



AGRICULTURAL CREDIT FACILITY

Quarterly Progress Report - June 30, 2023

*"Extending Finance to Smallholder Farmers
Under the ACF Through Block Allocation"*



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Appendix 4 Abbreviations

ACF	Agricultural Credit Facility
BOU	Bank of Uganda
BMAU	Budget Monitoring and Accountability Unit [BMAU] of the MoFPED
CIs	Credit Institutions
FAO	Food and Agriculture Organisation
FIA	Financial Institutions Act 2004, Amendments and Regulations
GIZ	Gesellschaft für Internationale Zusammenarbeit
GoU	Government of Uganda
MAAIF	Ministry of Agriculture, Animal Industries and Fisheries
MDIs	Micro Deposit-Taking Institutions
MoA	Memorandum of Agreement
MoFPED	Ministry of Finance Planning and Economic Development
PFIs	Participating Financial Institutions
PFMA	Public Finance Management Act
PPP	Public Private Partnership
SME	Small and Medium Enterprises
TV	Television
UGX	Uganda Shillings

1 Executive Summary

The Agricultural Credit Facility (ACF) was established to provide affordable credit to small, medium and large enterprises engaged in the agriculture value chain to transform the agricultural sector, predominantly comprised of smallholder farmers.

Consistent with the above objective, the report has adopted the theme of *"extending finance to Smallholder farmers under the Block Allocation arrangement"*.

The Block Allocation arrangement operates in a way that PFIs bulk small loans (**UGX 20 million** and below) into a block of up to **UGX 1.5 bn** and submit the block as one loan application to BOU for refinancing. Under this arrangement, the registered collateral may not be required (Alternative collateral like Cashflows, Chattel mortgages, borrower's credit rating, banking history) may suffice.

During the period, the uptake of the ACF has increased with cumulative disbursements amounting to **UGX 818.29 billion** as of June 30, 2023, compared to **UGX 21.02 billion** when the ACF was rolled out in June 2010. A total of 3,455 projects have been funded, of which 61 per cent relate to micro and small farmers who accessed funds under the Block Allocation arrangement.

Similarly, micro, small and medium enterprises with loan amounts not exceeding UGX 100 million constituted 80 per cent of the total number of funded projects under the ACF as of June 30, 2023. This re-affirms the critical role that the ACF plays in transitioning peasant farming to commercial farming while fostering financial inclusion in Uganda's agriculture sector.

During the financial year ended June 30, 2023, disbursements totalling **UGX 123.38 billion** were made compared to **UGX 74.88 billion** disbursed in the previous financial year ended June 30, 2022. This represents an 18 per cent increase in the cumulative value of loans disbursed as of June 30, 2023. Correspondingly, 1,125 new beneficiaries accessed funding during the year, accounting for a 48 per cent increase in the cumulative number of loans disbursed during the FY2022/23.

The cumulative Government of Uganda (GoU) contribution to the PFIs stood at **UGX 414.16 billion** as of June 30, 2023, while loan repayments made by the PFIs amounted to **UGX 285.38 billion**. These recoveries account for 69 per cent of the total GoU contribution refinanced to the PFIs. The outstanding loans with the PFIs stood at UGX 128.78 billion, while the distressed loans remained at **UGX 4.04 billion** with a non-performing asset (NPA) ratio of **0.98 per cent** compared to the aggregate NPA ratio of **5.93 per cent** for commercial banks.

2 Scheme Funding

During the year ended June 30, 2023, BoU received **UGX 49.75 billion** from MoFPED for lending and facilitation of the ACF operations. The cumulative remittance by **GoU** to the Scheme's Escrow Account held at BoU as of June 30, 2023, stood at **UGX 278.43 billion**. Funds amounting to **UGX 269.38 billion** were cumulatively transferred to the ACF capital account for refinancing the PFIs, while **UGX 3.05 billion** had been allocated to marketing and payment of audit fees for the scheme.

As of June 30, 2023, the Escrow Account had a balance of **UGX 6 billion** pending approval by the Accountant General to effect the transfer to the ACF Capital account. The capitalisation of UGX 269.38 billion and the reflows (repayments from PFIs) have enabled cumulative lending of up to **UGX 414.16 billion** as the GoU contribution. This has been matched with PFIs' contribution of **UGX 404.13 billion**, bringing cumulative lending under the ACF to **UGX 818.29 billion** as of June 30, 2023.

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	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
2021/2022	38,100,000,000	38,100,000,000	0	0
2022/2023	49,750,000,000	42,500,000,000	1,250,000,000	6,000,000,000
TOTAL	278,427,951,548	269,377,364,748	3,050,586,800	6,000,000,000

3 Performance during the quarter ended June 30, 2023

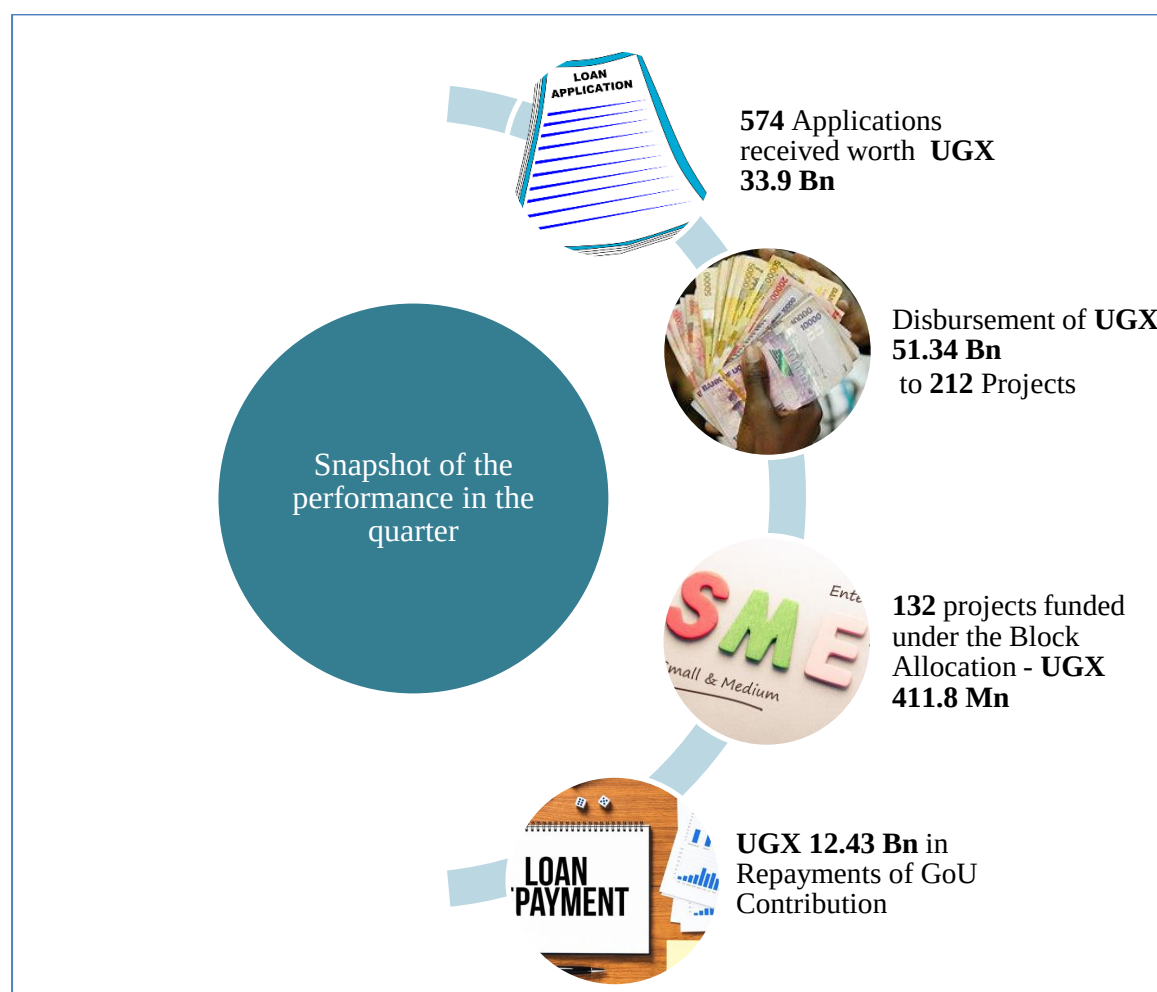
During the June 30, 2023 quarter, **574 new** loan applications worth **UGX 33.99 billion** were received. Of these, 522, accounting for **90.9 per cent**, were from micro, small and medium enterprises with loan amounts not exceeding **UGX 100 million**, while 49, accounting for **9.1 per cent**, were from large enterprises.

