

**THE REPUBLIC OF UGANDA**  
**MEMORANDUM OF UNDERSTANDING**

THIS MEMORANDUM OF UNDERSTANDING (MOU) is made this...<sup>13<sup>th</sup></sup>...day of October 2009 by and among the GOVERNMENT OF UGANDA, represented by the MINISTRY OF FINANCE, PLANNING AND ECONOMIC DEVELOPMENT of P.O. Box 8147, Kampala ( hereinafter referred at as 'GOU/MOF');

AND

BANK OF UGANDA of P.O. Box 7120, Kampala (hereinafter referred to as 'the BoU');

AND

UGANDA BANKERS ASSOCIATION of P.O. Box...<sup>8002</sup>..., Kampala, acting on behalf of its participating members, the Commercial Banks regulated by Bank of Uganda (hereinafter referred to as the 'Commercial Banks' or 'PFIs')

AND

UGANDA DEVELOPMENT BANK LTD. of P.O. Box...<sup>7210</sup>...Kampala (hereinafter referred to as 'UDBL' or 'PFIs')

AND

LICENSED CREDIT INSTITUTIONS in Uganda listed in pages 8 and 11 hereof (hereinafter referred to as 'CIs' of 'PFIs')

AND

LICENSED Micro Finance Deposit-Taking Institutions in Uganda listed on pages 8 and 12 hereof (hereinafter referred to as 'MDIs' or 'PFIs')

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Hereinafter collectively referred to as the "Parties":

**NOW THEREFORE IT IS WITNESSETH AS FOLLOWS:**

**WHEREAS** the Government of Uganda (GOU) is desirous of setting up an Agriculture Credit Facility for the purpose of supporting agricultural expansion and modernization in partnership with Commercial Banks, Uganda Development Bank and other participating financial institutions (PFIs)[hereinafter referred to as "the Scheme"];

**AND WHEREAS** under this Scheme the GOU will make a contribution of UGX 30B/= (Uganda Shillings Thirty Billion Only) which shall be deposited on an Escrow Account to be held with BoU, the Fund Administrators, for use by Commercial Banks and other eligible PFIs for the said purpose of supporting agricultural expansion and modernization and PFIs will match the GoU contribution of UGX. 30 BN/= with an equivalent amount of UGX 30BN/= thereby creating a revolving pool of loanable funds amounting to UGX.60 BN/=in the first year;

**NOW, THEREFORE,** in consideration of the mutual covenants and subject to the terms and conditions hereinafter set forth, the Parties hereto agree as follows:

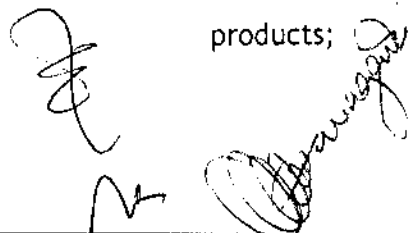
**1.0 DEFINITIONS AND ANNEXES**

For purposes of this MOU, except as is otherwise expressly provided or unless the context otherwise requires, the terms defined in this Article shall have the following meanings:

- (a) "Agriculture" means and includes anything to do with the cultivation of land, production of crops, raising of livestock, horticulture, fish farming, poultry farming/breeding and bee-keeping.
- (b) Agricultural Inputs" means and includes all substances and materials used in the production or handling of agricultural products;

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- (c) "Agro processing" refers to the processing of raw materials and intermediate products originating from crop and livestock production, fish farming, poultry breeding and bee-keeping;
- (d) "Credit facilities" shall include loan or lease facilities extended to Borrowers;
- (e) "Eligible Borrowers" shall include individuals, companies and other qualifying entities;
- (f) "Loan" - funds accessed by Commercial Banks and other eligible PFIs from BoU under this Scheme.
- (g) "Participating Financial Institutions (PFIs)" refers to all financial & credit institutions and MDIs regulated by the Bank of Uganda and Uganda Development Bank Ltd. [UDBL] that are eligible to participate in the Fund.
- (h) "Scheme" refers to the Agricultural Credit Facility to be provided by the GoU on the one part and PFIs on the other part, with GoU and the PFIs contributing equally to the capital value of the Scheme [of UGX.60 BN/=].

## 2.0 OPERATION OF THE FUND

### 2.1 Eligibility Criteria

- (i) All PFIs are deemed to be eligible participants of the Fund.
- (ii) The Scheme will be used primarily to provide medium and long term financing for projects engaged in Agriculture and Agro processing.
- (iii) Eligible projects will include agricultural machinery, post harvest handling equipment, storage, agro processing facilities and any other related agricultural and agro-processing, machinery and equipment. Agricultural inputs required for primary production will be considered provided this component does not exceed 10% of the total project cost for each eligible borrower.

