



## **THE AGRICULTURAL CREDIT FACILITY**

### **Quarterly Progress Report - March 31, 2024**



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## Appendix 4 Abbreviations

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ACF	Agricultural Credit Facility
BOU	Bank of Uganda
BMAU	Budget Monitoring and Accountability Unit [BMAU]
UDBL	Uganda Development Bank Limited
CI	Credit Institutions
NPL	Non Performing Loans
FIA	Financial Institutions Act 2004, Amendments and Regulations
GIZ	Gesellschaft für Internationale Zusammenarbeit
GoU	Government of Uganda
UBOS	Uganda Bureau of Standards
MDIs	Micro Deposit-Taking Institutions
MoA	Memorandum of Agreement
MoFPED	Ministry of Finance Planning and Economic Development
PFI	Participating Financial Institutions
PFMA	Public Finance Management Act
WFP	World Food Program
SMEs	Small and Medium Enterprises
MSME	Micro Small and Medium Enterprises
TV	Television
UGX	Uganda Shillings

## 1 Executive Summary

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The Agricultural Credit Facility (ACF) continues to demonstrate that it is the best public-private partnership through its risk-sharing model where Government is able to leverage public sector resources to extend affordable credit to farmers and agro-processors. Since 2010 when the ACF became operational, the Scheme has registered significant growth of the loan book from UGX 21.02 billion to **UGX 872.51 billion** in cumulative total disbursements as at March 31, 2024, extended to 3,962 eligible beneficiaries across the country. The Government of Uganda (GoU) contribution accounts for **UGX 441.36 billion** which has been matched with **UGX 431.15 billion** contributed by the Participating Financial Institutions (PFIs).

The ACF plays a critical role in providing medium to long-term financing towards private sector investments and projects engaged in primary agricultural production, agro-processing and value addition to raw agricultural outputs, post-harvest management, the Grain trade, commercialisation and modernisation of agriculture. This in turn results in increased capacity for job creation, increase in household income, and boosting export promotion. Most of the financing went to working capital for grain trade and on-farm activities, utilising 39 per cent and 32 per cent respectively. Agro-processing and post-harvest handling utilised 19 per cent and 10 per cent respectively. Access to finance by Small and Medium Sized Enterprises has significantly increased with **92 per cent** of the funded projects under the scheme, comprising micro, small and medium-sized enterprises (MSMEs) which constitute the majority of the agriculture sector in Uganda.

During the quarter ended March 31, 2024, loans amounting to **UGX 15.11 billion**, with a corresponding GoU contribution of **UGX 7.56 billion**, were processed and approved by Bank of Uganda (BoU) in respect of 76 beneficiaries under ACF. Of these, disbursements amounting to **UGX 13.12 billion** were made with a corresponding GoU contribution of **UGX 6.56 billion**.

As Fund Administrator, BoU plays a critical role in ensuring that the PFIs conduct adequate due diligence before disbursing loans under the ACF. This has resulted in a notable loan recovery rate with a cumulative total of **UGX 315.16 billion** repaid by the PFIs as at March 31, 2024. This represents 71.4 per cent of the GoU contribution refinanced to the PFIs. The recoveries are ploughed back and used for on-lending to other eligible projects.

The non-performing loans stood at UGX 5.1 billion with a non-performing asset (NPA) ratio of 1.2 per cent of the GoU contribution disbursed.

The increasing demand for ACF loans is reflected in the pipeline (loan applications under review) at BoU amounting to **UGX 279.12 billion** with the corresponding GoU contribution of **UGX 139.56 billion**.

## 2 Scheme Funding

By March 31, 2024, GoU had cumulatively remitted a total of **UGX 308.43 billion** to the scheme's Escrow Account held at BoU out of which **UGX 300.38 billion** was transferred to the ACF capital account for refinancing the PFIs, while UGX 3.05 billion was allocated for marketing and payment of audit fees. The balance of UGX 5 billion on the Escrow account, was remitted to BoU in February 2024 and this will be transferred to the ACF capital account to cater for the refinance requests from the PFIs.

The capitalisation of UGX 300.38 billion together with the reflows (repayments from PFIs) of **UGX 315.16 billion** have enabled cumulative lending of up to **UGX 441.36 billion** as GoU contribution. As at March 31, 2024, the facility had a fund balance of **UGX 174.17 billion** and this, together with the balance of UGX 5 billion on the Escrow account, is expected to cover the commitments (loans approved but not yet disbursed) amounting to **UGX 6.09 billion** as well as pipeline projects still under review as at March 31, 2024, whose GoU contribution amounts to **UGX 139.56 billion**. Table 1 below shows the GoU remittances to BoU as at March 31, 2024.

