access to finance by the smallholder farmers and agribusinesses is achievable as this is evidenced by the fact that the highest number of beneficiaries under the scheme are the small and medium enterprises who constitute 60.8 percent of the total number of beneficiaries as at June 30, 2021. The loan amounts under this category range between UGX 10 million and UGX 100 million and these include the unsecured loans for the micro borrowers under the block allocation arrangement in which funding amounting to UGX 4.92 billion has so far been extended. Several projects under various agricultural value chains have been financed by the scheme since its inception. These include on-farm activities, which comprise farm improvement projects such as the construction of structures that include valley dams, hatcheries, greenhouses with irrigation systems and excavation of fish ponds, among others as well as purchase of machinery/equipment including tractors that facilitate enhanced farm production. Other categories of activities funded include; financing working capital for grain trade, livestock, post-harvest management such as warehouses, silos and agro-processing, which involve value addition. Scheme utilization under this section comprises of cumulative disbursements made towards the respective agricultural value chains. Table 7 and figure 1 below show a breakdown of the cumulative disbursements grouped by activity funded as at June 30, 2021.

Table 7: ACF Portfolio grouped by funded activities (Projects disbursed by end of June 30, 2021)

FUNDED ACTIVITY	NUMBER OF PROJECTS	TOTAL LOAN AMOUNT	GOU CONTRIBUTION
		UGX	UGX
On farm Activities	898	175,050,511,361	91,998,686,593
Financing working capital for grain trade	149	230,995,326,864	115,505,663,432
Post-harvest Management	44	55,794,004,476	28,200,573,438
Agro-processing/Agro business(value addition)	103	158,200,147,074	79,088,371,007
TOTAL	1194	620,039,989,775	314,793,294,470

Source: Bank of Uganda

Figure 1: Areas funded as at June 30, 2021 (Projects disbursed)



Source: Bank of Uganda

From Table 7 and Figure 1 above, most of the financing was towards working capital for grain trade as well as on-farm activities, accounting for 37 percent and 28 percent of the total loans disbursed, respectively. Grain trade and agro-processing attract high loan amounts due to the need for high financing requirements by grain traders to be able to mop-up the excess grain on the market, hence stabilise the prices as well as the heavy investment in machinery for value addition. On the other hand, the on-farm category constitutes the highest number of MSMEs, which comprise the biggest majority of the agricultural sector and are the engine of job creation. The financing needs of farmers in this category include; farm expansion and improvement, installation of valley dams and acquisition of irrigation equipment, land opening (green fields), inputs for primary production such as improved seedlings, fertilizers, pesticides, farm restocking with improved breeds of goats, pigs and cattle for both dairy and beef production.

Table 8: Categorization of loans by size as at June 30, 2021

Grouping by Amount	Amount (UGX)	GoU Contribution (UGX)	Number of projects	
0-20,000,000*	5,068,170,990	2,965,885,495	322	726
20,000,001-50,000,000	5,919,035,618	3,350,871,009	144	
50,000,001-100,000,000	21,153,921,999	11,925,999,552	260	
100,000,001-300,000,000	44,102,258,699	23,768,876,819	235	468
300,000,001-above	543,796,602,469	272,781,661,595	233	
Total	620,039,989,775	314,793,294,470	1,194	

Source: Bank of Uganda * Includes borrowers under the block allocation

From Table 8 above, **726 projects (60.8 percent)** of the projects financed under the scheme had loan amounts ranging between **UGX 10 million** and **UGX 100 million**. These are largely smallholder farmers mainly engaged in on-farm activities, which further confirms that the ACF has ensured increased access to credit by the micro and smallholder farmers in Uganda.

7.1 Block Allocation - Financing Micro, Small & Medium Enterprises Engaged In Agriculture

The introduction of block allocation in 2018 allowed the PFIs to consider extending loans of up to UGX 20 million to farmers with alternative collateral arrangements such as chattel mortgages, cashflow based financing, character-based loans, among others. This is intended to unlock credit to the micro and smallholder farmers who are unable to access funding due to the stringent traditional collateral requirements by the PFIs. By June 30, 2021, the ACF had extended financing of up to UGX 4.92 billion to 314 rural farmers using non-traditional collateral under block allocation. The loans were mainly advanced through PBUL, DFCU, CERUDEB and PML. Financing for farmers in this category has been extended to four main enterprises: cattle restocking for dairy and beef production, poultry farming, agricultural inputs, and farm infrastructure as well as grain trade.