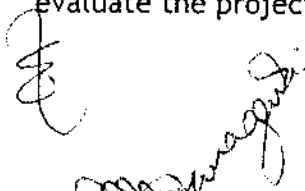
- (iv) Save for what is provided for in Clause 2.1(iii) above, the Scheme shall not be used for financing working capital for trading in agricultural commodities, purchase of land, forestry and refinancing existing loan facilities.
- (v) The interest rate chargeable by the PFIs shall not exceed 10% per annum.
- (vi) The primary security for the credit facilities shall be the machinery and equipment financed, where applicable, and other marketable securities provided by the borrower if required. PFIs may seek additional security based on their evaluation of the risk profile of the project being financed.
- (vii) Facility fees charged by PFIs to eligible borrowers will not exceed 0.5% of the credit facility amount. Legal documentation and registration costs will be borne by the borrower.

## 2.2 Scheme Establishment, Drawdown and PFIs obligations

- (i) The GOU will contribute 50% of the capital value of the loan through an Escrow Account held with the Fund Administrator.
- (ii) Upon commencement of the Scheme, all PFIs will have up to fifty (50) days within which to access the funds from the Fund Administrator, up to a maximum value of UGX 1.5 billion. Upon expiry of the fifty (50) days, accessibility to the balance of the Fund monies shall be limited to a maximum allocation to a single PFI of not more than 50% of the entire fund.
- (iii) After signing a loan agreement with an eligible borrower and disbursing credit to it under the Scheme, a PFI will be entitled to apply to the Fund Administrator for the 50% GoU contribution to the capital value of the loan disbursed to the borrower.

- (iv) The minimum re-financeable amount will be UGX 250M/= (Uganda Shillings Two Hundred Fifty Million Only) per application. If, after a period of six months, a PFI has booked loans under the Scheme that total less than UGX250M/=:, the PFI can claim re-financing for whatever total it has booked.
- (v) PFIs will avail to the Fund Administrator the relevant data on each project submitted for refinancing.
- (vi) The Fund Administrator will release GoU's contributory funds from the Escrow Account to the PFIs for eligible projects within 14 working days of receipt of request.
- (vii) PFIs will sign a certificate of drawdown for each GoU contribution which will automatically create a loan obligation/revolving facility ("Loans") of 8 (eight) years commencing on the date of reimbursement.
- (viii) The GoU loans to PFIs will be for a maximum period of 8(eight) years with a three (3) year grace period.
- (ix) Notwithstanding the tenure of GoU Loans to PFIs as provided for in Clause 2.2 (vi) above, the GoU loans to PFIs will be operated on a revolving basis for eligible projects only, with the maximum eight-year tenure being extended to new eligible borrowers. PFIs are required to notify the Fund Administrator of any eligible lending that exceeds the initial eight year term and shall reimburse the Fund Administrator for those funds that are not lent within twenty-one (21) days of the expiry of projects.
- (x) The Fund Administrator reserves the right to recall any funds disbursed from the Fund and not fully utilised by a PFIs over the Loan period. The Fund Administrator shall monitor and evaluate the projects after disbursements.

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- (xi) Loans to PFIs will be interest free so as to reduce the PFIs cost of funds and enabling lending to eligible borrowers at interest rates not exceeding 10% pa.
- (xii) Credit facilities to eligible borrowers will be provided up to a maximum of the Uganda Shillings equivalent of UGX 2.1 Billions only (Uganda Shillings Two Billion, One Hundred Millions Only) to any single borrower and his /her related parties.
- (xiii) Credit facilities to eligible borrowers will be extended for periods of a minimum of two (2) and a maximum of eight (8) years.
- (xiv) The interest rate chargeable by the PFIs shall not exceed 10% per annum.

### 2.3 Credit Appraisal and Provisioning

- (i) The PFIs will be responsible for the credit appraisal of eligible borrowers and will bear the credit risk of up to 50% of the principal amount plus the full accrued interest.
- (ii) In the event of default by an eligible borrower, the PFIs will make provisions for the non performing account (NPA) in accordance with the IFRS ,the Financial Institutions Act, No. 2 of 2004 requirements for commercial banks and the Micro Finance Deposit-Taking Institutions, No. 5 of 2003 for MDIs.
  - (a) Under IFRS, the GoU Escrow will provide 1<sup>st</sup> class security which will limit the profit and loss charge to a maximum of 50% of the outstanding principal loan amount.
  - (b) For NPAs outstanding over 12 months, provisioning will be as per the Financial Institutions Act, 2004 for commercial banks and the Micro Finance Deposit-Taking Institutions Act, No. 5 of 2003 for MDIs.