Applications received under the Block Allocation arrangement were **458**, accounting for **79.79 per cent** of the total applications received. This indicates the increasing demand for microloans by smallholder farmers and denotes the pivotal role played by ACF in bridging the financing gap to the MSMEs involved in the agriculture sector.

During the quarter, disbursements totalling **UGX 51.34 billion** were made to **212** beneficiaries, of which 135, accounting for **63.68 per cent**, belonged to micro borrowers under Block Allocation.

Recoveries made from the PFIs during the quarter amounted to **UGX 12.43 billion**, while the total outstanding loans due from the PFIs (GoU contribution) stood at **UGX 128.78 billion**, which is equivalent to 31.1 per cent of the loans refinanced to the PFIs at June 30, 2023. This implies that 68.9 per cent of the loans disbursed to the PFIs have been repaid, pointing to a good loan recovery rate. The loans in default amounted to **UGX 4.04 billion** with an NPA ratio of **1.0 per cent**. Figure 1 presents a summary of the ACF performance for the quarter ended June 30, 2023.

Figure 1: Summary of ACF Performance during the quarter ended June 30, 2023



Source: Bank of Uganda

4 Performance during the year ended June 30, 2023

During the year, BoU received **4,196** applications from the PFIs for financing compared to **2,738** applications received in the previous year ended June 30, 2022. This accounted for a 53 per cent increase with a total loan value of **UGX 166.73 billion**. A total of **1,125** projects were funded with **UGX 123.38 billion** during the year, with the GoU contribution of **UGX 61.71 billion**.

Disbursements during the year increased by **UGX 48.50 billion** (from UGX 74.88 billion disbursed in 2022 to UGX 123.38 billion disbursed in 2023), representing a **65 per cent** increase. Uptake of Block Allocation also increased during the year, with **UGX 5.63 billion** disbursed to 851 micro borrowers under this arrangement. This represents a **72 per cent** increase in loans disbursed under Block Allocation during the year.

This increase in performance is attributed to the increased sensitisation by BoU and engagement with the PFIs. The Table below summarises the ACF cumulative performance in the financial year ended June 2023 compared to the previous year.

Table 2: ACF performance during the year ended June 30, 2023, compared to the previous year

<i>Portfolio Classification (Cumulative)</i>	<i>30-June-23</i>	<i>30-June-22</i>	<i>Movement 2022 & 2023</i>	<i>% change</i>
<i>Number of Loan Applications Received</i>	4,196	2,738	1,458	53%
<i>Value of Loan applications</i>	1,220,366,781,335	1,053,640,300,935	166,726,480,400	16%
<i>Number of Loans Disbursed</i>	3,455	2,330	1,125	48%
<i>Total Value of Loan Disbursements</i>	818,294,894,105	694,918,537,301	123,376,356,804	18%
<i>GoU Contribution - Loan Disbursements</i>	414,159,446,636	352,453,268,233	61,706,178,403	18%
<i>No. of Block Allocation projects Financed</i>	2,113	1,264	851	67%
<i>Value of Block Allocations Disbursed</i>	13,500,213,587	7,867,712,000	5,632,501,587	72%
<i>Repayment-GoU contribution</i>	285,379,194,997	230,662,137,415	54,717,057,582	24%
<i>Number of Delinquent Loans</i>	20	20	0	0%
<i>Value of Delinquent loans</i>	4,043,204,254	4,043,204,254	0	0%

Source: Bank of Uganda

During the year, BoU held a workshop with the PFIs to find ways to increase the ACF funds lending and find solutions to the challenges impeding the uptake. Some amendments to ACF MoA were suggested and presented to the top technical committee of MoFPED for consideration. The top technical committee approved the amendments and now awaits approval by the top management committee of the MoFPED before implementation.

To improve efficiency in loan processing, BoU internally developed a software application called Agriculture Credit System (ACS) through which loan applications can be submitted and processed online. The system will be rolled out to all the PFIs on September 01, 2023.

5 ACF performance since inception (Total loan disbursements, GoU & PFI contribution)

Cumulatively, BoU has received **4,196** loan applications from the PFIs with a total value of **UGX 1.22 trillion**, out of which a total of **3,455** loan applications have been processed and funded to the tune of **UGX 818.29 billion**, representing **82 per cent** of the total number of applications received at BoU.