Table 9: Areas funded under block allocation as at June 30,2021

Enterprise funded	Number	Total loan UGX	Gou Contribution UGX	%age Amount
Cattle restocking for beef/ diary production	133	2,066,000,000	1,153,100,000	42.0%
Poultry farming	26	429,600,000	291,800,000	8.7%
Agro-inputs and farm improvements	108	1,683,900,000	1,076,650,000	34.2%
Grain Trade	47	739,500,000	369,750,000	15.0%
Total	314	4,919,000,000	2,891,300,000	100%

7.2 Performance of the ACF during the COVID-19 Pandemic (March 2020 to June 2021)

In the 15 months ending June 2021, disbursements under the ACF amounted to UGX 164.80 billion, compared to UGX 147.43 billion in the fifteen-month period prior to the COVID-19 pandemic, and the number of projects financed increased by 58.4 percent from 257 to 407. Over the same period, 411 applications valued at UGX 90.06 billion were received. This represented a 6.5 percent increase in number of applications received from the Participating Financial institutions (PFIs) in comparison to the 15 months before the pandemic and these were largely micro, small and medium sized enterprises (MSMEs) with average loan sizes ranging between UGX 5 million and 100 million. This is reflected in the total value of applications received which declined by 78 percent.

In terms of growth in the loan book, the scheme registered 11.78 percent increase in the period between April 2020 and June 2021. On the other hand, lending to the agricultural sector by the supervised financial institutions (SFIs) declined by 41.3 percent in the period between April 2020 and June 2021 from UGX 2.26 trillion as at March 2020 to UGX 1.32 trillion cumulatively in the fifteen months ending June 2021. The performance of the ACF in the pandemic period compared to that of the SFIs, could suggest that the risk sharing mechanism under the ACF provides a cushion for the PFIs to extend credit to the agriculture sector amidst the pandemic. Details have been summarized in Table 10 below;-

Table 10: Performance of the ACF during the COVID-19 Pandemic

Summary Position	Jan. 2019 - March. 2020 (15 months)	Apr. 2020 - Jun. 2021 (15 months)	% Change
No. of Applications received	386	411	6.5
Total Value of Applications Received	407,375,639,825	90,056,187,500	-77.9
No. of Projects refinanced	257	407	58.4
No. of Block Allocations Financed	102	202	98
Value of Block Allocations Disbursed	941,250,000	1,853,050,000	97
Amount Disbursed-UGX	147,431,896,106	164,804,481,078	11.78
Amount Committed-UGX	436,235,417,971	287,452,841,337	34.11
Total loans to Agricultural Sector	2,256,963,117,194	1,324,176,923,991	41.33

Source: Bank of Uganda

A cumulative total of UGX 287.45 billion were committed between April 2020 and June 2021. This represents approved projects by BoU as well as those where partial disbursement has been made. Full drawdown is pending fulfillment of the pre-disbursement conditions stipulated in the loan offer letters issued to the PFIs. The commitments further demonstrate the demand for financing under ACF.

It can also be observed that there was a spike in ACF lending towards the MSMEs during the pandemic period. The scheme posted a 98 percent increase in number of applications financed worth UGX 911 million in comparison to the 15 months before the pandemic period. Following guidelines issued by BoU to all SFIs on credit relief and loan restructuring measures, 97 ACF facilities had been restructured as at 30th June 2021.

8 ACF Contributing to the transformation of the Agricultural sector through mechanization.

Agriculture mechanisation is the process of using agricultural machinery to impact on production, distribution and utilization of a variety of tools, machinery and equipment for the development of agricultural land, planting, harvesting and primary processing. The focus is on improving agricultural techniques with emphasis on sustainability of the entire agricultural system including the demand and supply of farm labour, agricultural profitability and economic application of engineering technology to increase the labour efficiency, production and productivity. The ultimate goal is to promote industrialization and strengthening the market for rural economic growth and improving the livelihoods of farmers and food security for the nation.

Agriculture is the main stay of Uganda's economy and although the country is endowed with fertile soils and favourable climate, it is producing below capacity. Studies have shown that 80 percent of land in Uganda is arable land but only 35 percent is being cultivated with the majority of farmers mainly smallholder farmers still using traditional, rudimentary and obsolete farming methods (*NPA Paper on transforming smallholder farming, 2013*).

