



## **AGRICULTURAL CREDIT FACILITY BRIEF TO THE CLIENTS**

### **1.0 Background:**

The Agricultural Credit Facility (ACF) was set up by the Government of Uganda (GoU) in partnership with Commercial Banks, Uganda Development Bank Ltd (UDBL), Micro Deposit Taking Institutions (MDIs) and Credit Institutions all referred to as Participating Financial Institutions (PFIs). The Scheme's operations started in October 2009, with the aim of facilitating the provision of medium and long term financing to projects engaged in Agriculture and Agro processing, focusing mainly on commercialization and value addition.

Loans under the ACF are disbursed to farmers and agro-processors through the PFIs at more favorable terms than are usually available under conventional loans. The scheme is administered by the Bank of Uganda (BoU) and its operations are guided by the Memorandum of Understanding (MoU) signed by all the stakeholders. The GoU is represented by the Ministry of Finance, Planning and Economic Development (MFPED). The scheme operates on a refinance basis in that the PFIs disburse all the loan amount required by a client and seek for a re-imburement from BoU.

### **1.1 Objectives of the ACF**

The main objective of the ACF is to promote commercialization of Agriculture through provision of medium and long term financing to projects engaged in agriculture, agro processing, modernization and mechanization.

## **2.0 Eligibility for Refinance/Sub Loans**

### **2.1 Eligible projects**

Eligible projects include acquisition of agricultural machinery, post harvest handling equipment, storage facilities, agro processing, mechanization and any other related agricultural and agro-processing machinery and equipment. Agricultural inputs required for primary production and working capital requirements are considered provided this component does not exceed 20% of the total project cost for each eligible borrower. The scheme also provides financing for Working capital and infrastructure for projects engaged in grain trading.

### **2.2 Eligible purposes**

- i. The acquisition of agriculture machinery and post harvest handling equipment, storage facilities agricultural inputs that include; pesticides and fertilizers, land opening, paddocking, biological assets that include; Banana suckers, fruit seedlings, chicks, piglets, cows and goats for restocking the farm, agro processing facilities, purchase of Grain and any other agricultural and agro-processing related activities.
- ii. Working capital required for operating expenses will be 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 shall not be used for financing working capital for purchase of land, forestry, refinancing existing loan facilities and trading in agricultural commodities with the exception of grain.*

### **2.3. Terms and Conditions of the Sub-Loans**

Sub-loan amounts are determined on the basis of assessment and appraisal of project costs and genuine credit needs in accordance with the lending policy of the PFI and the ACF Memorandum of Understanding. The **loans are designated in Uganda shillings**. The PFIs disburse the total loan amount (100%) to the final borrower (Sub-borrower) on the following terms:

#### **i. Loan amount**

The **maximum** loan amount to a single borrower is up to **Shs.2.1billion**. However, this amount can be increased up to **Shs.5billion** on a case by case basis (for eligible projects that add significant value to the Agriculture sector and the economy as a whole). There is **no designated minimum loan amount** to the final beneficiary (farmer/ agro-processor) but BoU can only reimburse a minimum of Shs 10million to the PFIs.

#### **ii Loan Tenure**

The maximum loan period should not exceed **8 years** and the minimum should be **6 months**.

#### **Grace Period:**

The Grace Period is up to a maximum of **3 years**.

#### **iv. Interest Rate**

The interest rate to the final borrower is up to a maximum of **12% per annum**. The 50% GoU contribution is disbursed to the PFIs at zero Interest (interest free).

#### **v. Facility fees**

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

## **2.4 Collateral Requirements**

The primary security for the credit facilities is the machinery and equipment financed, where applicable, and any other marketable securities provided by the borrower/final beneficiary. PFIs may seek additional security based on their evaluation of the risk profile of the project being financed.

The PFIs shall ensure that the loan is adequately secured as per their credit policy to protect their interest and that of the BoU and the GoU.

## **3.0 Financing the Grain Trade**

The scheme shall also provide financing for Working capital and infrastructure for projects engaged in grain trading. The terms will be as follows:

- The maximum financeable amount to a single borrower will be UGX 10 billion and the GoU contribution shall be 50 percent of the eligible amount.
- The maximum tenure of a loan for working capital for an eligible project under the grain facility shall be 24 months from the date of disbursement to the borrower.
- The maximum tenure of a loan for capital expenditure for an eligible project under the grain facility shall be 8 years from the date of disbursement to the borrower with a maximum grace period of 3 years.
- The applicable interest rate for loans advanced to finance 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.

## **4.0 Procedure of Accessing the ACF Loan Facilities:**

- The client forwards his/her loan application to any PFI of his/her choice.
- The PFI will then advise him/her on the terms under the ACF.
- A detailed bankable project proposal/feasibility report may be required by the PFI (depending on the loan amount applied for).

- Issues to do with the security/collateral will be negotiated with the client's PFI/bank and not with BOU.
- If the Loan application meets the requirements of the ACF, then the PFI will forward the application to BOU on behalf of the client for approval.
- BoU reviews the application for compliance in accordance with the guidelines governing the administration of the scheme;
- On approval by BoU, the PFI will disburse the funds to the client and request BoU for a re-imbusement.