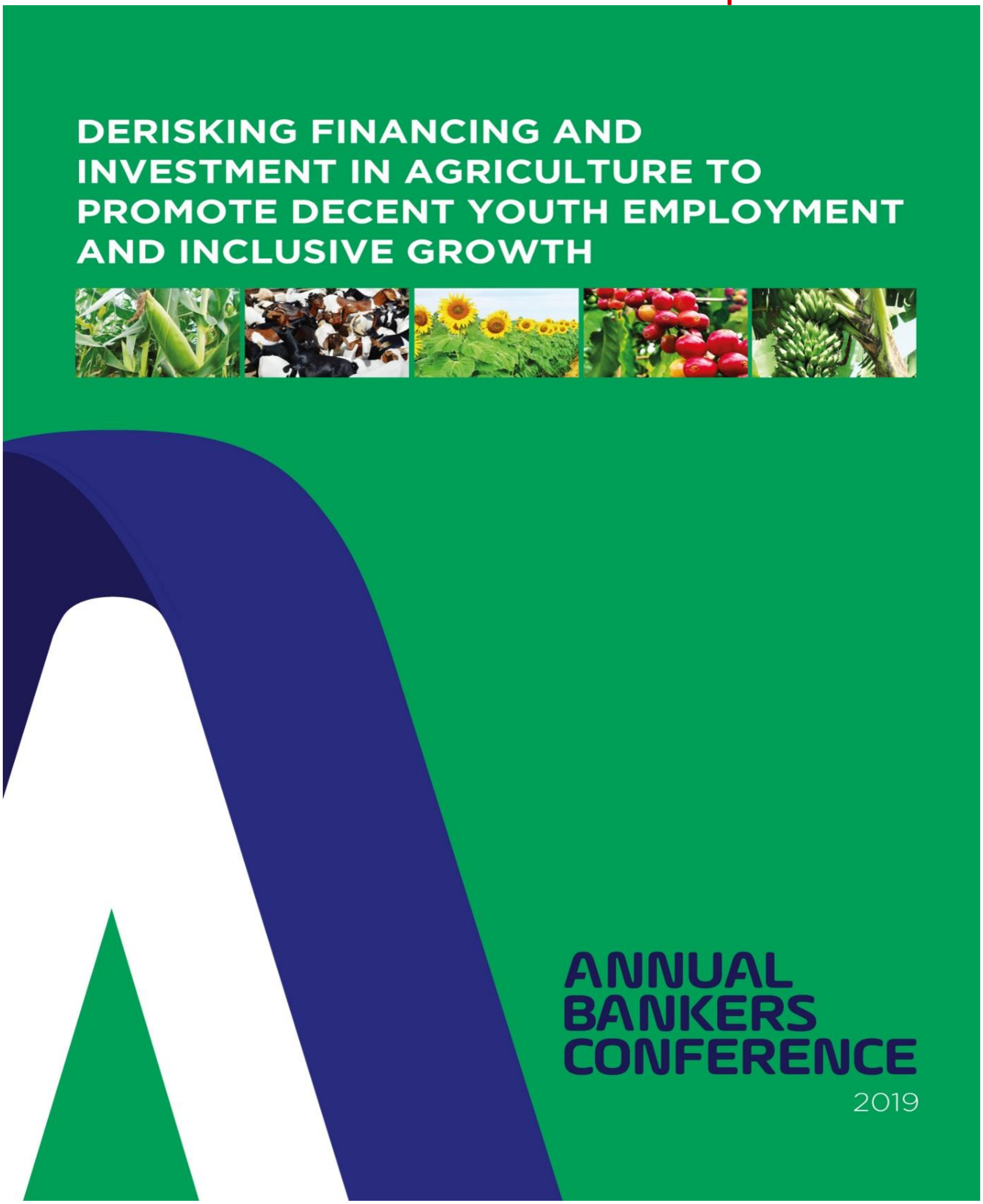
Annual Bankers Conference 2019 Report



Annual Bankers Conference 2019 Report

Contents

ACRONYMS

ABC	Annual Bankers' Conference
ACF	Agricultural Credit Facility (ACF)
BOU	Bank of Uganda
FINTECHS	Financial Technologies
ICT	Information Communication Technology
NPA	National Planning Authority
MoFPED	Ministry of Finance, Planning and Economic Development
UAIS	Uganda Agriculture Insurance Scheme
UBOS	Uganda Bureau of Statistics
UDB	Uganda Development Bank
UMRA	Uganda Microfinance Regulatory Authority

Annual Bankers Conference 2019 Report

ACKNOWLEDGEMENTS:

The 3rd edition of Annual Bankers Conference 2019 was organized by Uganda Bankers Association (UBA).