The Government of Uganda has embarked on commercializing the agricultural sector through the National Development Plan (NDP) III that identifies mechanisation among the key priority areas in transforming the sector by the year 2040. There have been a number of interventions by Government aimed at promoting the use of cost-effective farm equipment to improve farmers' mindsets and farming methods to enhance production and productivity at farm level. Some of these interventions include; the commercialisation of Agriculture in Northern Uganda Project, the New Rice for Africa (NERICA), interventions through the National Agricultural Advisory Services (NAADS) and many others, through which a range of agricultural machinery and equipment were distributed to farmers to enhance their productivity.

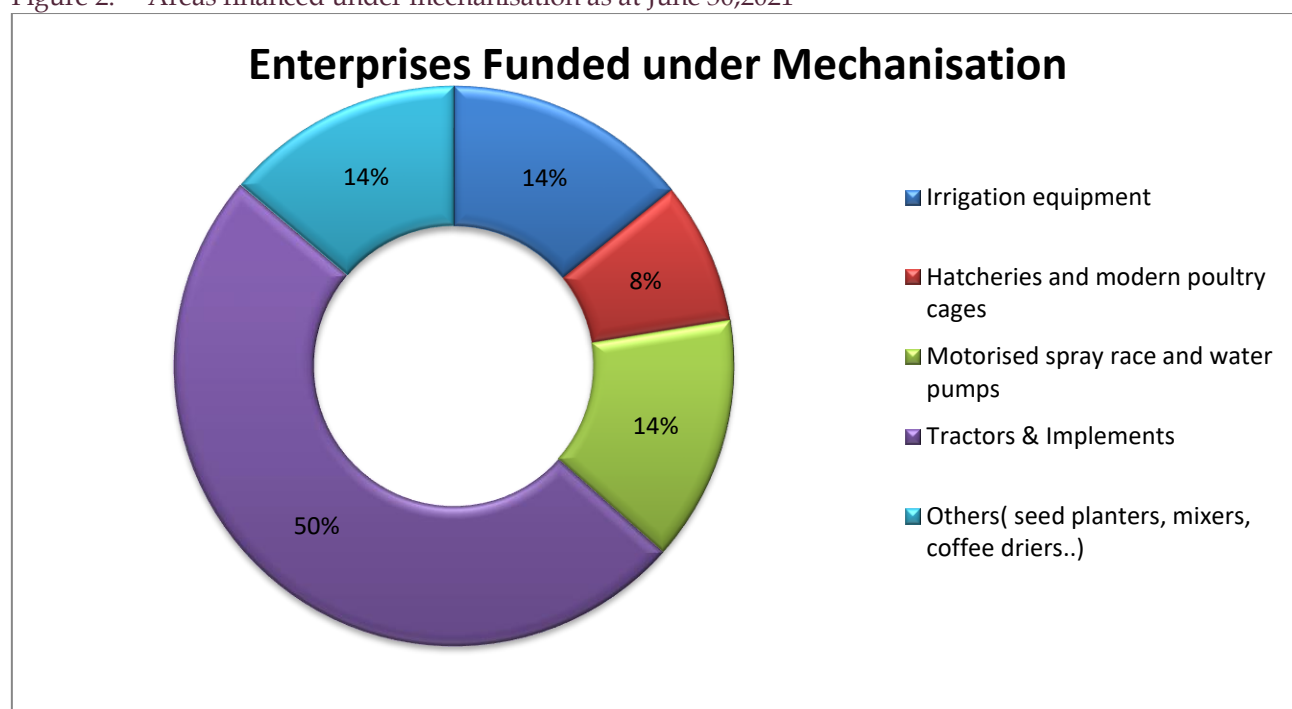
In line with the strategic plan of transforming the sector, the ACF was introduced in 2009, with one of its key objective of promoting agricultural mechanisation through advancing affordable credit to farmers to acquire agricultural machinery and equipment. In order to ease access to finance under the scheme especially by the smallholder farmers, the machinery and equipment to be financed would be the primary security or collateral for the farmers. A total of UGX 102.81 billion has been on-lent to 268 beneficiaries for mechanisation under the ACF, including 131 (48.9 percent) smallholder farmers with loan sizes not exceeding UGX 100 million. The areas financed include acquisition of tractors and their implements, purchase and installation of irrigation equipment, acquisition of hatcheries and modern poultry cages, motorised spray race and pumps, other farm equipment such as coffee driers, generators, seed planters, grinders and mixers, forage cutters, fruit juice extractors, modern fish cages among others. Table 11 and Figure 2 below shows the areas financed under mechanisation as at June 30, 2021.