Table 1: GoU Cumulative funding to the ACF

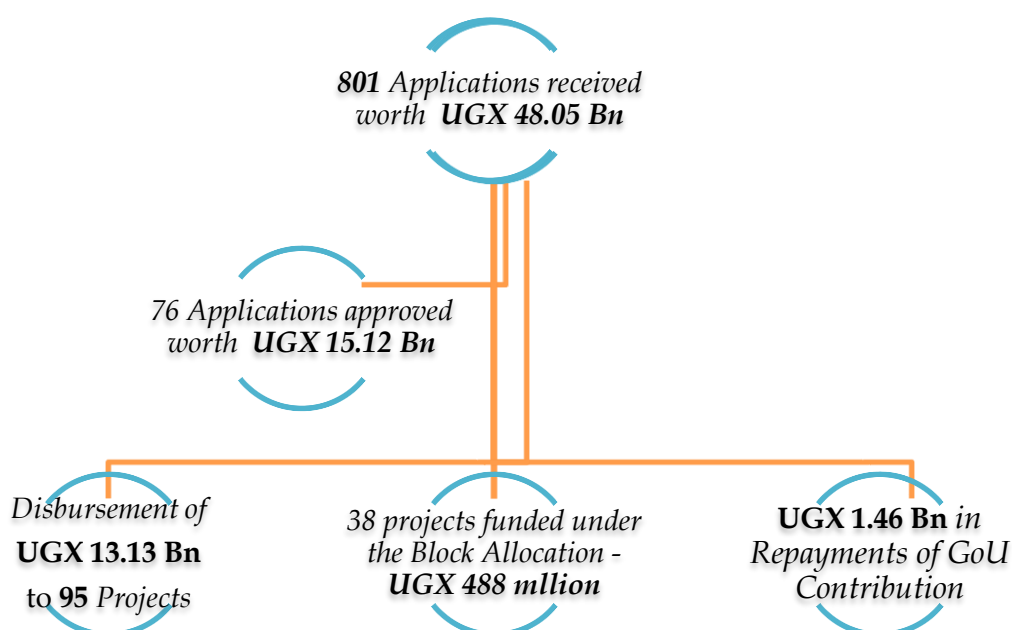
<i>Financial Year</i>	<i>Amount Remitted to BoU Escrow A/C</i>	<i>Transfer to ACF Capital A/C</i>	<i>Transfer to Operations A/C (for publicity)</i>	<i>Balance on Escrow A/C</i>
2009/2010	20,599,434,400	20,599,434,400	-	-
2010/2011	19,964,478,648	7,905,978,648	-	12,058,500,000
2011/2012	7,500,000,000	19,558,500,000	-	-
2012/2013	15,000,000,000	15,000,000,000	-	-
2013/2014	30,000,000,000	-	-	30,000,000,000
2014/2015	26,000,000,000	30,000,000,000	-	26,000,000,000
2015/2016	50,586,800	-	50,586,800	26,000,000,000
2016/2017	22,000,000,000	-	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	-	-	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	-
2021/2022	38,100,000,000	38,100,000,000	0	-
2022/2023	49,750,000,000	42,500,000,000	1,250,000,000	6,000,000,000
2023/2024	30,000,000,000	31,000,000,000	-	<b>5,000,000,000</b>
<b>TOTAL</b>	<b>308,427,951,548</b>	<b>300,377,364,748</b>	<b>3,050,586,800</b>	<b>5,000,000,000</b>

### 3 Performance during the quarter ended March 31, 2024

During the quarter ended March 31, 2024, **801 new** loan applications worth UGX 48.05 billion were received by BoU from PFIs. There was however a notable decline in the value of loan applications received by UGX 131.34 billion and this is attributed to the fact that most of the applications received in the previous quarter were for grain trade with large loan amounts while the applications received in the quarter ended March 31, 2024, were from MSMEs constituting 91 per cent of the total number of applications received. A total of **UGX 15.12 billion** worth of applications were processed and approved during the quarter ended March 31, 2024, of which the GoU contribution accounted for UGX 7.56 billion. In the same quarter, disbursements totalling **UGX 13.13 billion** were made to **95** beneficiaries, of which 38 beneficiaries accounting for **40 per cent** belonged to micro borrowers under Block Allocation with micro-loans amounting to UGX 488 million.

Loan recoveries from PFIs are made in June and December, however, during the quarter ended March 31, 2024, **UGX 1.46 billion** was recovered from the PFIs as settlement of loan arrears that had not been paid on December 31, 2023. The total outstanding loans due from the PFIs (GoU contribution) stood at **UGX 126.20 billion**, accounting for 29 per cent of the loans refinanced to the PFIs as at March 31, 2024. This implies that 71 per cent of the loans disbursed to the PFIs have been repaid, pointing to a remarkable loan recovery rate. The Non-Performing Loans remained at UGX 5.12 billion with a NPA ratio of 1.2 per cent. Figure 1 presents a summary of the ACF performance for the quarter ended March 31, 2024.

Figure 1: Summary of ACF Performance during the quarter ended March 31, 2024





#### 4 ACF cumulative performance since inception (Total loan disbursements- GoU & PFI contribution)

Cumulatively, BoU has received **6,201** loan applications from 24 PFIs with a total value of **UGX 1.52 trillion**. Of these, **3,962** applications worth **UGX 872.51 billion** were processed and disbursed representing **64 per cent** of the total number of applications received at BoU as at March 31, 2024.

Table 2: Cumulative disbursements per year and the proportion of GoU contribution disbursed.