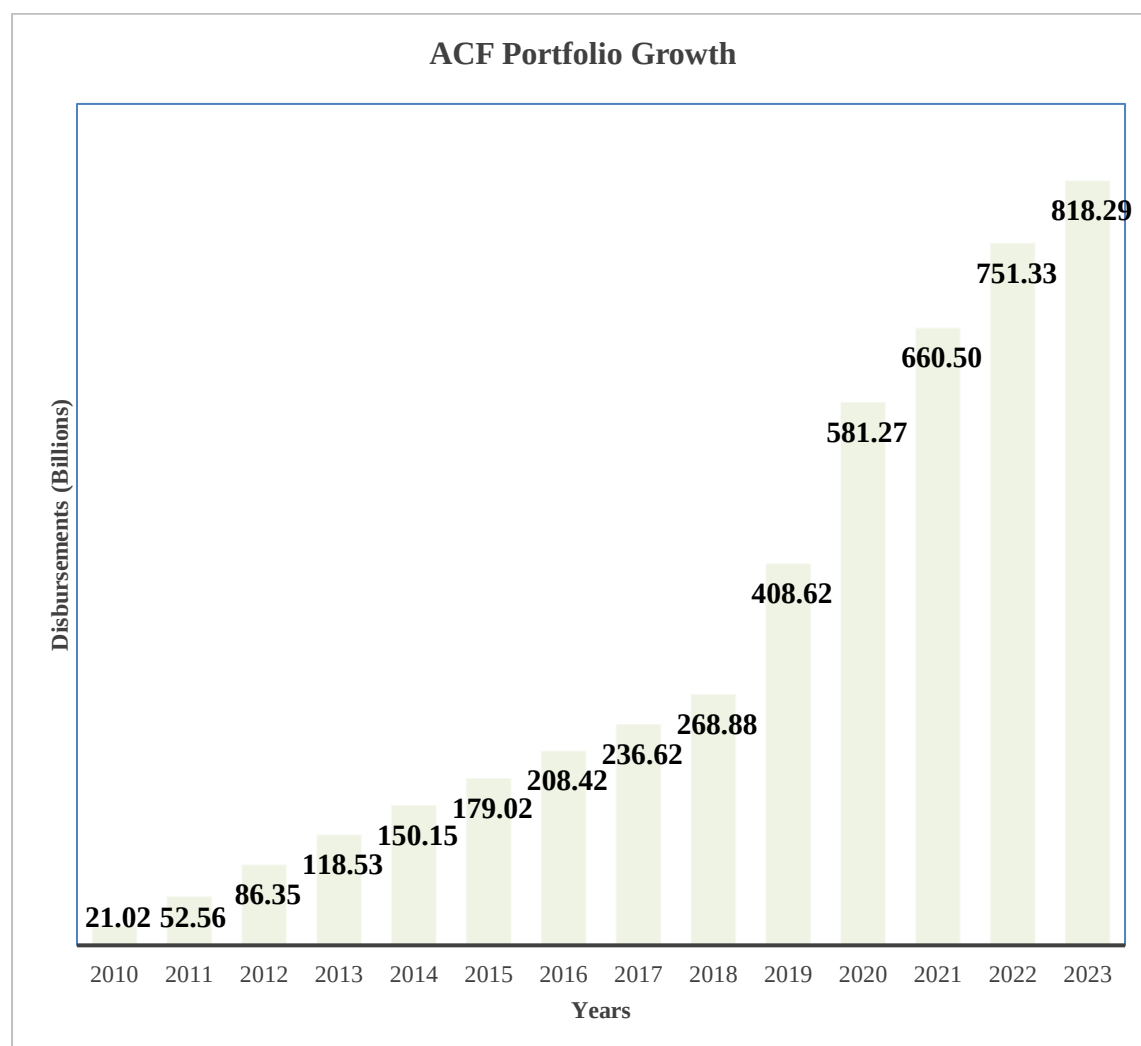
Table 3: Cumulative disbursements per year and the proportion of GoU contribution disbursed.

<i>YEAR</i>	<i>TOTAL LOAN DISBURSEMENTS (GOU+PFI) UGX</i>	<i>GOU CONTRIBUTION (UGX)</i>	<i>PFI CONTRIBUTION (UGX)</i>
2010	21,023,475,000	10,511,737,500	10,511,737,500
2011	52,559,704,776	25,851,485,067	26,708,219,709
2012	86,345,018,933	41,881,471,047	44,463,547,886
2013	118,532,643,425	57,975,283,293	60,557,360,132
2014	150,154,554,535	73,786,238,848	76,368,315,687
2015	179,021,755,565	88,219,839,363	90,801,916,202
2016	208,421,339,003	102,919,631,082	105,501,707,921
2017	236,616,898,747	117,385,592,954	119,231,305,793
2018	268,875,826,761	134,794,556,961	134,081,269,800
2019	408,623,581,891	207,031,690,525	201,591,891,366
2020	581,269,049,778	294,963,824,469	286,305,225,309
2021	660,501,577,292	335,244,788,226	325,256,789,066
2022	751,331,514,255	380,667,756,711	370,663,757,545
2023	818,294,894,105	414,159,446,634	404,135,447,474

Source: Bank of Uganda – ACF data

Annual disbursements have been progressive since inception, and we anticipate a further increase in disbursements owing to improved efficiency in loan application processing due to the automation of the ACF processes.

Graph 1: Trend in Cumulative Disbursements under the ACF since 2010



Source: Bank of Uganda

6 Utilisation of Funds under the Scheme

As at June 30, 2023, 2,753 farmers accounting for 80 per cent of the total beneficiaries that accessed funding under ACF, were smallholder and medium enterprises. This is a clear indication that ACF continues to promote financial inclusion by enabling smallholder farmers and agribusinesses to access finances.

The loan amounts under this category were up to UGX 100 million, including the unsecured loans for the micro borrowers that accessed funding under the Block Allocation arrangement. A total of 702 farmers accounting for 20 per cent of the total beneficiaries were large enterprises. Table 4 below provides the categorisation of loans disbursed.

Table 4: Categorisation of Loans by Size as at June 30, 2023

<i>Grouping</i>	<i>Amount</i>	<i>GoU Contribution</i>	<i>No. of projects</i>	
<i>0-20,000,000*</i>	13,615,508,537	7,372,254,269	2,120	} 2,753 (80%)
<i>20,000,001-50,000,000</i>	8,986,035,618	4,894,371,009	218	
<i>50,000,001-100,000,000</i>	33,748,881,999	18,253,479,552	415	
<i>100,000,001-300,000,000</i>	73,372,789,739	38,470,142,339	397	} 702 (20%)
<i>300,000,001-above</i>	688,571,678,211	345,169,199,466	305	
Total	818,294,894,104	414,159,446,635	3,455	

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

Several projects under various agricultural value chains have been financed by the scheme since its inception. The projects funded include on-farm activities, which comprise farm improvement projects such as construction of farm structures, valley dams, hatcheries, greenhouses, irrigation systems and excavation of fishponds.

Other funded projects included purchase of machinery/equipment, working capital for the grain trade, livestock, and post-harvest management and agro-processing.