Table 11: Areas financed under mechanisation as at June 30,2021

Enterprisefunded	Number	Total loan (UGX)	GoUcontribution (UGX)	%Amount
Irrigation equipment	38	11,701,910,000	6,086,512,000	11%
Hatcheries and modern poultry cages	22	8,831,365,221	4,344,182,611	9%
Motorised spray race and water pumps	38	10,348,000,000	5,746,000,000	10%
Tractors & Implements	133	33,982,410,218	18,035,709,021	33%
Others(seedplanters,mixers,coffee driers.)	37	37,942,635,262	19,435,634,395	37%
Total	268	102,806,320,701	53,648,038,027	100%

Source: Bank of Uganda

Figure 2: Areas financed under mechanisation as at June 30,2021



Source: Bank of Uganda

Acquisition of tractors and implements received the highest funding under the ACF, utilising 50 percent of the total financing extended for mechanisation. The majority of the beneficiaries are the smallholder farmers seeking to increase their farm output and productivity and this is consistent with the scheme's objective of transforming the sector from subsistence production to commercialisation through mechanisation for increased production and productivity.

8.1 ACF Borrower's Testimonies

Mr. Omony Bosco is a crop farmer in Nwoya district , Northern Uganda and a beneficiary of ACF financing. He owns over 100 acres of land but before accessing financing, he could only put 20 acres into productive use and was unable to expand due to the high costs involved. He acquired financing under the ACF to purchase two tractors through PostBank (U) Ltd. Mr. Omony has been able to put more land to use and currently has 100 acres of maize, groundnuts and rice. The acquisition of the tractors has also enabled him to increase his yield and as a result improved his income and with this, he was able to acquire a rice milling machine, construct a residential home and three lodging facilities in Anaka and Purongo respectively from which he gets additional income. He is also able to hire out the tractors to other farmers, when not in use on his farm and has created employment opportunities in his area. He currently employs twenty (20) workers on a permanent basis as well as several other casual labourers

Figure 3: Mr. Omwony's rice milling machine



Nanywa Solomy is a poultry farmer in Sentema, Wakiso district, Central region of Uganda. She obtained an Agricultural Credit Facility (ACF) of Ugx 80,000,000= through Equity Bank Uganda Limited which enabled her to purchase chicken cages and restock chicks (layers). Solomy says that this helped to boost her poultry farming business because the chicken cages require limited space and yet they accommodate many birds. This enabled her to increase on the number of layers she rears and increase on the egg production hence increasing on her profitability. She also added that the Agricultural Credit Facility is very cheap compared to other loan facilities.

Figure 4: Nanywa Solomy's Poultry Cages



Mr. Abwola Emmanuel, another successful beneficiary of ACF loan and a permanent resident of Rujoro village, Palyec Parish, Amuru S/C Amuru district. He says that at the time of borrowing, he owned over 300 acres of farmland of which only 10 acres were being utilized for production. With acquisition of a tractor from Postbank under ACF loan scheme in June 2020, he has increased his production from 10 acres to 70 acres per year. He says that his income has increased due to revenues earned from both crop production and tractor hire to the neighboring farmers. He has improved on his farming practices by adopting scientific and highly mechanized farming methods such as use of fertilizers, weed killer and use of combined harvester. The client also says that he has been able to start processing land titles for all the 300 acres which, he attributes to the increased income that has enabled him to meet costs of title processing including premium fees. Other benefits sighted include; raising school fees for his children and created employment opportunity for other people. (He employs 2 tractor operators, 2 conductors, a mechanic and many seasonal casual workers). The client also says that he has been able to raise his loan instalments without difficulties due to increased production and income from tractor hire.