PFI	No. of applications received	Value of Applications received (UGX)	No. of loans disbursed (UGX)	Cumulative value of disbursements (UGX)	PFI Contribution (UGX)	GoU Contribution (UGX)
<i>Opportunity Bank (U)Ltd</i>	1,698	25,832,583,600	698	18,635,121,600	8,542,304,800	10,092,816,800
<i>Postbank (U) Ltd</i>	1,330	136,420,343,234	882	75,547,243,234	32,352,839,617	43,194,403,617
<i>Equity Bank (U) Ltd</i>	1,247	122,142,370,347	1,137	54,193,190,100	27,096,595,050	27,096,595,050
<i>DFCU</i>	697	210,846,683,752	465	191,077,433,355	95,827,787,782	95,249,645,573
<i>Centenary Bank</i>	626	67,410,851,688	318	46,424,530,480	23,307,769,914	23,116,760,566
<i>Stanbic Bank(U)Ltd</i>	181	491,951,681,271	142	192,521,659,107	96,709,044,192	95,812,614,915
<i>Housing Finance Bank Ltd</i>	128	25,331,706,565	120	24,260,330,566	12,130,165,283	12,130,165,283
<i>UDBL</i>	57	87,466,877,538	46	73,662,547,191	36,855,321,596	36,807,225,596
<i>Finance Trust Bank Ltd</i>	43	14,711,773,025	30	9,640,500,000	4,820,250,000	4,820,250,000
<i>Pride Micro Finance</i>	40	1,178,500,000	31	1,018,500,000	390,550,000	627,950,000
<i>Bank of Baroda(U) Ltd</i>	35	110,323,016,446	23	74,771,016,444	37,385,508,221	37,385,508,222
<i>Absa Bank (U)Ltd</i>	34	110,748,846,444	24	62,010,890,132	31,005,445,066	31,005,445,066
<i>Bank of Africa(U)Ltd</i>	23	20,890,939,000	14	10,975,000,000	5,487,500,000	5,487,500,000
<i>Tropical Bank (U)Ltd</i>	22	24,726,000,000	13	19,140,000,000	9,570,000,000	9,570,000,000
<i>KCB Bank(U)Ltd</i>	9	11,380,540,000	6	5,180,540,000	2,673,770,000	2,506,770,000
<i>Diamond Trust Bank</i>	9	16,968,000,000	3	3,300,000,000	1,650,000,000	1,650,000,000
<i>Crane Bank Ltd**</i>	6	19,565,000,000	2	2,080,000,000	1,040,000,000	1,040,000,000
<i>Gold Trust Bank**</i>	3	175,000,000	1	30,000,000	15,000,000	15,000,000
<i>Mercantile Bank Ltd</i>	3	1,170,000,000	0	0	0	0
<i>Standard Chartered Bank</i>	2	5,000,000,000	2	5,000,000,000	2,500,000,000	2,500,000,000
<i>Orient Bank(I&amp;M)</i>	2	5,500,000,000	2	2,600,000,000	1,650,700,000	949,300,000
<i>Top Finance Bank</i>	2	400,000,000	2	400,000,000	120,000,000	280,000,000
<i>IBUL**</i>	2	5,410,000,000	0	0	0	0
<i>YAKO Bank</i>	2	155,200,000	1	42,000,000	21,000,000	21,000,000
<b>TOTAL</b>	<b>6,201</b>	<b>1,515,705,912,910</b>	<b>3,962</b>	<b>872,510,502,209</b>	<b>431,151,551,521</b>	<b>441,358,950,688</b>

Source: Bank of Uganda \*\* closed banks

From Table 2 above, Opportunity Bank (U) Ltd, Postbank (U) Ltd and Equity Bank (U) Ltd dominated uptake in terms of the number of beneficiaries who have accessed funding with 1,698 beneficiaries from Opportunity Bank (U) Ltd, 1,330 from Postbank, and 1,247 from Equity bank (U) Ltd. These banks largely serve MSMEs whose financing requirements require small-value loans mainly for agro-inputs and farm improvements. This is demonstrated by the majority of the beneficiaries under Block Allocation who have accessed funding through these banks.

On the other hand, Stanbic Bank (U) Ltd and DFCU Bank Ltd, have more uptake in terms of the value of loans disbursed, utilising **UGX 491,95 billion** and **UGX 210.85 billion** respectively. These banks mainly focus on large-scale borrowers engaged in agro-processing and grain trade which require large sums of money.

### **5.1 Due from PFIs.**

Given that ACF is a risk-sharing scheme, GoU contributes 50 per cent of the loans submitted through commercial banks and UDBL and 70 per cent of loans submitted through MDIs and CIs. The PFIs are expected to repay BoU only the principal as per the provisions of the MoA (2018). PFIs are required to remit funds recovered from borrowers bi-annually (June and December). Since ACF is a revolving scheme, recoveries are used to fund new loan requests from other eligible borrowers. Out of the total GoU contribution of UGX 441.36 billion disbursed to the PFIs as at March 31, 2024, BoU has made cumulative recoveries totalling UGX 315.16 billion representing 71 per cent of the total GoU contribution of the loans disbursed. The outstanding balance with the PFIs stood at UGX 126.20 billion by March 31, 2024. The good recovery rate is attributed to the oversight role played by BoU in ensuring that PFIs undertake proper due diligence of the funded projects to ensure compliance with the MoA.

Table 3 below indicates the portfolio outstanding with the PFIs as at March 31, 2024

Table 3: Outstanding GoU contribution with the PFIs as at March 31, 2024

PFI	CUMULATIVE AMOUNT DISBURSED (UGX)	CUMULATIVE REPAYMENTS (UGX)	OUTSTANDING BALANCES (GoU) (UGX)
<i>Stanbic</i>	95,812,614,915	90,771,596,325	5,041,018,590
<i>DFCU</i>	95,249,645,573	69,120,430,926	26,129,214,647
<i>Post Bank</i>	43,194,403,617	27,958,393,658	15,236,009,959
<i>Bank of Baroda</i>	37,385,508,222	24,714,816,854	12,670,691,368
<i>UDBL</i>	36,807,225,597	28,098,874,208	8,708,351,389
<i>Absa</i>	31,005,445,066	5,640,645,602	25,364,799,464
<i>Equity</i>	27,096,595,050	16,852,952,122	10,243,642,928
<i>Centenary</i>	23,116,760,566	13,493,168,857	9,623,591,709
<i>Housing Finance</i>	12,130,165,283	7,902,858,336	4,227,306,947
<i>Opportunity</i>	10,092,816,800	8,159,429,559	1,933,387,241
<i>Tropical</i>	9,570,000,000	7,726,136,366	1,843,863,634
<i>Bank of Africa</i>	5,487,500,000	5,072,500,000	415,000,000
<i>Finance Trust</i>	4,820,250,000	1,440,712,138	3,379,537,862
<i>KCB</i>	2,506,770,000	1,449,501,429	1,057,268,571
<i>Standard Chartered</i>	2,500,000,000	2,500,000,000	0
<i>DTB</i>	1,650,000,000	1,650,000,000	0
<i>Crane</i>	1,040,000,000	1,040,000,000	0
<i>Orient</i>	949,300,000	949,300,000	0
<i>Pride Microfinance</i>	627,950,000	323,750,000	304,200,000
<i>Top Finance</i>	280,000,000	275,602,573	4,397,427
<i>YaKO Bank</i>	21,000,000	0	21,000,000
<i>Global Trust</i>	15,000,000	15,000,000	0
<b>Total</b>	<b>441,358,950,689</b>	<b>315,155,668,953</b>	<b>126,203,281,736</b>