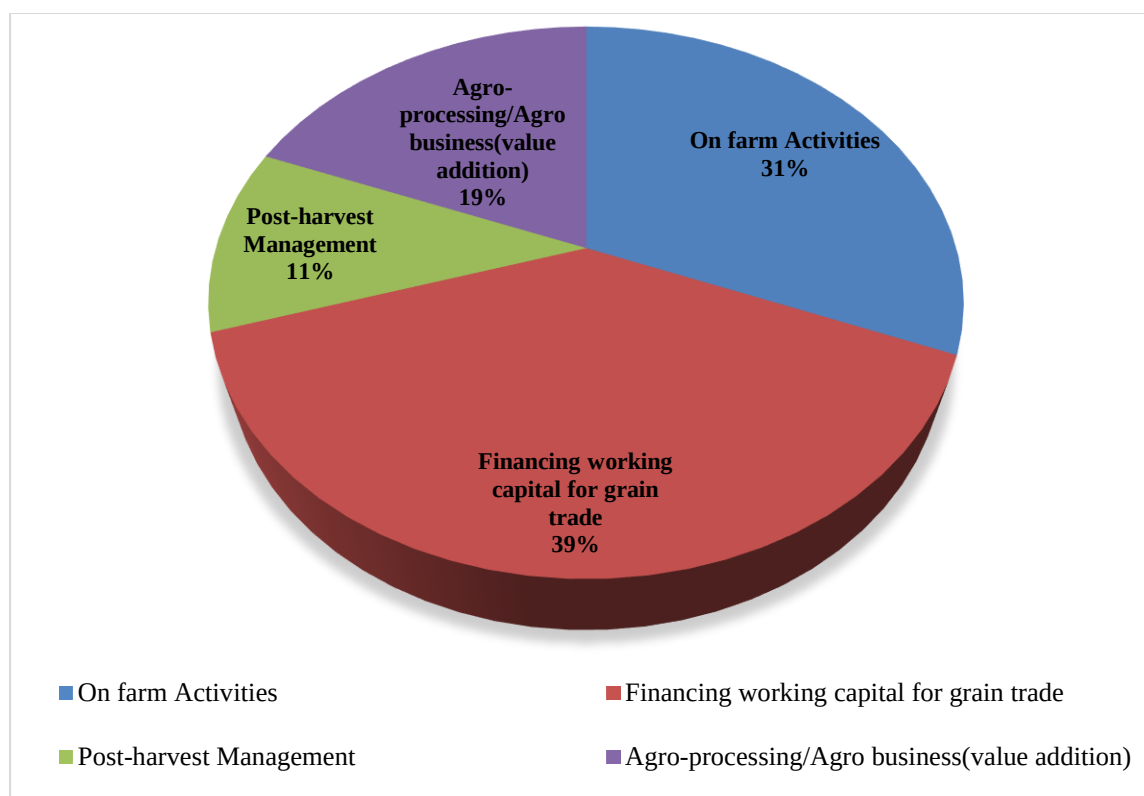
Table 5: below shows a breakdown of the cumulative disbursements grouped by activity funded as at June 30, 2023.

Table 5: Funding grouped by areas financed (Projects disbursed by the end of June 30, 2023)

<i>Funded Activity</i>	<i>No. of Projects</i>	<i>Loan Amount</i>	<i>GoU Contribution</i>	<i>PFI Contribution</i>
On-farm Activities	2,986	254,421,045,823	131,951,405,824	122,469,639,999
Financing Working Capital for Grain Trade	264	319,777,075,262	159,896,537,631	159,880,537,631
Post-harvest Management	99	89,034,492,505	44,792,065,454	44,242,427,051
Agro-processing	106	155,062,280,514	77,519,437,726	77,542,842,788
TOTAL	3,455	818,294,894,104	414,159,446,635	404,135,447,469

Source: Bank of Uganda

Chart 1: Areas funded as at June 30, 2023 (funded activities)



Source: Bank of Uganda

It should be noted that most of the financing was channelled towards working capital for grain trade and on-farm activities, accounting for 39 per cent and 31 per cent of the total loans disbursed respectively. Grain trade attracts high loan amounts due to grain traders' need for high financing requirements to be able to mop up the excess grain on the market.

On the other hand, on-farm activities constitute the highest number of MSMEs, who dominate the agricultural sector. The financing needs of farmers in this category include farm expansion and improvement, excavation of valley dams and acquisition of irrigation equipment, land opening (green fields), and inputs for primary production, among others.

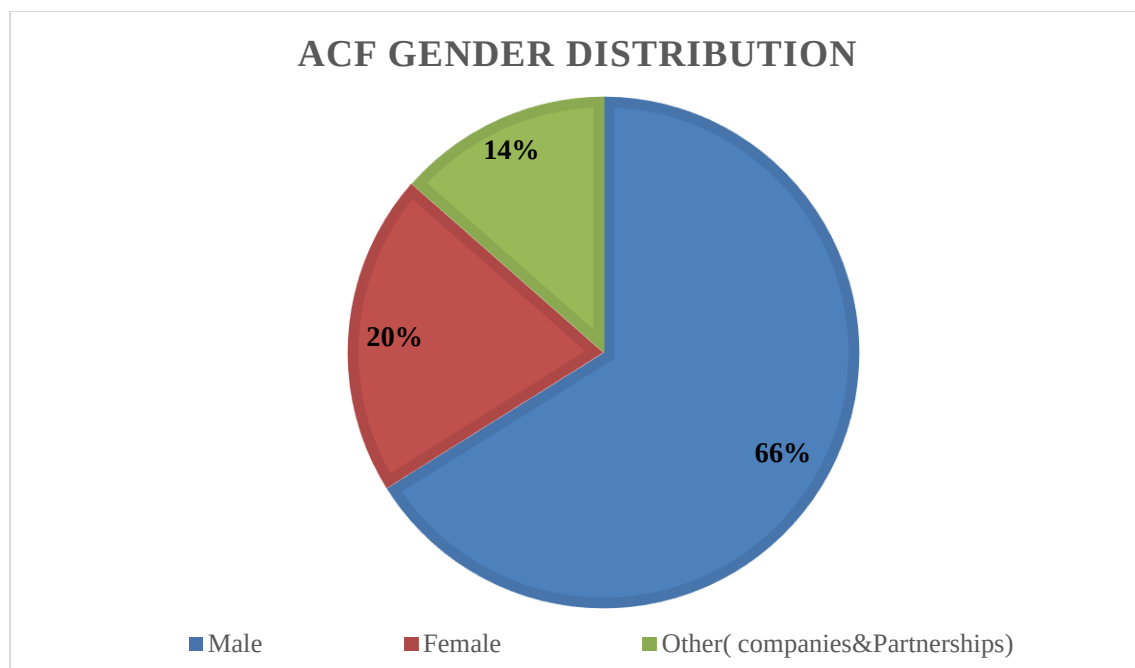
6.1 Gender distribution of ACF funds disbursed.

The males still dominate ACF uptake compared to the females. The males utilised UGX 132.68 billion (66 per cent), while females utilised UGX 17.38 billion (20 per cent) of the total beneficiaries. Although the uptake by women is still relatively low, there is an improvement registered in the uptake in terms of numbers and this is expected to increase especially under the Block Allocation model.

Companies have received a significant portion of the funds totalling UGX 668.25 billion. This is because they are large off-takers engaged in value addition whose financing require large sums of money.

However, there are multiplier effects in financing large off-takers such as providing market for thousands of smallholder farmers who supply these processing companies, creating employment opportunities, generating revenue for the government through payment of taxes as well as earning export revenue through export of value-added goods.