Figure 5: Mr. Abwola Emmanuel's Tractor



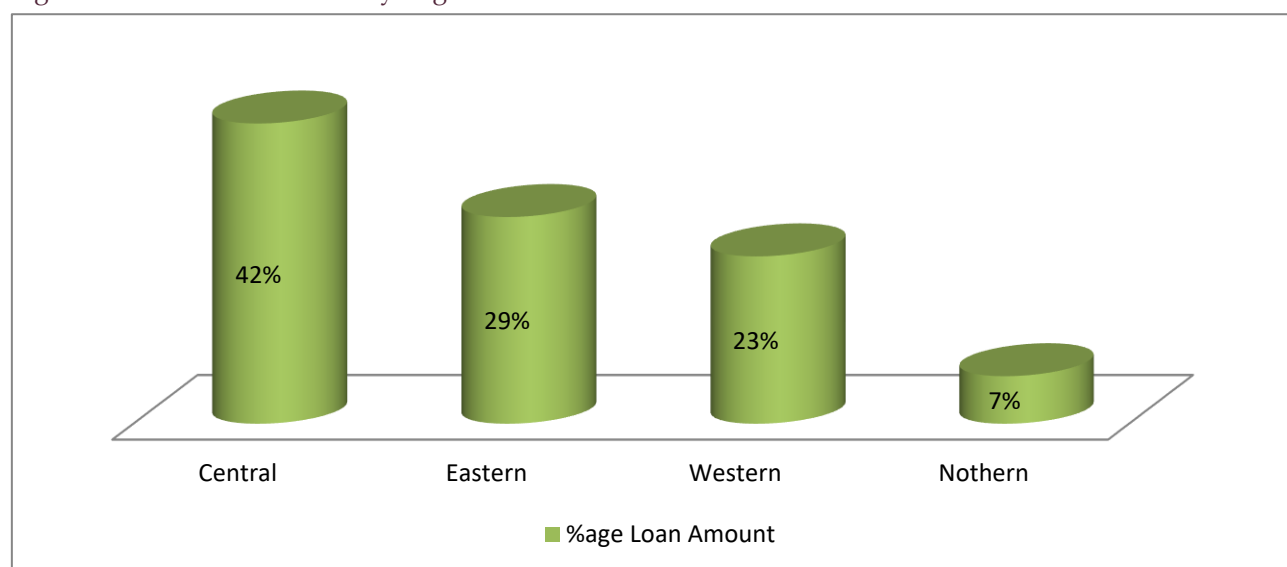
In terms of regional distribution, the central, Eastern and Western regions have received the highest amount of funding towards agricultural machinery and equipment for mechanisation with UGX 42.76 billion (42%), UGX 29.44 billion (29%) and UGX 23.84 billion (23%) respectively. Table 12 and Figure 6 below shows regional distribution of the agricultural machinery and equipment financed:

Table 12: ACF Mechanisation by Region

REGION	No.ofprojects	Total LoanAmount (UGX)	GoU Contribution (UGX)	%ageLoanAmount
Central	105	42,759,291,079	21,677,502,487	42%
Eastern	35	29,440,189,196	14,804,684,953	29%
Western	94	23,835,220,191	13,587,660,470	23%
Nothern	34	6,771,620,235	3,578,190,118	7%
Total	268	102,806,320,701	53,648,038,027	100%

Source: Bank of Uganda

Figure 6 ACF Mechanisation by Region



Source: Bank of Uganda

9 Marketing and Publicity of the Scheme

In line with the responsibility of creating awareness of the scheme, BoU has undertaken an aggressive marketing strategy aimed at increasing publicity of the the ACF across the country. The Bank has partnered with a number of stakeholders like GIZ, Food and Agricultural Organisation (FAO) and the Nation Media Group through the annual Seeds of Gold farm clinics. These engagements have led to increased awareness and demand for the ACF as well as the uptake of the scheme.

During the quarter, BoU partnered with the Ministry of Agriculture Animal Industry and Fisheries (MAAIF) on the Agriculture Cluster Development Programme (ACDP) that is being implemented by the Ministry. The project's development objective is to raise on-farm productivity, production and marketable volumes of maize, beans, cassava, rice and coffee in 57 districts of Uganda. To realise this, the project is focussing on building linkages with business development service providers in order to build capacity for farmers and agribusinesses, agro-input dealers who would ensure availability of quality agro-inputs as well as financial services providers that would provide the much needed credit. These alliances play a very critical role in addressing some of the key challenges affecting the development of the agriculture sector and usually hinder the realisation of the objectives of government interventions including the ACF. Through this partnership, BoU was able to engage with farmers and farmer organisations across the country, advising them on the availability of funding under the ACF. BoU considers these partnerships very key in unlocking access to finance to the agricultural sector but also as means of transforming the sector.

The Covid-19 pandemic continues to affect implementation of some of the scheduled ACF marketing activities across the country. However, the Bank has continued to engage with the ACF stakeholders through virtual meetings.