Source: Bank of Uganda

## 5 Uptake by loan size and scheme utilisation

The ACF continues to support various agricultural value chains while enhancing financial inclusion by enabling access to finance by small-holder farmers and agribusinesses. The amendments in the ACF-MoA to bring on board financing primary production where farmers can access financing for agro-inputs, as well as the introduction of the Block Allocation model under the ACF, opened up access to finance by smallholder farmers. The number of MSMEs that have accessed ACF funds has significantly increased with 3,183 MSMEs ( 80%) out of the total 3,962 ACF beneficiaries, having accessed financing by March 31, 2024. The loan amounts under this category ranged between UGX 10 million and UGX 100 million including the unsecured loans for the micro borrowers under the Block Allocation arrangement where a total of **UGX 15.76 billion** has so far been extended to **2,432** individual small-holder farmers. Table 4 below provides the categorisation of loans disbursed.

Table 4: Categorization of Loans by Size as at March 31, 2024

<i>Grouping by Amount</i>	<i>Amount</i>	<i>GoU Contribution</i>	<i>Number of projects</i>	
	<b>(UGX)</b>	<b>(UGX)</b>		
<i>0-20,000,000*</i>	15,875,858,537	8,512,129,269	2,439	} 3,183 (80%)
<i>20,000,001-50,000,000</i>	10,790,035,618	5,796,371,009	266	
<i>50,000,001-100,000,000</i>	38,805,481,999	20,781,779,552	478	
<i>100,000,001-300,000,000</i>	82,189,389,739	42,960,442,339	446	} 780 (20%)
<i>300,000,001-above</i>	724,849,736,315	363,308,228,518	334	
<b>Total</b>	<b>872,510,502,208</b>	<b>441,358,950,687</b>	<b>3,962</b>	

Source: Bank of Uganda\* Includes borrowers under the Block Allocation

## 6 ACF's contribution to Agro-industrialisation

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ACF is aligned with the Agro-Industrialization goal under the National Development Plan III. Some of the objectives of Agro-industrialisation include; increasing agricultural production and productivity, improving post-harvest handling and storage, improving agro-processing and value addition, and increasing market access and competitiveness of agricultural products in domestic and international markets. In support of these objectives, ACF, through extending affordable financing, has financed several value chains in the following areas;

### 6.1 Financing on-farm activities and agricultural mechanisation

ACF has supported the Government's objective of transforming the agriculture sector through agriculture mechanization and modernisation to increase production and food security. This was achieved by providing affordable credit to farmers for acquisition of agricultural machinery and equipment as well as farm infrastructure and improved breeds for better farm yields. Cumulatively, **UGX 277.80 billion** was extended to **3,443** beneficiaries for the acquisition of agricultural machinery and equipment as well as purchase of agro-inputs like fertilisers, improved seedlings, and improved animal breeds. Financing on-farm activities accounted for 32 per cent of the total disbursements under the ACF as at March 31, 2024 and was the second highest funded activity but with the most beneficiaries, at 87 per cent of the total number of beneficiaries.

### 6.2 Financing agro-processing and value addition

Value addition /agro-processing is one of the key result areas of the ACF and it constitutes the third highest financed activity under the ACF after grain trade and on-farm activities. As at March 31, 2024, 113 projects engaged in value addition and agro-processing had received financing of up to **UGX 163.77 billion**, accounting for 19 per cent of total financing under the scheme. The value chains financed under agro-processing include dairy, tea, sugar, coffee, cotton, Seed oil, grain processing and beef processing.

### 6.3 Financing post-harvest handling

Post-harvest handling plays a critical role in ensuring that post-harvest losses are minimised through proper handling and storage. Most agricultural produce and products are highly perishable and therefore susceptible to spoilage and spillage due to poor handling practices. ACF has contributed in minimising post-harvest losses by providing financing to farmers and large-off-takers to set up facilities such as silos and warehouses, acquisition of cold storage facilities and refrigeration equipment for handling and preserving perishable produce and other products like dairy, floriculture and aquaculture. As at March 31, 2024, **UGX 89.03 billion** had been lent to 99

beneficiaries to set up post-harvest handling facilities.