Chart 2: Distribution of ACF funding according to Gender as at June 30, 2023

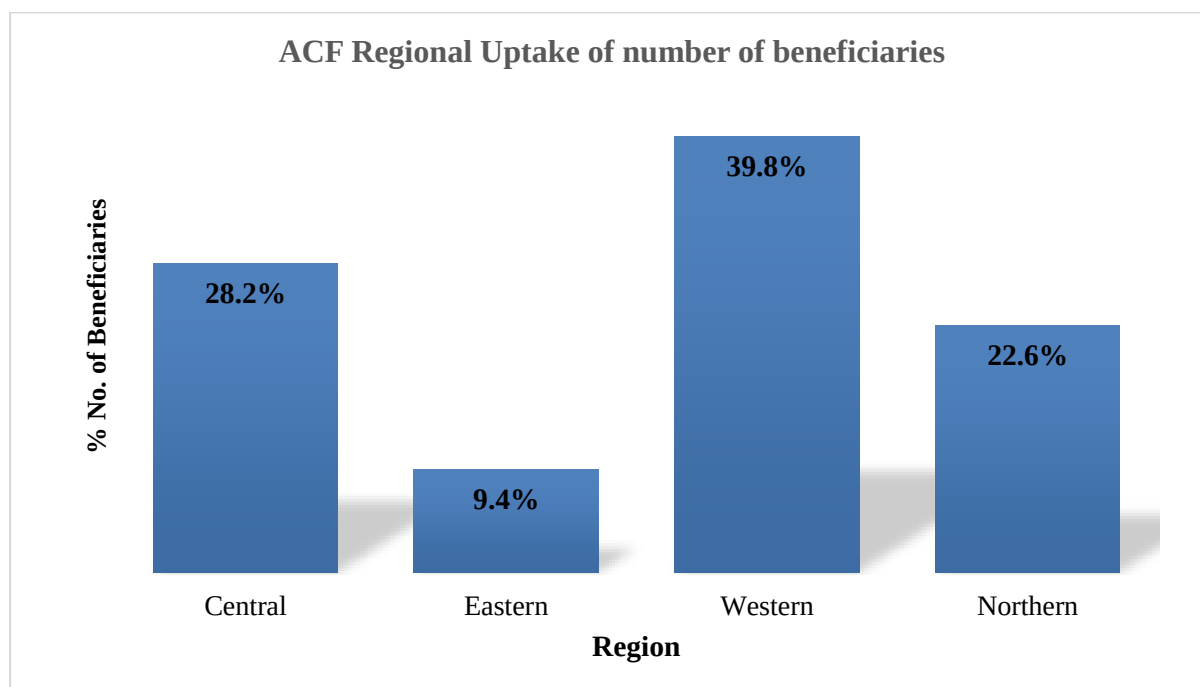


Source: Bank of Uganda

6.2 Regional Uptake of Funds under the ACF

In terms of the number of beneficiaries, the western (39.8%), central (28.2%) and northern (22.6%) regions had the highest number of beneficiaries under the ACF. Most of the beneficiaries in the northern region were under the Block Allocation arrangement.

Graph 2: Graphical representation of ACF Uptake by beneficiaries as at June 30, 2023



Source: Bank of Uganda

On the other hand, the central, western and eastern regions had the highest uptake in terms of value accounting for 53%, 23%, and 20% of the loans, respectively.

The beneficiaries in these regions utilised the highest amount of loans due to the size of loans accessed by borrowers engaged mainly in commercial farming and agro-processing.

Table 6: Regional distribution of the ACF funds as at June 30, 2023

<i>Region</i>	<i>Total Loans</i>	<i>No. of beneficiaries</i>	<i>PFI Contribution</i>	<i>GOU Contribution</i>	<i>% per region</i>
<i>Central</i>	433,428,328,919	975	215,991,686,312	217,436,642,608	53%
<i>Western</i>	186,480,976,569	1,376	89,531,634,674	96,949,341,895	23%
<i>Eastern</i>	162,396,482,529	325	80,955,953,440	81,440,529,089	20%
<i>Northern</i>	35,989,106,087	779	17,656,173,043	18,332,933,044	4%
Total	818,294,894,104	3,455	404,135,447,469	352,453,268,234	100.0%

Source: Bank of Uganda

Funding in these regions was extended for agro-processing to the projects engaged in value addition of poultry products, grain trade and grain processing, acquisition of infrastructure for post-harvest handling and management, and acquisition of dairy processing and sugar processing machinery.

The central region has a higher level of agriculture commercialisation because of the availability of registered land and a good land tenure system, which attracts funding from banks. On the other hand, the low uptake of the funds in the northern region is occasioned by the land tenure system where most of the land is communally owned and therefore, farmers are not able to secure land titles required by the PFIs for lending.

The introduction of the Block Allocation arrangement has provided a solution to farmers constrained by a lack of registered collateral to access financing under the ACF. Consequently, the northern region has the second highest number of beneficiaries, accounting for 32 per cent, following the western region, which stood at 45 per cent of the total beneficiaries under Block Allocation.

7 Extending finance to smallholder farmers under the ACF through Block Allocation

The Block Allocation arrangement under the ACF was introduced in 2018 to unlock access to finance by smallholder farmers by easing restrictions on collateral requirements by the PFIs. This initiative aimed to unlock access to credit in regions with communal land tenure systems and benefit the micro and smallholder farmers who are otherwise excluded for lack of registered collateral, mainly land titles, to secure credit.

Under the Block Allocation arrangement, PFIs bulk small loans (**UGX 20 million** and below) into a block of **UGX 1.5 bn** and submit the block as one loan application to BoU for refinancing. This arrangement may not require the registered collateral, but alternative collateral such as cashflows, chattel mortgages, borrower's credit rating, banking history and unregistered land may be considered.

PFIs are also allowed to appraise the eligible borrowers and disburse loans to them before submitting the loan applications to BoU for reimbursement of the GoU contribution. In this way, delays in loan processing and approval are avoided, and farmers can access financing quickly.

The loan amount extended to each borrower is capped at UGX 20 million to minimise the risk of default since the loans are essentially unsecured. This product mainly targets micro and smallholder farmers engaged in primary production whose working capital needs include agricultural inputs such as fertilisers, pesticides, seedlings, and farm restocking to increase output. The loan terms under Block Allocation remain the same across the entire ACF scheme.

Since its introduction, this arrangement has proved to be the best channel of agricultural finance for smallholder farmers, evidenced by the growing number of beneficiaries under this arrangement, constituting 61 per cent of the ACF beneficiaries as of June 30, 2023.