As at June 30, 2021, UGX 882.61 million had been utilised from the funds allocated to BoU for publicity by MoFPED. The balance of UGX 936.05 million will be utilised to cover the ongoing activities by NOMAD Advertising Limited and planned activities in the ACF marketing plan for the FY2021/2022. A breakdown of the marketing funds utilization as well as the planned activities are detailed in Table 13 and Table 14 below.

Table 13: Utilization of the MoFPED marketing funds as June 30, 2021

Particulars/Activity	MOF Expenditure UGX
Total Source of funds for ACF Marketing	1,800,586,800
Workshops/Seminars/Exhibitions	529,434,378
Adverts in Media-Tv, Radio, Print	319,455,572
Printing Awareness Raising Material	15,426,988
Tv & Radio Broadcasts	18,290,000
Total utilization as at 31.06.21	882,606,938

Source: Bank of Uganda

Table 14 Planned publicity activities for FY2021/2022

Planned activities	Cost UGX
Workshops/Seminars/Exhibitions	450,000,000
Adverts in Media-Tv, Radio, Print	363,141,500
Printing Awareness Raising Material	122,909,493
Total	936,050,993

Source: Bank of Uganda

10 Major Achievements of the ACF

The Scheme has achieved the following:

- i. Extended credit worth UGX 620.04 billion to 1,220 beneficiaries
- ii. Enhancing financial inclusion through the block allocation arrangement where 314 MSMEs have accessed funding without the traditional collateral requirements. Alternative collateral arrangements are considered such as chattel mortgages, cash flow based financing among others
- iii. Promoting mechanization of the agricultural sector through advancing credit of up to UGX 102.81 billion has been extended for acquisition of agricultural machinery and equipment to increase farm production and productivity.
- iv. Increasing value to agricultural projects resulting into import substitution of produce that attract better prices locally thus increasing farmers' income in line with the Build Uganda Buy Uganda national policy. Since inception, ACF has financed a total of UGX 158.20 billion to about 103 agro processors engaged in value addition.
- v. Boosting export promotion of agro-processed Ugandan made products as depicted in the dairy, tea and grain milling sectors; among others.
- vi. Increased level of confidence in agricultural finance to PFIs resulting into increased lending to the agricultural sector.
- vii. Development of innovative financial products in agricultural finance & improved risk management tools by PFIs and development partners.
- viii. Increasing employment levels as more people are employed in commercial farms and other funded projects. A number of farmers groups have been linked to the market through the out-growers' schemes of large aggregator projects financed under the ACF.
- ix. Prompted development partners to initiate guarantee packages and agricultural insurance to support financial institutions on-lend to high risk areas in the agricultural ecosystem.
- x. ACF has maintained its prominence as a proven distribution channel under a Public-Private-Partnership (PPP) approach; for medium to long term financing to value chains in the agricultural sector at more affordable terms.

11 Major Challenges

i. Inadequate Capitalisation

The ACF was established with the objective of supporting agricultural expansion and modernisation through provision of affordable credit to farmers and agro-processors to facilitate commercialisation and value addition in the sector. The borrowers' projects under the ACF have been refinanced by the GoU contribution and the reflows made via PFI repayments. These reflows provide a buffer for onward lending to viable projects, albeit on a half-yearly basis. Table 14 below highlights the ACF fund position as at June 30, 2021, with a deficit of **UGX 21.11 billion**.

As at June 30, 2021, cumulative GoU recapitalization amounted to **UGX 188.78 billion**, reflows amounted to **UGX 163.27 billion**, out of which **UGX 314.79 billion** has been disbursed while commitments totalled **UGX 11.86 billion**. Although there was available cash of **UGX 25.40 billion** as at June 30, 2021, resulting from recoveries of the arrears from the previous quarter, BoU is holding a pipeline totalling **UGX 46.51 billion** and if all the loans are to be approved, the scheme will have a fund deficit of **UGX 21.11 billion**. This, therefore, calls for recapitalisation of the scheme to address this funding gap and be able to meet the refinancing requests from the PFIs. Details of the ACF cashflows are summarized in the table below:

Table 15: ACF Cash Flow Position – June 30, 2021

Details	Amount(UGX)
Transfer from the Escrow Account to ACF Capital Account	188,777,364,748
Add: Total repayments from PFIs to date (reflows)	163,274,581,295
Less: Disbursements to date	(314,793,294,469)
Actual Cash Available (Fund Balance)	37,258,651,574
Less: Total BoU Commitments	(11,859,761,948)
Cash balance as at June 30, 2021	25,398,889,626
Less: Pipeline at BoU	(46,513,968,678)
Cash Deficit	(21,115,079,052)