This is one of the key events on the UBA annual calendar and we acknowledge the various organizations and institutions who joined us in hosting this event and making it a success. These include Mastercard, Bank of Uganda, Mastercard, Compuscan, Equity Bank, Financial Sector Deepening Uganda, aBi Trust, dfcu Bank, Centenary Bank, Uganda Development Bank Oracle, Zubacx, and Raxio.

Sincere appreciation to the writers and advertisers who contributed to the Annual Bankers Conference Magazine. Mr. Godfrey Mulengi, the entire Ideas House Team, and the entire UBA Secretariat Team are acknowledged for their support towards putting together the Annual Bankers Conference.

The authors who contributed articles to the conference magazine, resource persons including speakers who dedicated time off their busy schedules to attend and share views at this event are duly appreciated. To the Minister of Finance, the Governor BOU, the Keynote Speaker from Rabobank, the Netherlands Ambassador to Uganda, we highly appreciate your contribution.

All the panelists and moderators at the respective panel sessions are highly acknowledged for their sharing relevant information, recommendations, and their invaluable contribution that made the entire conference a success.

Last but not least, sincere appreciation to the Conference support team, UBA Secretariat team, the Master of Ceremonies, Fenon Events, Fix It, Djito, Media Team for their tireless commitment towards the Annual Bankers Conference and the useful advice to ensure that the conference is a success.

Patrick Mweheire

Chairman, Uganda Bankers Association

Annual Bankers Conference 2019 Report

1. INTRODUCTION:

Uganda Bankers Association, the umbrella body encompassing supervised financial institutions (all commercial banks in Uganda & Tier II & III financial institutions) as well as Uganda Development Bank, East African Development Bank held a one day conference on "De-risking the financing & investment in agriculture to promote decent youth employment and inclusive growth" on the 16th of July 2019 at Kampala Serena Conference Centre.

The Conference whose theme was **"De-risking financing & investment in agriculture to promote decent youth employment and inclusive growth"** was organized for the purpose of facilitating a focused discussion among key players & stakeholders around making financing of agriculture attractive to financial service providers, leveraging on several perspectives for mitigating risk including market incentives, technology, insurance, research, specific policy frameworks & a wider support & collaborative framework to ensure sustainable growth & investment in the agriculture sector of Uganda.

1.1 BACKGROUND:

Agriculture continues to play a vital role in the development of the Ugandan economy by employing 70 percent of the labour force (UBOS, 2017), accounting for 23 percent of GDP and contributing to nearly 50 percent of total export earnings (UBOS, 2017). Agriculture has the potential to play an ever-increasing role in improving food security as well as increasing Uganda's export volumes through sustainable supply of key agricultural commodities. In addition, the sector provides huge potential to transform the economy through the value chain and the sector's linkages to industry and services as well as its effects on employment and income growth. Agriculture is therefore everyone's business and national independence depends on its development because it enables countries to escape the scourge of food insecurity and provides employment for the youth. Despite its important role, the sector faces a number of challenges key among them, at the farm level include high pre & post-harvest losses; the lack or limited access to and use of financial services; inadequate, inaccurate and untimely market information, among others. Up to 4.8 million of Uganda's 7.6 million households (63%) report subsistence farming as their primary source of income (UBOS 2014). These are predominantly smallholder farmers for whom agriculture growth has been sluggish. Productivity remains well below potential which undermines economic growth, export earnings, livelihoods and nutrition.

Annual Bankers Conference 2019 Report

Agricultural labour productivity measured by agricultural GDP per worker is just US$125 per year compared to total productivity per worker of US$687 economy-wide (UBOS 2018). Most value chain actors, especially farmers and in particular smallholders (who make up the majority- estimated at 80 percent (NPA, 2013)) who wish to improve productivity and connect to markets lack timely agronomic and market information, lack access to secure and affordable financial services and insurance to respond to shocks.

Only 12% of private sector credit goes into agriculture in comparison to other sectors like trade, real estate and or manufacturing at over 20%. Limited access to the financial services is due to a number of factors including the high cost of delivering financial services in rural areas due to infrastructural deficits, poorly designed financial services and products that don't meet the requirements of agriculture especially smallholder farming, low levels of financial literacy amongst sector actors and a reluctance of financial institutions to extend services to the sector due to the perceived and actual risks of agricultural activities.

Furthermore, limited access to market information such as price, post-harvest product handling and limited technology options, quantity needs, quality standards, locations, and timing of production deters the actors from fully engaging and participating in agriculture value and supply chains. Today, technological innovations are however tearing down these barriers of access and use of financial services as well as access to information and are becoming a means of offering faster, more convenient, and more cost-effective financial services and market information. The rapid growth of digital infrastructure and the advent of agent/branchless banking (which offers the ability to transact outside of a traditional bank branch) offers an opportunity to expand access of formal financial services to a wider proportion of the rural population.