#### 6.4 Financing working capital for grain trade.

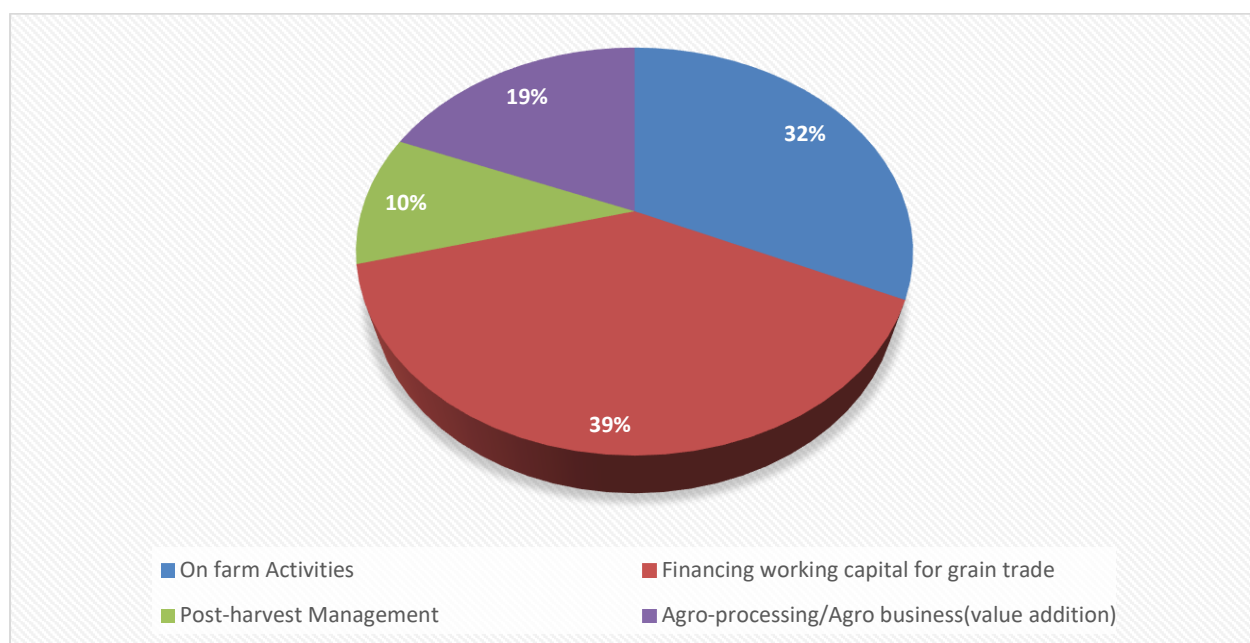
Grain trade under the ACF was introduced from a need to facilitate the grain traders and off-takers to be able to mop up the excess grain from the farmers and provide competitive prices and market to the grain farmers. This component which was introduced in 2015 under the ACF is the highest funded activity under the ACF, utilising **UGX 341.90 billion** with a total of 307 grain traders and off-takers funded as at March 31, 2024. Table 5 below highlights the areas funded under the ACF as at March 31, 2024.

Table 5: Funding grouped by areas financed (Projects disbursed by the end of March 31, 2024)

<i>FUNDED ACTIVITY</i>	<i>No. OF PROJECTS</i>	<i>TOTAL LOAN AMOUNT (UGX)</i>	<i>GOU CONTRIBUTION (UGX)</i>	<i>PFI CONTRIBUTION (UGX)</i>	<i>PERCENTAGE OF LOAN AMOUNT UTILISED</i>
<i>Financing working capital for grain trade</i>	307	341,901,652,612	170,958,826,306	170,942,826,306	39%
<i>On-farm Activities</i>	3,443	277,799,637,189	143,732,401,507	134,067,235,682	32%
<i>Agro-processing (value addition)</i>	113	163,774,719,902	81,875,657,420	81,899,062,482	19%
<i>Post-harvest Management</i>	99	89,034,492,505	44,792,065,454	44,242,427,051	10%
<b>TOTAL</b>	<b>3,962</b>	<b>872,510,502,208</b>	<b>441,358,950,687</b>	<b>431,151,551,521</b>	<b>100%</b>

Source: Bank of Uganda

Figure 2: Areas funded as at March 31, 2024 (Funded activities)



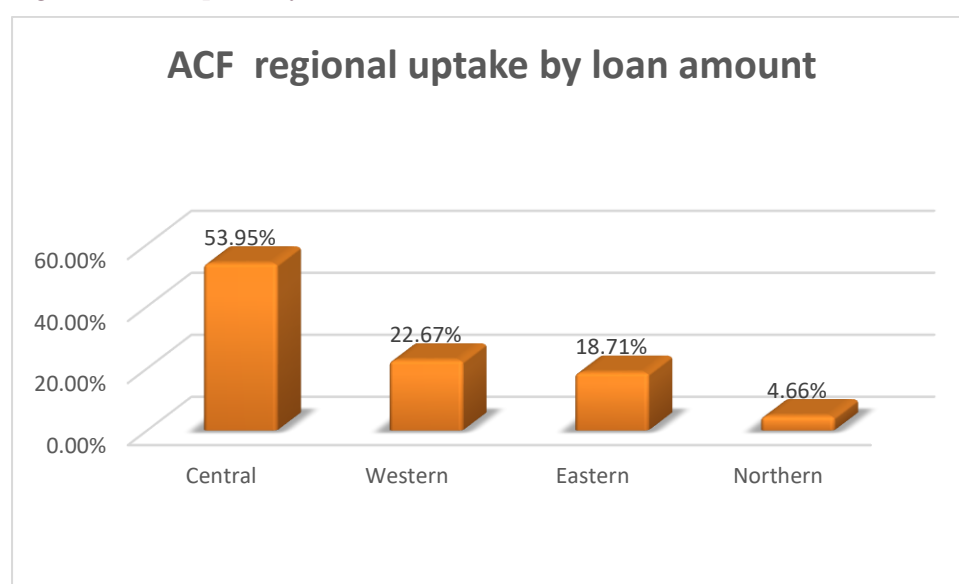
Source: Bank of Uganda

## 7 Uptake by region, gender and smallholder farmers under Block Allocation

### 7.1. Regional uptake

The central and western regions still dominated uptake, utilising 53.9 per cent and 22.7 per cent of the value of loans disbursed respectively. The eastern region utilised 18.7 per cent and the beneficiaries in this region are mainly grain traders and sugar processing industries. While the northern region has absorbed the least amount of loans under ACF at only 4.7 per cent, the number of beneficiaries account for 20 per cent and these are mainly smallholder farmers under the Block Allocation model.