- (iii) In the event of default by an eligible borrower under the Scheme, the total outstanding loan will become immediately due and repayable, and the PFIs will make a demand upon the defaulting borrower for full payment of all amounts due and owing. The PFIs shall undertake all reasonable efforts to ensure recovery of the loan in default, which efforts should be no less rigorous than the PFI would undertake to recover a loan not enjoying a partial contribution from GoU.
- (iv) Claims for the amounts to be charged against the GoU Escrow Account in the event of a default shall be by way of a letter from the PFIs to Fund Administrator detailing the position of each borrower and the amounts to be offset from the revolving/loan facility.
- (v) BOU shall within thirty working (30) days of receipt of the PFIs delinquency report acknowledge the claim and confirm in writing the amount of the GoU Escrow to be charged.
- (vi) Should the PFIs subsequently receive or recover any funds owed by the Defaulting Borrower, it shall deduct actual reasonable costs incurred during the recovery process and thereafter make reimbursements to the GoU Escrow Account from the available balance on a pro rata basis.

#### 2.4 Reporting and documentation

- (i) PFIs shall be required to submit to BoU quarterly reports indicating loan disbursements, loans outstanding, and provisions.
- (ii) The Fund Administrator shall advise the PFIs of their respective outstanding balances/commitments every month and the PFIs will equally be required to provide their actual commitments on a monthly basis.

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~~(iii) The Fund Administrator shall prepare standard credit agreements to be executed between itself, GoU and each PFI.~~

## 2.5 Correspondences

The following officials shall be responsible for the day to day administration of the MOU. All communication to or from the parties will be addressed to or from the following officials:

- (i) On behalf of the Ministry of Finance, Planning and Economic Development: Deputy Permanent Secretary;
- (ii) On behalf of the Bank of Uganda: Executive Director, Supervision;
- (iii) On behalf of the Uganda Bankers Association: Chairman, UBA'
- (iv) On behalf of the Uganda Development Bank Ltd. : MD, UDBL
- (v) On behalf of the 4 licenced Credit Institutions :
  - (a) the Managing Director, PostBank (U)
  - (b) the Managing Director, Mercantile Credit Bank
  - (c) the Managing Director, Capital Finance Corporation
  - (d) the MD, Faulu Uganda Ltd.
- (vi) On behalf of the 3 licensed MDIs: (a) MD, Finca Uganda
  - (b) MD, Pride Micro Finance Ltd.
  - (c) MD, Uganda Finance Trust Ltd

## 2.6 Annual Review

The operation of the Scheme shall be reviewed annually by the Parties hereunder.

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[Signature 2]  
[Signature 3]

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~~3.0~~ The Parties undertake to act in good faith with respect to each other's rights under the MOU, and to adopt all reasonable measures to ensure the realization of the goals and objectives of this MOU.

4.0 The PFIs shall jointly agree with BoU as to how the Scheme will be marketed.

W 5.0 This MOU shall endure for a period of eight (8) years from the date of execution and shall be terminated by either party giving the other three (3) <sup>Months</sup> notice in writing.

6.0 This MOU shall not be amended, supplemented and/or varied without prior agreement between the parties.

7.0 Any provision in this MOU, which is or may become illegal, invalid or unenforceable shall be treated as such and severed from the balance of the MOU without invalidating the remaining provisions of this MOU or affecting the validity or enforceability of such remaining clauses.

8.0 Any dispute, controversy or claim arising hereunder would be resolved mutually between the parties, failing which recourse would be had to the laws of Uganda.

IN WITNESS WHEREOF, the duly authorized representatives of the Parties hereto have appended their signatures the day, month and year first above written.