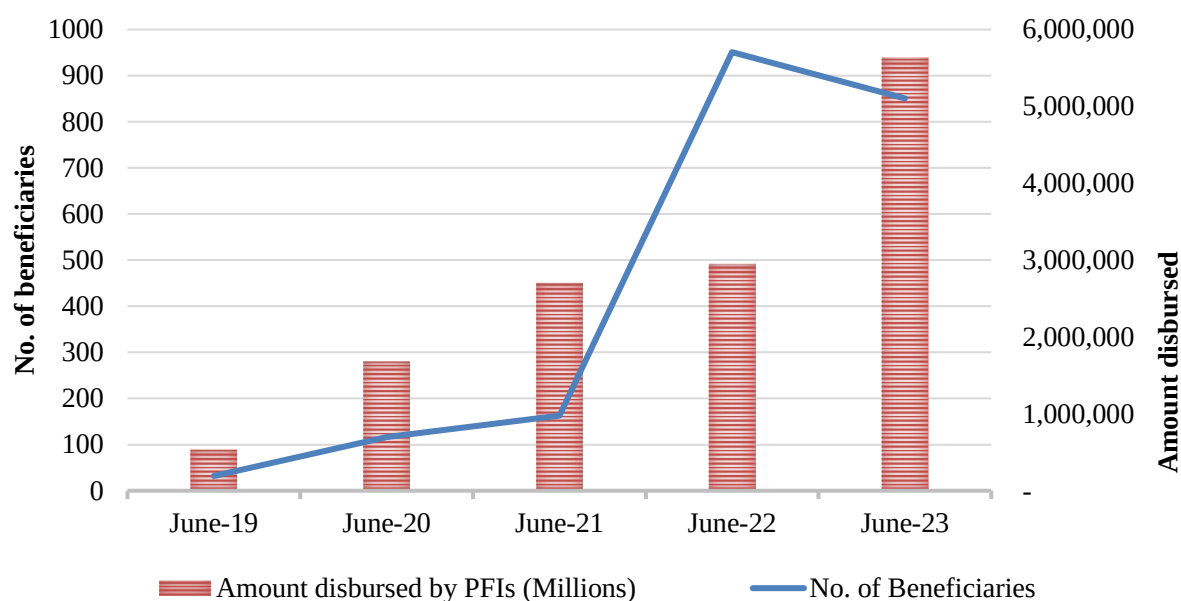
The value of loans disbursed under this arrangement increased by **UGX 5.6 billion** during the year ended June 30, 2023, compared to the previous year. The financing was mainly used to acquire agro-inputs such as fertilisers, seeds and pesticides.

Cumulatively, **UGX 13.50 billion** has been extended to **2,113** rural farmers under the Block Allocation arrangement, with disbursements increasing progressively yearly since the product was introduced in 2018. The loans were mainly advanced through Postbank (U) Ltd, DFCU Bank Ltd, Centenary Bank Ltd, Equity Bank (U)Ltd, Housing Finance Bank and Pride Microfinance Ltd.

Financing to farmers in this category has been extended for cattle restocking (for dairy and beef production), poultry farming, agricultural inputs and farm infrastructure, and grain trade. Most beneficiaries under Block Allocation are from the western and northern regions, constituting **44.8 per cent** and **31.9 per cent** of the total number of projects financed, respectively.

Figure 4 and Table 7 below provide a trend analysis of the uptake of Block Allocation.

Graph 3: Performance of ACF Block Allocation as of June 30, 2023



Source: Bank of Uganda

Table 7: Performance of Block Allocation over the last 5 years

Year	No. of Beneficiaries	Amount disbursed by PFIs ('000)
June-19	32	534,500
June-20	116	1,683,000
June-21	163	2,701,500
June-22	951	2,948,712
June-23	851	5,632,502
Total	2,113	13,500,214

Source: Bank of Uganda

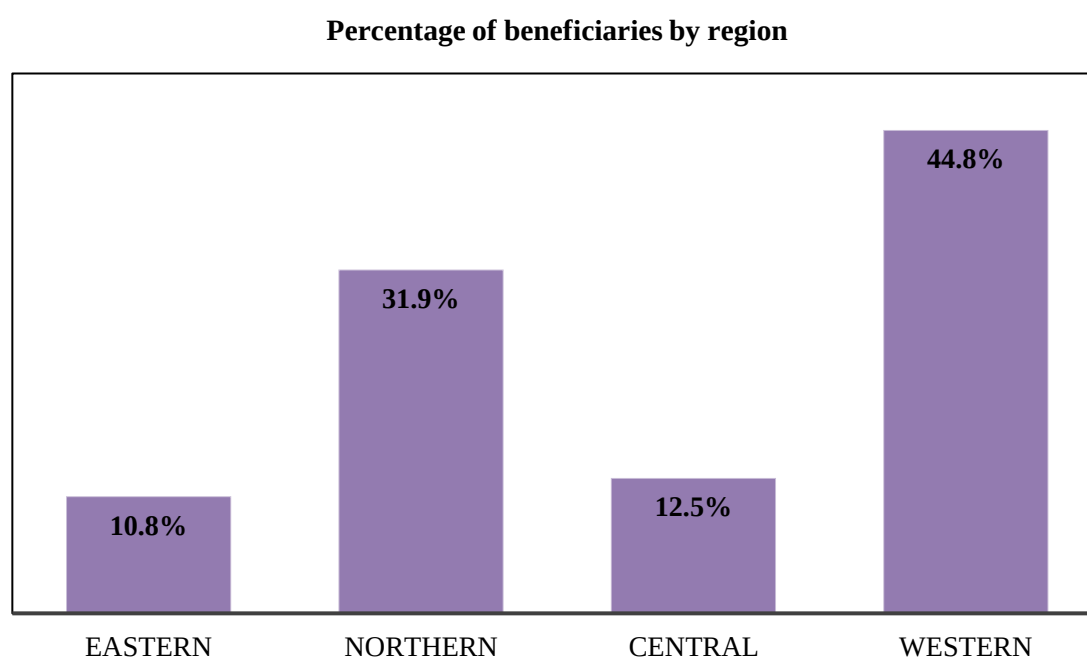
From the Table and graph above, it is evident that the uptake of microloans under this initiative has been increasing year after year, as evidenced by the growth in disbursements and the number of micro borrowers.

Table 8: Regional utilisation of funds disbursed under Block Allocation as of June 30, 2023

Region	No. of beneficiaries	%age	Total Loans	PFI Contribution	GOU Contribution	% age per region
Eastern	229	10.8%	1,026,590,000	467,595,000	558,995,000	8%
Northern	673	31.9%	866,912,000	395,456,000	471,456,000	6%
Central	265	12.5%	2,476,810,000	1,087,305,000	1,389,505,000	18%
Western	946	44.8%	9,129,901,587	4,235,250,793	4,894,650,794	68%
Total	2,113	100%	13,500,213,587	6,185,606,793	7,314,606,794	100%

Source: Bank of Uganda

Graph 4: Regional Utilisation for Block Allocation by Number of Beneficiaries as at June 30, 2023



Source: Bank of Uganda

From Table 8 and Graph 4 above, the western region recorded the highest number of beneficiaries, representing 44.8 per cent of the total number of loans advanced under Block Allocation. These are largely smallholder farmers in cattle keeping for dairy and beef production.

The northern region registered the second-highest number of beneficiaries with 31.9 per cent. However, the value of loans to the area remains low as these are microloans ranging from UGX 100,000 to UGX 500,000 to finance farm inputs like seeds, pesticides and fertilisers.

The Block Allocation initiative has not only unlocked access to credit by the rural farmers but revealed that it could cause equity in economic activities between men and women given that UGX 1.87 billion (29 per cent) of its projects belonged to females. This position shows an impressive improvement compared to only 41 females who had accessed UGX 652.8 million in 2021.