Figure 3: ACF uptake by loan amounts at March 31, 2024



Source: Bank of Uganda

Table 6: Regional distribution of the ACF funds as at March 31, 2024

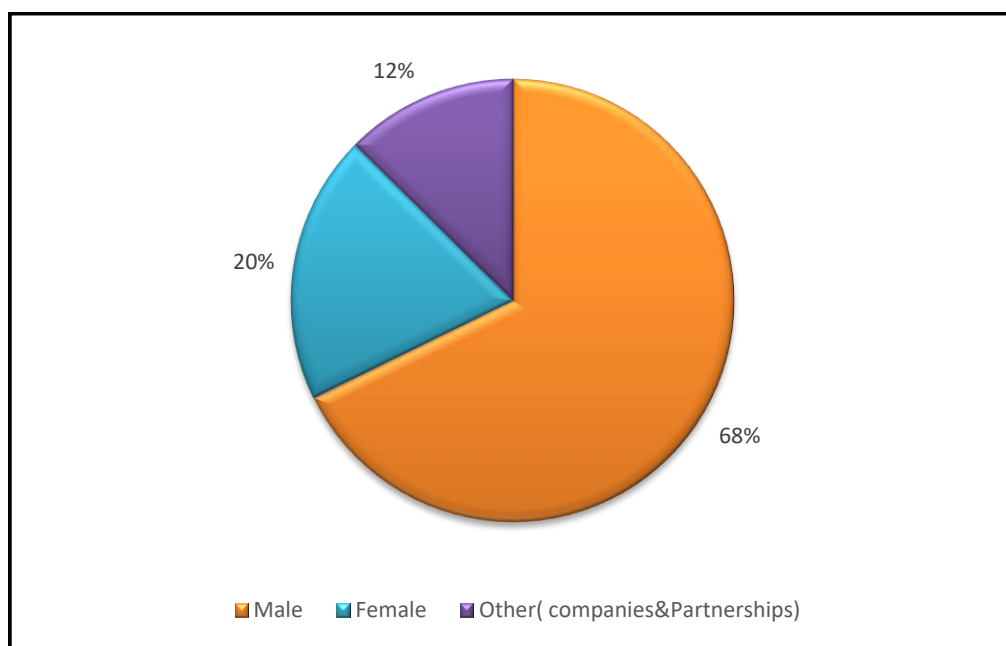
<i>Region</i>	<i>Total Loan Amount</i>	<i>No. of beneficiaries</i>	<i>PFI Contribution</i>	<i>GOU Contribution</i>	<i>% uptake of loans per region</i>
<i>Central</i>	470,744,928,823	1,249	234,649,986,264	236,094,942,560	53.9%
<i>Western</i>	197,830,586,069	1,573	95,206,439,424	102,624,146,645	22.7%
<i>Eastern</i>	163,255,482,529	337	81,385,453,440	81,870,029,089	18.7%
<i>Northern</i>	40,679,504,787	803	19,909,672,393	20,769,832,394	4.7%
<b>Total</b>	<b>872,510,502,208</b>	<b>3,962</b>	<b>431,151,551,521</b>	<b>441,358,950,688</b>	<b>100.00%</b>

Source: Bank of Uganda

## 7.2 Gender distribution under the ACF

In terms of gender utilisation of ACF funds, the male gender continued to dominate uptake with 2,684 beneficiaries, representing 68 per cent of the total number of beneficiaries under the ACF. On the other hand, 779 female borrowers had received funding under the ACF accounting for 20 per cent of the total beneficiaries while 492 companies and farmer groups constituted 12 per cent. The biggest portion of the funds (UGX 699.11 billion) was disbursed to companies and farmer groups while the males utilised the second highest amount with an uptake of UGX 154.42 billion. Although utilisation by women is still low with only UGX 18.98 billion disbursed to women beneficiaries, ACF has the potential to enhance gender inclusion with the growing number of females especially under Block Allocation which caters for the needs of this category of farmers that mostly lack the registered collateral to secure loans. Figure 4 below shows the gender distribution under ACF as at March 31, 2024.