  
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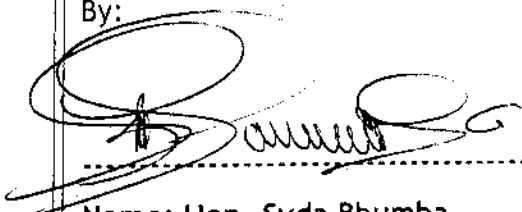






SIGNED for and on behalf of  
The Government of Uganda/Ministry of Finance,  
Planning and Economic Development

By:



Name: Hon. Syda Bumba  
Title: Minister of Finance

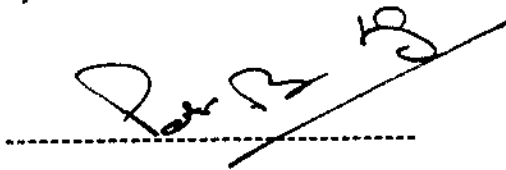
Permanent Secretary/  
Secretary to the Treasury  
MINISTRY OF FINANCE, PLANNING  
AND ECONOMIC DEVELOPMENT



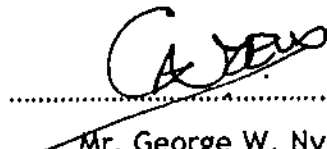
Name: C. M. KASSAM  
Title: PERS

Signed for and on Behalf of  
BANK OF UGANDA

By:



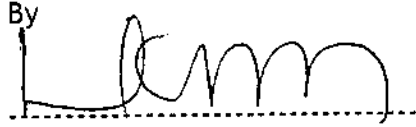
Name: Mr. Patrick Byabakama-Kaberenge  
Title: AG. DEPUTY GOVERNOR



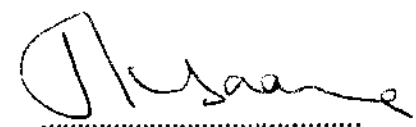
Mr. George W. Nyeko  
Title: AG. BANK SECRETARY

Signed for and on Behalf of  
UGANDA BANKERS ASSOCIATION

By



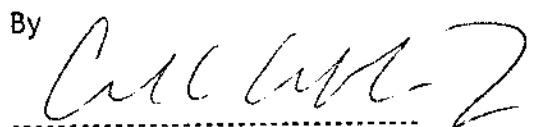
Name: LAMIN MANJANS  
Title: MANAGING DIRECTOR, SCB  
CHAIRMAN, UBA



Name: Juma Kisaame  
Title: MD - DFU

Signed for and on Behalf of  
UGANDA DEVELOPMENT BANK LTD.

By



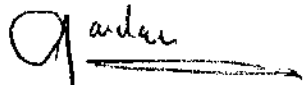
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Signed for and on Behalf of  
CAPITAL FINANCE CORPORATION LTD.(CFC)

By

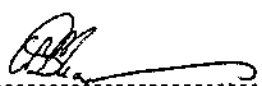


Name: G. H. Dnyanani  
Title M.D.

Name:  
Title

Signed for and on Behalf of  
FAULU UGANDA LTD.

By

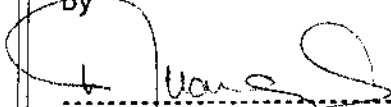


Name: Anwar Masry  
Title C.E.O.

Name:  
Title

Signed for and on Behalf of  
MERCANTILE CREDIT BANK LTD.

By

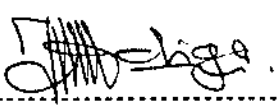


Name: Samuel Karamukya Lebinga  
Title M.D.

Name:  
Title

Signed for and on Behalf of  
POSTBANK UGANDA LTD.

By



Name: Adiga Jimmy  
Title Head of Credit

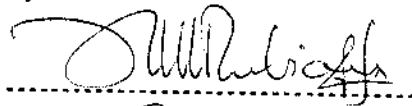
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Title

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Signed for and on Behalf of  
FINCA UGANDA LTD. (MDI).

By

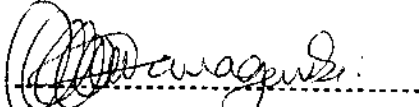


Name: FABIAN KASI  
Title CHIEF EXECUTIVE OFFICER

Name:  
Title

Signed for and on Behalf of  
PRIDE MICROFINANCE LTD. (MDI)

By

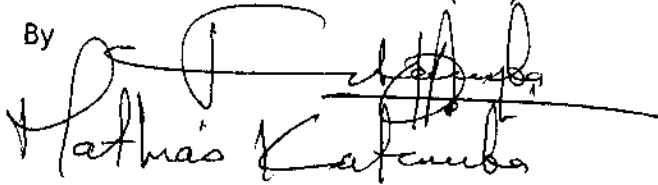


Name: VERONICA G. NAMASEEMBA  
Title MANAGING DIRECTOR

Name:  
Title

Signed for and on Behalf of  
UGANDA FINANCE TRUST LTD. (MDI)

By

  
Mathias Katumba

Name: Chief Executive  
Title Officer



Name: KATIKAME ROBERT  
Title HEAD, FINANCE & ADMIN

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