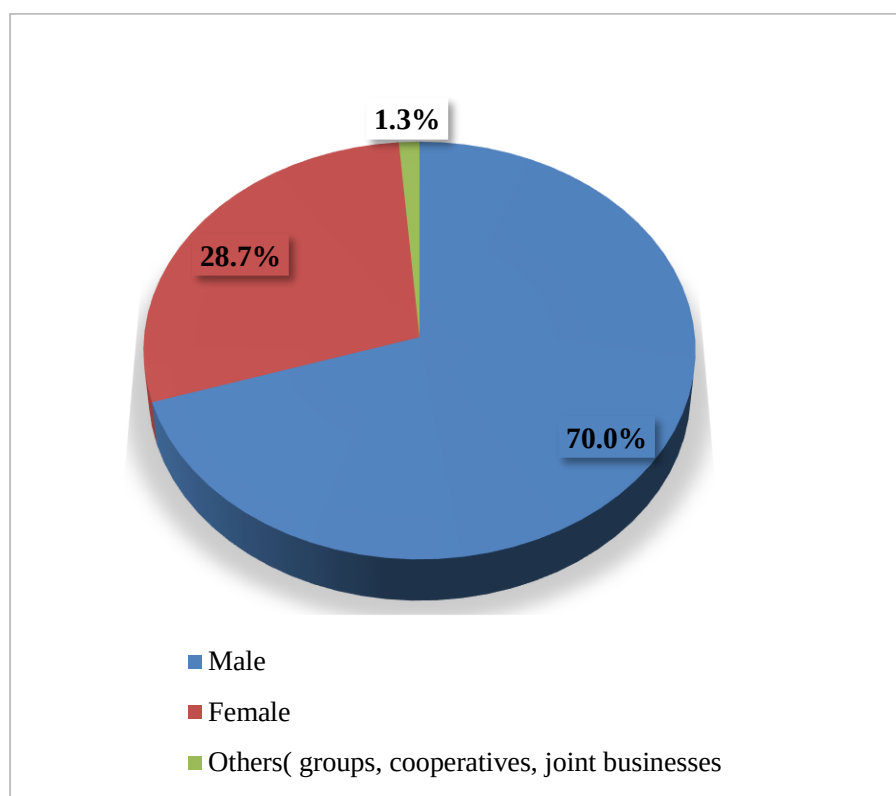
This improvement indicates that the Block Allocation model can potentially broaden the economic inclusion of the disadvantaged population, especially women and youth. The BoU is determined to continue undertaking farmer sensitisations, particularly in rural areas, and to engage the PFIs to boost the uptake of ACF under this arrangement to increase rural socio-economic transformation.

Table 9: Gender distribution under Block Allocation

Gender	No. beneficiaries	% of beneficiaries	Total loans	GoU contribution	% amount
Female	606	28.7%	1,869,944,000	1,023,472,000	14%
Male	1,480	70.0%	11,186,769,587	6,042,384,794	83%
Others (groups, joint businesses)	27	1.3%	443,500,000	248,750,000	3%
Total	2,113	100.0%	13,500,213,587	7,314,606,794	100%

Source: Bank of Uganda

Chart 3: Gender Distribution under the ACF Block Allocation-June 2023



Source: Bank of Uganda

An ACF Success Story of Dr. Abolo Proscovia Adyanga and Butaaho Collin's Farm

Dr. Abolo Proscovia Adyanga is a commercial farmer in Lira district and she credits the ACF for helping her expand her business. She started farming four years ago on 10 acres of land, dealing in crop farming (cassava, chia, rice and soya beans).

She acquired funding of UGX 20 million under the ACF in 2019 and 2020, respectively, for expansion of her farming business by accessing farm inputs and diversifying into beekeeping and animal husbandry.

The ACF funds helped her business grow and from the proceeds, she has been able to construct a family house and meet her family expenses such as school fees for her children.

In addition, she acquired additional financing under the scheme to acquire machinery including a tractor, combine harvester, boom sprayer and to open up more land and boost crop production.

This financing helped her expand from 10 acres to 100 acres and acquire more inputs for the farm and she plans to venture into value addition for the honey business for the export market.

Financing under block allocation has also enabled Mr. Butaaho Collins a cattle keeper in Isingiro district to expand his farm from 18 heads of cattle to the current herd of 72 heads of cattle, of which, 34 are for cattle fattening for beef, while the remaining 38 are for dairy production.

The milk yield has increased from 7 litres per day to 100 litres per day and he projects to increase to 170 litres per day with improved pasture.

Mr. Butaaho has benefitted twice under the block allocation arrangement of the ACF with the initial financing of UGX 10 million being utilised for pasture improvement, installation of a valley dam as well as restocking of the farm.

The second financing of UGX 20 million was used for additional restocking of better breeds of dairy cattle to increase milk production as well as more cattle for fattening for beef production.

The increased income arising from the financing has also enabled him to diversify into goat farming and he has acquired over 94 goats, both local and exotic breeds.

Photo 1: Butaaho Collins Farm in Isingiro District



Source: Bank of Uganda

8 Marketing and Publicity of the Scheme

As fund administrator, BoU is responsible for marketing the scheme and ensuring increased awareness among the population to increase the uptake of the ACF funds.

In executing this mandate, BoU involves all the stakeholders in the agricultural value chain, including the public sector, policymakers in ministries, departments and government agencies (MDAs), farmer-based non-government organisations, farmer groups, and media houses.

During the quarter that ended June 30, 2023, BoU undertook several activities that included radio talk shows across the country, townhall meetings with leaders of districts, exhibitions, workshops, meetings with various policymakers and influencers, articles in the print media, and attendance of annual agricultural awards in the central and northern regions.

These activities offered opportunities to engage with value chain actors and critical agricultural sector players.

The publicity increased demand for the ACF funds, as evidenced by the increasing number of applications that stood at 574, with a value of UGX 33.99 billion received in the quarter that ended June 30, 2023, compared to 266 applications valued at UGX 27.12 billion of the previous quarter. However, there is a need to increase awareness of the ACF, especially in the eastern and northern regions, where uptake is still low. Therefore, our marketing strategy will target engagements in these regions and involve PFIs because they are critical drivers of the scheme's uptake.

We further intend to continue working with all stakeholders, especially the private sector players and media houses like the Nation Media Group through their regional Seeds of Gold farm clinics and the Vision Group for countrywide publicity.

The Table below highlights the list of marketing engagements undertaken during the quarter ended June 30, 2023.

