

AGRA

knowledge series



Stakeholders reviewing a report on Financial laws and regulations in Uganda

AGRA influencing changes in the Agricultural Finance Landscape of Uganda

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Several commendable efforts by the Government of Uganda to provide reasonably priced finance to smallholder farmers and SMEs have been hampered by existing financial laws and regulations that limit access to finance by those without sufficient collateral, which is the case with the majority of smallholder farmers and agricultural SMEs.

Some of these initiatives include the Agricultural Credit Facility housed in the Bank of Uganda that on-lends earmarked funds to commercial banks at a reasonable rate with hope that these funds can be accessed by agricultural SMEs and smallholder farmers. Another initiative has been the capitalization of micro-finance institutions through the Microfinance Support Center so as to make finance accessible by the target population. More recently, there has been a deliberate effort to capitalize Uganda Development Bank in order to achieve the same purpose.

But now, this dilemma is being addressed.

With a grant of about USD 240,000 from AGRA, the Uganda Agribusiness Alliance has been driving a process of developing an agricultural finance policy and strategy to eliminate barriers to accessing finance mostly by smallholder farmers and agricultural SMEs. With this grant, a review of existing laws and regulations has been done to identify the regulatory bottlenecks hindering access to finance while drawing from experiences elsewhere on how access can be made better.

The grant has enabled key stakeholders in the agricultural finance space to come together and hold conversations on how finance can be made easily accessible to smallholder farmers and agricultural SMEs even when they may be categorized by current laws and regulations as credit unworthy.

These stakeholders included Bank of Uganda, Stanbic Bank, Centenary Bank, DFCU Bank, Uganda Insurers Association, aBi Development, Ministry of Finance, the United Nations Capital Development Fund, the National Planning Authority, United Nations' Food & Agriculture Organization and the Ministry of Agriculture.

As a result of this work, an Agricultural Finance Platform was formed with the purpose of increasing the depth, quality and absorption of financial services by all levels and sizes of actors

along the agricultural value chain in Uganda. Furthermore, this grant has been able to bring to the forefront the agricultural finance agenda in the financial institution domain.

Currently, the draft policy and strategy for Agricultural Finance has been discussed and validated by a number of stakeholders and is pending approval by the Cabinet of the Republic of Uganda.

With the passing of this law and strategy, financial institutions shall be at liberty to design financial products that can reach smallholder farmers and agricultural SMEs that are currently unable to meet the credit requirements for most formal financial institutions.

Even before this policy and strategy is finalized, several benefits have started manifesting themselves as a result of the awareness created with the support of the AGRA grant.

First, private lending to agriculture increased from 7% in 2017 to 12.9% by end of 2019 while the number of Tier 1 and Tier 2 institutions now attracted to agricultural lending have risen tremendously from 11 at beginning of 2019 to 27 at the end of 2019.

Furthermore, agricultural insurance has continued to grow and is now covering 128,000 smallholder farmers countrywide. The Government of Uganda has pledged to step up Agricultural Insurance financing from Ugx 5 billion to Ugx 10 billion in the FY 2020-2021. More so, SAFIN3, a finance & investment network hosted by IFAD, has earmarked Uganda and Nigeria as pilots for investment prospecting framework.

The awareness raised in the policy and strategy formulation process has attracted political attention as was evidenced in the 1st May 2020 Labour Day speech by the Head of State where the theme was "Improved Access to Financial Services for Employment Creation".

With the onset of the COVID-19 pandemic, the Government of Uganda is considering capitalizing the Uganda Development Bank Ltd, which is the sole government-owned development bank in the country, with funds that will mostly target the agricultural sector. These funds shall support post-harvest processing and storage in order to make Uganda's agricultural products more competitive in regional and international markets.

Concurrently, AGRA is supporting Uganda Development Bank in developing a strategy for agricultural finance and lending.

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