Source: Bank of Uganda

ii. Covid-19 Impact

The prevailing COVID-19 pandemic had a significant negative impact on agricultural production and agri-businesses resulting in low production levels, reduced savings and business cashflows, that disrupted the ability of several borrowers to service their loan facilities. Following the issuance of guidelines by BoU to all SFIs on credit relief and loan restructuring measures, a total of **97 loans** have been restructured amounting to **UGX 31.61 billion**, which ultimately impacted expected recoveries.

iii. Lengthy procedure for write-off of NPLs

In accordance with the ACF-MoA, the Scheme was established as a risk-sharing facility and GoU undertook to provide 1st class security which will limit the profit and loss charge to a maximum of 50% of the outstanding principal loan amount in the event of default of a borrower. As Fund administrator, BoU was expected to

write-off the outstanding amount in 30 working days on receipt of the PFI's delinquency report. The PFIs were expected to undertake all reasonable efforts to ensure recovery of the loan amounts in default and share on pro rata basis any recoveries made after write-off. The introduction of the Public Finance Management (amended) Act 2015 resulted into a revision of the procedure for write off of loans under the ACF and this has lengthened the write-off process and contributed to making the ACF unattractive to some of the PFIs.

12 Way Forward

To improve access and use of the ACF, the following recommendations should be considered:

- i. Urgent recapitalization of the scheme to refinance projects in the pipeline and additional applications for refinancing.
- ii. Establish a flexible legal framework for the credit guarantee to enable speedy processing of loan write-offs by the PFIs.
- iii. Design a strategy for tier-4 institutions including licensed SACCOs and “Emyooga” to access medium and long term finance available under the ACF after addressing the issue of recapitalization.
- iv. De-risk the agricultural sector with agriculture insurance to encourage lending to agricultural value chains. There is need to link the Government’s Agriculture Insurance Scheme to access to agriculture credit by farmers.
- v. Provide for a holistic support mechanism dealing with the entire production and value chains from land rights, quality control, timely provision of inputs, information and extension services to post-harvest handling and market linkages.
- vi. Enhance capacity building and skilling in handling lending to agribusiness enterprises for staff of the PFIs focusing on value chain risk analysis, appraisal of agricultural loans, and loan management.
- vii. In liaison with strategic partners such as Enterprise Uganda, GIZ and FAO to improve the financial literacy of smallholder farmers especially in records management and business proposal writing.
- viii. The Covid-19 pandemic has brought to the fore the importance of digitalisation and the need to encourage farmers and other stakeholders in the agricultural value chains to adopt e-technology enhancements through which they can conduct their businesses and minimise losses in production and returns in a changing environment. Such measures include digital information access via virtual platforms, e-payment systems to reduce risks in lending, e-commerce platforms to increase access to a more diversified range of buyers and sellers, and a warehouse receipt system for quick access to investment capital.

13 Conclusion

The ACF continues to be one of the key drivers for the transformation of the agricultural sector. The success of the scheme is attributed to the critical Government intervention and private-sector impact funding, complemented by the oversight of the central bank to create a public-private partnership that is cost-efficient to facilitate the provision of the much needed medium to long-term financing for the agricultural sector. This is seen from the continued investment by the PFIs through the lending of up to **UGX 305.25 billion** of their funds under the scheme with the Government contributing **UGX 314.79 billion** to bring the total loans disbursed to **UGX 620.04 billion** as at June 30, 2021. In addition, the scheme's repayment rate is remarkable with a non-performing loan ratio of only 1.8 percent. This puts the ACF in a very unique position to be the best risk-sharing facility to transform the agricultural sector.

BoU pledges to continue to support this initiative through continuous engagement with the PFIs to increase lending under the ACF. In addition, as fund administrators, primarily responsible for the publicity of the scheme, BoU shall ensure continuous sensitisation on the farmers and public on the availability of affordable credit under the ACF.

Appendix 1 Salient Features of the ACF Scheme

13.1 The Role of BOU

The key role of BOU under the ACF is that of the administrator.