Table 10: Marketing Engagements undertaken during the quarter that ended June 30, 2023

<i>Region</i>	<i>Activity</i>	<i>Category</i>	<i>Date</i>
<i>Central</i>	Buganda Agricultural show	Workshop/Seminar	April 2023
<i>Regional</i>	SDG youth skilling in agribusiness	Workshops in Kampala, Lira, & Mbarara	April 2023
<i>Eastern</i>	UMA Eastern Agricultural Exhibition	Exhibition	May 2023
<i>Lira</i>	International Cooperatives day	Workshop & Symposium	May 2023
<i>Mbarara</i>	<i>Seeds of Gold</i> farm clinics	Exhibition, Masaka	May 2023
<i>Eastern</i>	BOU TownHall meeting, Soroti	Exhibition, Soroti	May 2023
<i>Lira</i>	Lira Adoption Farmer Group in Amolator	Farmer sensitisation workshop	May 2023
<i>Mbarara</i>	Radio West& TV West	Radio & TV talk show	May 2023

Source: Bank of Uganda

Photo 2: Engagement with the Hon. Minister of Health and the State Minister for Cooperatives at the International Cooperatives Day in Lira in May 2023



Photo 3: Engaging farmers and the small business community in Mbarara in April 2023



Source: Bank of Uganda

During the quarter ended June 30, 2023, **UGX 179.72 million was utilised** to enhance the publicity of the scheme. The breakdown of the marketing funds utilisation in the quarter ended June 30, 2023, is indicated in Table below:-

Table 11: Utilization of the MoFPED Marketing Funds for the FY 2022/23

<i>Particulars/Activity</i>	<i>Marketing Expenses in FY 2022/23</i>
<i>Workshops/Seminars/Exhibitions</i>	158,277,000
<i>Adverts on Media-Tv, Radio, Print</i>	19,440,000
<i>Printing Awareness Raising Material</i>	1,999,800
<i>TV & Radio Broadcasts</i>	0
<i>Audit Fees</i>	0
<i>Total expenditure as of June 30, 2023</i>	(179,716,800)

Source: Bank of Uganda

The BoU has planned awareness campaigns countrywide to promote the ACF in the financial year 2023/2024. These include more engagements with the PFIs to increase lending, engaging local and district leadership to drive local engagements, radio talk shows, publications in print media, and other stakeholder engagements through workshops. In addition, the awareness campaign will continue in all regions countrywide.

9 Significant Achievements of the ACF

The ACF has registered several achievements, including:

- i. Provided affordable finance to farmers by extending loans worth UGX 818.29 billion to 3,455 beneficiaries. The increasing demand for financing under the ACF is a testimony of the scheme's critical role in bridging the financing gap and enabling affordable credit to farmers.
- ii. Enhanced financial inclusion through the growing demand for financing of micro borrowers under Block Allocation. Progressively, 2,113 micro borrowers (61 per cent of total beneficiaries) accessed funding compared to 1,263 MSMEs (54.2 per cent) who accessed funding using non-traditional collateral in the previous year.
- iii. ACF continues to support agro-industrialisation through financing value addition. UGX 155.06 billion was extended to 106 projects engaged in agro-processing in the dairy, tea, sugar, and grain milling sub-sectors.
- iv. The scheme contributes to the commercialisation of the agricultural sector through financing mechanisation, farm modernisation through improved farm structures and enabling farmers to acquire improved farm inputs, ensuring sustainable food security. A total of UGX 264.42 billion has so far been extended to 2,986 agricultural projects /farmers for acquiring tractors, irrigation equipment, farm inputs, and setting up farm infrastructure, among others.
- v. Through financing large off-takers engaged in value addition, ACF contributes to creating market access for farmers through the out-growers schemes of these large off-takers and aggregators such as Agroways (U)Ltd, Amos Dairies Ltd, HMM Rainbow Ltd, Ugachick Poultry Breeders Ltd, the Sugar factories such as Kakira Sugar, Mayuge Sugar, Victoria Sugar, etc. These projects/factories also create employment for the local population.

10 Major Challenges

- 1) **Lack of buy-in by senior management of some PFIs.** Some PFIs have limited lending under ACF to certain branches/regions, thus disadvantaging eligible borrowers.
- 2) **Information gap by the PFIs branches regarding ACF.** Some branches lack adequate information regarding ACF as their headquarters do not transfer it to them.
- 3) **There is a low appetite for agri-business lending in some PFIs who consider agriculture a high-risk sector.** The smallholder farmers who dominate the industry present challenges, such as the lack of records, rendering them unbankable. This, coupled with the high cost of appraising and monitoring smallholder farmers, makes the ACF unattractive to PFIs, yet the interest rate and other facility fees have been capped.
- 4) **Exclusion of tier IV institutions.** Many smallholder farmers belong to Tier IV institutions such as Savings and Credit Cooperative Societies (SACCOS), and these are not accredited to participate in the scheme. This, therefore, still locks out most smallholder farmers.
- 5) **The lengthy process of writing off delinquent loans under ACF.** The Public Finance Management Act guides the writing off of loans under the scheme, and the procedure is lengthy – requiring Parliamentary approval. This frustrates the PFIs, yet the ACF is a risk-shared facility and provides a partial guarantee where GoU bears 50% of outstanding loss in default.
- 6) **Limited financial literacy and record keeping,** especially by rural farmers, hinders access to finance and constrains the appraisal process of such borrowers.

11 Way Forward

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

- 1) BoU plans to engage the top management of the PFIs through the monthly UBA meetings 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 across branches.
- 2) BoU has planned town hall meetings with PFIs' upcountry branches to sensitise them on the ACF. In addition, we plan to have ACF posters in all banking halls of the PFIs as part of the marketing strategy.
- 3) Review the eligibility criteria of the ACF to allow tier IV institutions, mainly licensed SACCOs, to access medium and long-term finance available under the ACF. This will be implemented after licensing Tier IV institutions.
- 4) Government-owned banks such as PostBank (U) Ltd, Pride Microfinance Ltd and Housing Finance Bank Ltd will be requested to offer more substantial support of government interventions such as the ACF by increasing uptake.
- 5) Amending the ACF-MoA to limit the provisions on the write-off of non-performing loans under the ACF to 50% (contribution of the PFIs) since the Government contribution is covered by the guarantee and subject to the PFMA, 2015.
- 6) Scale up the Block Allocation model to unlock access to finance by the smallholder farmers through increased promotion to the farmers and the PFIs.
- 7) Enhance capacity building on agribusiness for staff of the PFIs, focusing on value chain risk analysis, appraisal of agricultural loans, and loan management.
- 8) Scale up the financial literacy of smallholder farmers, especially in records management and business proposal writing.

12 Conclusion

The ACF continues to be one of the critical drivers for the transformation of the agricultural sector. As of June 30, 2023, the PFIs advanced up to UGX 404.13 billion, supplementing the Government contribution of UGX 414.16 billion, thus bringing the total loans disbursed to UGX 818.29 billion.

In addition, the scheme's repayment rate is remarkable, with a non-performing loan ratio of only 0.98 per cent compared to 5.93 per cent of the commercial banks. Therefore, the ACF exemplifies an effective risk-sharing mechanism for transforming the agricultural sector.

As fund administrator, the BoU will continue supporting the ACF through continuous engagement and collaboration with the PFIs and sensitisation of the farmers and the public on opportunities of the ACF.

Appendix 1 Salient Features of the ACF Scheme

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 regarding 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 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 as per 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 per 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, the interest rate is capped at **12 per cent**. The PFIs are not required to pay interest on the GoU contribution reimbursed.

i. Facility Fees

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

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 fertilisers, 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 specialised 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 purchasing land, forestry, refinancing existing loan facilities, or trading in agricultural commodities except for grain.

I. 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 **15% per annum**.

The applicable interest rate for loans advanced to finance capital expenditure under the scheme shall not exceed **12% per annum**.