Figure 4: ACF gender uptake as at March 31, 2024



Source: Bank of Uganda

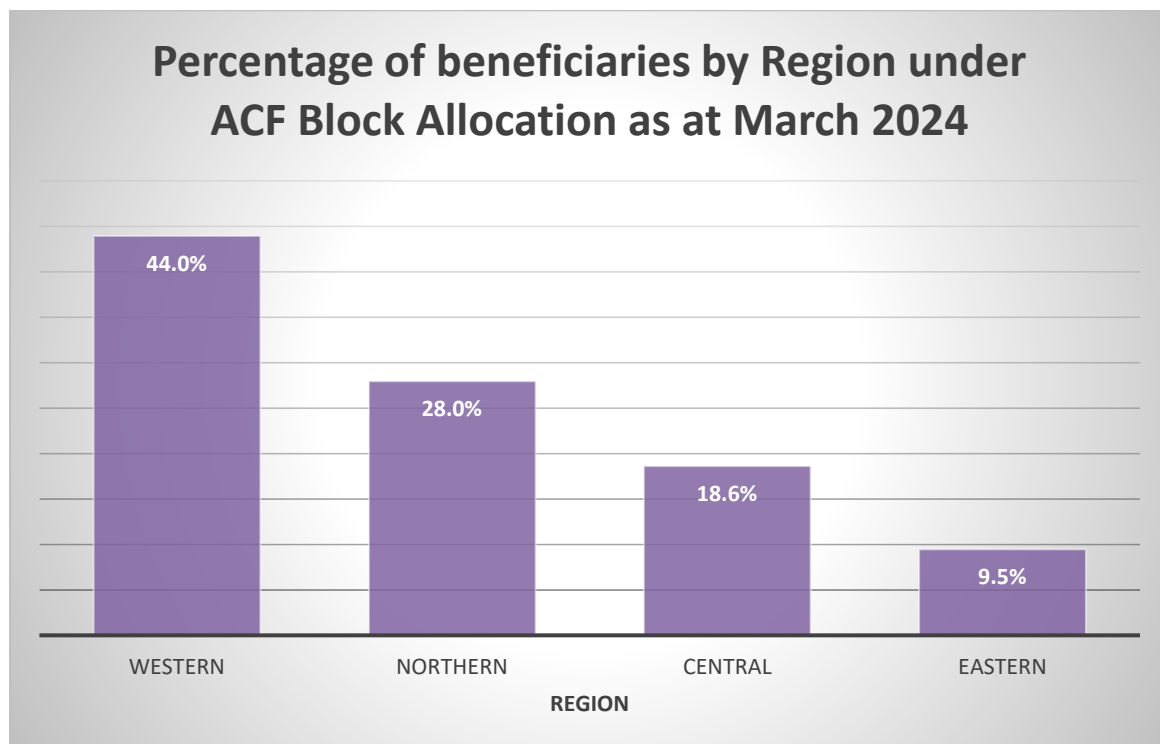
## 7.3 Enhancing access to finance under the Block Allocation arrangement

The Block Allocation model continues to enhance financial inclusion by enabling access to finance by smallholder farmers including women who do not meet the conventional financing requirements such as land titles or other marketable securities to pledge as collateral to access finance. Under this arrangement, unsecured loans of up to UGX 20 million are extended to smallholder farmers using non-traditional collateral requirements such as borrower's credit history, cashflows, group guarantees and chattel mortgages. Under this innovation, a total of 2,432



rural farmers representing 61 per cent of the total number of beneficiaries under ACF, have received funding of up to **UGX 15.76 billion** to be able to access agricultural inputs and improve their farm output. The western and northern regions had the highest number of beneficiaries under Block Allocation with 1,069 and 680 beneficiaries respectively. In terms of loan amount disbursed, the western and central regions continued to dominate uptake with **UGX 10.35 billion** and **UGX 1.03 billion** extended to smallholder farmers in these regions respectively. Although the northern region has the second highest number of beneficiaries, the value of loans disbursed is still very low at only UGX 980 million. This is because the beneficiaries are micro borrowers with loan amounts ranging from UGX 100,000 to UGX 500,000 to finance agro-inputs like pesticides and fertilizers. Figure 5 below shows beneficiary uptake of Block Allocation by region.

Figure 5: Performance of ACF Block Allocation as at March 31, 2024



Source: Bank of Uganda

BoU will continue undertaking farmer sensitisations, particularly in the rural areas but also engage the PFIs to scale up uptake under this arrangement to increase rural socio-economic transformation.

## 8 Public awareness of the Scheme

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The Bank of Uganda (BoU) is responsible for undertaking public awareness to increase uptake of the ACF and to achieve this, the Bank has utilized existing partnerships with organizations such as the Uganda Investment Authority (UIA), the Ministry of Finance, Planning and Economic Development (MoFPED) among others. These efforts have been critical in increasing the uptake of the Scheme which is evidenced in the increasing demand for the ACF. During the quarter, the BoU executed the following publicity engagements :

### a) Town Hall Meeting in Mbarara

BoU held a town hall meeting in Mbarara City and over 1,300 participants were in attendance including the district leadership, the business community and farmers as well as financial institutions. BoU sensitised the people on the requirements for one to access the ACF but emphasised the aspects of financial literacy such as record keeping, savings and ensuring that good credit records are maintained. These aspects play a pivotal role in determining one's bankability.

### b) RadioTalk Shows

Radio Talk Shows are a powerful tool to enhance publicity because of their wide outreach across different demographic locations. They also cater for specific interests and hence reach the target audience. During the quarter, BoU conducted talk shows on three radio stations; Crooze FM in Mbarara, Boona FM in Rukungiri and Radio Rukungiri

Radio talk shows usually revolve around pre-planned town hall meetings and workshops and are done to inform the public about upcoming engagements and to raise awareness among those who may not be able to attend these engagements physically.

### c) Workshops

BoU has developed strategic partnerships with various stakeholders, industry players and value chain actors in the agriculture ecosystem. Through workshops organised by such partners, BoU is able to network and share ideas and solutions on matters of agriculture finance and how these can be adopted to improve the performance of the ACF. Such workshops undertaken in the quarter include; the engagement with the farmers and the business community as well the local Government leadership in Rukungiri District, FRONASA engagement in Mayuge District and financial literacy training in Entebbe.

In addition to the town hall meetings, workshops and radio talk shows, BoU has made it possible for the public to engage the Bank through a toll-free line or to physically visit the Bank to obtain further information on the ACF.