The responsibilities include:

- i. Review of the loan applications against the terms and conditions of the scheme in accordance with the MoA.
- ii. Disburse funds (refinance) to the PFIs in respect of the eligible projects.
- iii. Ensure timely collection of repayments from PFIs and a sound database on the lending activities.
- iv. Provide reports and other information to the stakeholders of the scheme.
- v. Ensure repayments of the GoU contribution from the PFIs, which are made on a half-yearly basis.
- vi. Create awareness of the ACF

13.2 Role of the PFIs

The PFIs are charged with:

- i. Sensitising the clients on the scheme since they are the first point of contact.
- ii. Appraising/analysing the projects to ascertain eligibility, viability, feasibility.
- iii. Managing collateral requirements.
- iv. Ensuring the recovery of the loans. The MoA governing the administration of the scheme place full responsibility of loan recovery on the PFIs.
- v. PFIs submit reports (on the performance of the projects) to BOU on quarterly basis.

13.3 Procedure of Accessing the Fund

All ACF loan applications are channelled through the PFIs. The PFIs analyse the loan requests as per their credit policy to ensure that only eligible projects are financed. The PFIs disburse their own funds to eligible projects and subsequently request for re-imburement of the GoU contribution from BOU.

13.4 Terms and Conditions of Sub-Loans

The terms and conditions of the scheme are stated in the Memorandum of Agreement (2018). Sub-loan amounts are determined based on assessment and appraisal of project viability and genuine credit needs of the clients in accordance with the lending policy of the respective PFIs. The loans under the ACF are denominated in Uganda shillings.

13.5 Loan Amount

The maximum loan amount to a single borrower is UGX 2.1 billion. However, this amount can be lifted on a case-by-case basis for eligible projects that add significant value to the agricultural sector and the economy as a whole, as may be determined by the BOU upon justification by the PFI.

13.6 Loan Term

The maximum loan period should not exceed eight (8) years and the minimum should be six (6) months.

13.7 Grace Period

The grace period is up to a maximum of three (3) years.

13.8 Interest Rate

The interest rate charged by the PFI to the final borrower under ACF I and III is capped at **10 percent** per annum, whereas for ACF II and IV interest rate is capped at **12 percent**. The PFIs are not required to pay interest on the GoU contribution reimbursed to them.

13.9 Facility Fees

Facility fees charged by PFIs to eligible borrowers should not exceed **0.5 percent** of the total loan amount. Legal documentation and registration costs are borne by the borrower.

13.10 Eligibility for Refinance/Sub Loans

13.10.1 Eligible Purposes

Eligible purposes include activities such as commercialisation, modernisation, mechanisation and value addition in the agricultural sector at any stage of the agricultural value chain.

13.10.2 Eligible Projects

Eligible projects include the acquisition of agricultural machinery and post-harvest handling equipment, storage facilities, agricultural inputs that include; pesticides and fertilizers, land opening, paddocking, biological assets that include; banana suckers, fruit seedlings, chicks, piglets, cows and goats for restocking the farm, agro processing facilities, and any other agricultural and agro-processing related activities.

Working capital required for operating expenses is considered provided this component does not exceed 20% of the total project cost for each eligible borrower. These will include among others; wages for hired farm labour, overhead costs like utilities and installation costs, and hiring of specialized machinery for farming activities. The maximum loan amount to an eligible borrower for biological assets shall not exceed **UGX 80 million**.

The scheme does not finance working capital for purchase of land, forestry, refinancing existing loan facilities and trading in agricultural commodities with the exception of grain.

13.11 Financing Grain trade

The scheme provides financing for working capital and infrastructure for projects engaged in grain trading.

The terms are as follows:

The maximum financeable amount to a single borrower is **UGX 10 billion** and the GoU contribution is 50 percent of the eligible amount for commercial banks, MDIs, CIs and UDBL. However, this amount can be lifted on a case-by-case basis for eligible projects that add significant value to the agricultural sector and the economy as a whole as may be determined by the BOU upon justification by the PFI.

The maximum tenure of a loan for working capital for an eligible project under the grain facility is twenty four (24) months from the date of disbursement to the borrower.

The maximum tenure of a loan for capital expenditure for an eligible project under the grain facility shall be eight (8) years from the date of disbursement to the borrower with a maximum grace period of three (3) years.

The applicable interest rate for loans advanced to finance working capital for grain trading under the scheme shall be a maximum of **15% per annum**.

The applicable interest rate for loans advanced to finance capital expenditure under the scheme shall be a maximum of **12% per annum**.