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20 March 2024

Hon. Matia Kasaija (MP)
Minister of Finance, Planning and Economic Development
Ministry of Finance, Planning and Economic Development
Plot 2-12 & 2A, Apollo Kaggwa Road,
Kampala

Dear Hon. Kasaija,

Agricultural Credit Facility Progress Report, 31 December 2023

The Bank of Uganda reports positive progress in disbursing and collecting funds through the Government's Agricultural Credit Facility (ACF).

The ACF is proving successful in providing affordable loans, driving the Government's goal to modernize and commercialize agriculture. The program also promotes financial inclusion, with significant lending reaching smallholder farmers and women through the Block Allocation scheme.

Key Highlights:

- The Government cumulatively allocated UGX 303.43 billion to the ACF, with UGX 300.38 billion for refinancing participating financial institutions (PFIs) for extended loans and UGX 3.05 billion for marketing and audits.
- As of 31 December 2023, the ACF approved and disbursed UGX 859.39 billion in loans from 5,400 applications worth UGX 1.47 trillion. This represents a 14% increase in disbursements compared to UGX 751.33 billion in December 2022.
- The recovery rate was 72%, with non-performing loans at just 1.2% of the total disbursed funds, underscoring the ACF's sustainability.
- Smallholder farmers continue to benefit significantly from the Block Allocation arrangement, with 2,394 micro-borrowers accessing UGX 15.27 billion, accounting for 62% of total beneficiaries.
- The central and western regions dominated uptake, utilizing 54% and 23% of the total disbursements, respectively.

- Sectors such as grain trade (39%), on-farm activities (32%), and agro-processing (19%) continue to dominate uptake, collectively accounting for 90% of the total disbursements.

Challenges:

- Perceived high risks in the agriculture sector discourage some participating financial institutions (PFIs) from lending.
- Exclusion of Tier IV institutions, limiting access to finance for smallholder farmers.
- Lengthy process for writing off delinquent loans, affecting PFIs' capital and deterring participation.

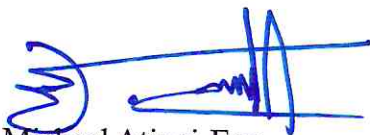
Recommendations:

- Continuous engagement with PFIs to review internal credit policies and enhance agricultural lending.
- Review the eligibility criteria for Tier IV institutions, including licensed SACCOs, to participate in the ACF.
- Amend the Memorandum of Agreement to enable PFIs to make provisions for their contribution only, given the lengthy write-off process for the Government's contribution.

The ACF remains a critical driver in transforming the agricultural sector, fostering financial inclusion, and boosting agricultural productivity. We appreciate your continued support and commitment to ensuring the ACF's success.

Submitted for your information and update.

Sincerely,



Michael Atingi-Ego
Deputy Governor

Copy: Hon. Minister of State General Duties - MoFPED
Hon. Minister of State Privatization and Investment - MoFPED
Hon. Minister of State Planning - MoFPED
Hon. Minister of State Microfinance and Small Enterprises - MoFPED
Permanent Secretary/Secretary to the Treasury - MoFPED