## 9 Achievements of the ACF

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The ACF has continued to deliver on its mandate of ensuring commercialisation and modernisation of the agriculture sector through leveraging private sector credit to extend affordable financing to farmers. Since its establishment, ACF has delivered on the following;

- i. Enabled farmers and agro-processors to access low-cost financing of up to UGX 872.51 billion in cumulative lending extended to 3,962 farmers and agro-processors across the country.
- ii. Enabled access to market by smallholder farmers through financing large off-takers and aggregators who buy agricultural produce from these farmers.
- iii. Supported mechanisation of the agriculture sector through financing farmers with loans of up to UGX 39.78 billion to acquire agricultural machinery and equipment such as tractors and irrigation equipment. In addition, farmers have been financed to acquire agricultural inputs for better farm yields as well as farm modernisation. The result is improved farm productivity and increased farm yields.
- iv. Through the Block Allocation model, smallholder farmers have been able to access financing without the limitation usually imposed by lack of collateral. A total of 2,432 rural farmers accounting for 61 per cent of the total beneficiaries under the scheme have been supported under the ACF. Worth noting is that the model has not registered any non-performing loan and therefore it has the potential to enhance financial inclusion
- v. Minimisation of post-harvest losses through financing the acquisition of infrastructure for post-harvest handling. A cumulative total of UGX 89.03 billion has been disbursed to large aggregators and off-takers for the purchase and installation of silos and construction of warehouses for agricultural produce.
- vi. Provision of working capital for grain traders to facilitate purchase of grain thereby providing ready market to farmers. Grain trade is the highest financed activity under the ACF, utilising UGX 335.63 billion as at March 31, 2024.
- vii. Supporting export promotion through funding farmers engaged in agro-processing. Exporting value-added products brings in higher export revenue for the country but also value addition leads to competitiveness and a wider product range for both the local and international markets. As at March 31, 2024, ACF had supported 113 processors in various value chains with funding of up to UGX 163.77 billion.

## 10 Major Challenges

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- 1) **Low appetite for agric- business lending in some PFIs that consider agriculture as a high-risky sector.** Out of the thirty-one (31) Supervised Financial Institutions, only sixteen (16) are actively participating in lending under ACF.
- 2) **Limited financial literacy and record keeping** especially by the smallholder farmers which hinders access to finance and constrains the appraisal process of such borrowers.
- 3) **Lack of collateral to secure the lending under ACF.** The majority of farmers lack adequate collateral such as registered land titles or other high value assets required by the PFIs to advance credit to them.
- 4) **Exclusion of tier IV institutions.** Many small-holder farmers belong to tier IV institutions such as Savings and Credit Cooperative Societies (SACCOS) which are not accredited to participate in the scheme. This locks out most smallholder farmers from accessing finance under the ACF.
- 5) **The lengthy process of writing off delinquent loans under ACF.** Although the ACF provides for a 50 per cent guarantee in the event of default of an eligible borrower, write-off of loans under the scheme is guided by the Public Finance Management Act (PFMA) and the procedure is too lengthy. As a result, PFIs make provisions for the 50 per cent GoU contribution which affects their capital and makes the guarantee redundant. This frustrates the PFIs and constrains them from participating in lending under ACF.

## 11 Way Forward

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The following are recommendations for addressing the above challenges and improving access and utilisation of the ACF:

- 1) BoU will continue to engage the PFIs through the monthly UBA meetings, and town hall meetings country-wide, to review their internal credit policies and allow access to affordable financing under the ACF. Emphasis is being focused on lifting restrictions on ACF lending in some branches/regions and ensuring that information on ACF is communicated to all branches.
- 2) Review the eligibility criteria of the ACF to improve uptake and allow tier-IV institutions including licensed SACCOs among the accredited PFIs to access medium and long-term finance available under the ACF. This will be implemented after licensing Tier IV institutions.
- 3) Government-owned banks such as PostBank (U) Ltd, Pride Microfinance Ltd and Housing Finance Bank Ltd should be encouraged to offer stronger support of government interventions such as the ACF.
- 4) Scale up the financial literacy of smallholder farmers, especially in records management and business proposal writing. Similarly, there is a need to enhance capacity building on agribusiness for PFI staff, focusing on value chain risk analysis, appraisal of agricultural loans and loan management. This can be done through collaborations with private sector players and development partners such as FAO, GIZ, and Enterprise Uganda among others.
- 5) Review the ACF-MoA to allow PFIs to make provisions of up to 50 per cent (their contribution) since the GoU contribution is subject to the PFMA.

## 12 Conclusion

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The ACF continues to be one of the key drivers for the Agro-Industrialisation of the agriculture sector. The success of the scheme is attributed to the critical Government intervention and private-sector impact funding, complemented by the oversight of the Bank of Uganda 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 431.15 billion of their funds under the scheme with the Government contributing UGX 441.36 billion to bring the total loans disbursed to UGX 872.51 billion as at March 31, 2024. In addition, the scheme's repayment rate is remarkable with a non-performing loan ratio of only 1.2 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 of the farmers and the public on the availability of affordable credit under the ACF.

## Appendix 1 Salient Features of the ACF Scheme

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### **a. 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 under 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 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

### **b. 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, and feasibility.
- iii. Managing collateral requirements.
- iv. Ensuring the recovery of the loans. The MoA governing the administration of the scheme places full responsibility for loan recovery on the PFIs.
- v. PFIs submit reports (on the performance of the projects) to BOU every quarter.

### **c. The procedure for Accessing the Fund**

All ACF loan applications are channelled through the PFIs. The PFIs analyse the loan requests according to their credit policy to ensure that only eligible projects are financed. The PFIs disburse their funds to eligible projects and subsequently request reimbursement of the GoU contribution from BOU.

### **d. 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 the assessment and appraisal of project viability and



genuine credit needs of the clients according to the lending policy of the respective PFIs. The loans under the ACF are denominated in Uganda shillings.

**e. 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.

**f. Loan Term**

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

**g. Grace Period**

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

**h. Interest Rate**

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

**i. Facility Fees**

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

**j. Eligibility for Refinance/Sub Loans**

**Eligible Purposes**

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

**k. 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, and 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 the purchase of land, forestry, refinancing of existing loan facilities and trading in agricultural commodities except for grain.

## 1. 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 per cent 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 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 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**.