The growth of ICT industry and mobile telecom revolution in Uganda has provided immense opportunities for targeting various nodes in the agricultural value chains; and in linking smallholder farmers to financial services as well as input and output markets. By leveraging on the available technology, payment systems such as mobile based and card-based, digital finance can extend the convenience and revolutionize the transaction environment within the agricultural value chains. If the technological innovations and digital finance developments are managed effectively, they will continue to bring enormous benefits to agriculture and the economy at large.

1.2 ABOUT THE CONFERENCE:

The over 500 Conference participants deliberated intensively on various agriculture financing and investment issues and focused particular attention to how financing of agriculture could be made more attractive to financial institutions in Uganda through interventions that address risks inherent in agricultural financing and the undertaking of agriculture as a business, as well as leveraging on technology so as to ensure sustainable growth & investment in the agriculture sector of Uganda.

The conference focused on the areas/subject matters below and delivered through a keynote address and thereafter a panel session comprising of public & private sector actors who discussed and drilled down on particulars of the keynote address. This was followed by three breakout sessions in which the presenters, panellists and participants in each of these sessions were tasked to come up with key recommendations to specific stakeholders.

- Making financing agriculture attractive to financial institutions.
- Revolutionizing the agricultural value chain through the use of digital infrastructure.
- Improving overall agricultural productivity, decent youth employment and inclusive growth.
- Role of financial institutions in harnessing the potential in agriculture
- Legal, Regulatory, Policy and institutional frameworks to support the agriculture sector
- Practical experiences in harnessing the potential in agricultural value chains
- Role of technology in the agricultural value chain
- Agricultural productivity, youth employment and inclusive growth

1.2.1 Key Conference observation

It was however, apparent during the discussions that access to finance/lending alone is not sufficient to transform the agriculture sector. Several other limiting factors, constraints and bottle necks equally required attention to harness the full potential in agriculture.

1.2.2 Conference Aspirations:

The desired output of the conference was to get recommendations to support a significant increase in the scope and level of funding to the agriculture sector by raising the total credit from financial institutions from the current 12 percent to over 20 percent in the next four to five years, and for this number to keep on increasing in the subsequent years.

1.3 SUMMARY OF KEY TAKEAWAYS & RECOMMENDATIONS

1.3.1 Key recommendations

Below is a summary of key interventions to improve the availability and access to agricultural finance.

1.3.1.1 Financial Institutions

- Financial institutions should invest in understanding the agricultural sector by knowing the kind of farmers they want to reach, the nature of farming they are engaged in, so as to understand their credit needs and what they can afford. This would facilitate tailoring and modeling financial packages that meet the needs of the specific farmer categories and their businesses. (Targeting, Tailoring, Layering).

- Investing in skilling staff on agriculture and structure financing interventions around value chains. Financial Institutions must invest in understanding the value chain by focusing on the following,

   a) Understanding how specific value chains work.
   b) Appreciate the margins of particular chains (know what kind of crop is it, is it a cash crop with export potential or a food crop for local production?)
   c) Determine the level of integration (backward & forward linkages)
   d) Know the particular players in this chain, is there a potential value chain integrator, who can be a change agent in a particular value chain?
   e) Gain appreciation on what this particular chain requires to produce more and better quality?
   f) Establish if the farmers in this chain are organized, know acts as the main player in the value chain, is it the trader or the processor?
   g) Gain appreciation of factors that impact on this value chain e.g. land structures, land ownership and tenure, other infrastructure relevant, access to the markets etc.

   Value chain assessment covering the above enables financiers not only see & mitigate the risks better but also follow the income flows as well as enable development of appropriate policy interventions to support attractiveness in financing that particular value chain.

- Financial institutions were advised to follow their money by paying monitoring visits to the farmers who have accessed agricultural loans as a means of offering guidance and early assessment of their ability to pay back in order to avoid non-performing loans.

- Apart from offering stand-alone financial products, financial institutions could obtain optimal de-risking by combining their financial products with other products such as insurance, guarantees and training offered in collaboration with other partners.

- There is need for Financial Institutions to build strong partnerships with a long-term horizon. The partnerships can be built with development partners who can improve access to capital for financing farmers and agri-businesses or with other private sector actors and the public sector through blended financing in order to mobilize additional funds and strengthening of funding mechanisms.

Blended finance refers to the strategic use of concessional finance to catalyze additional private sector or commercial funds. Concessional resources could be domestic or international or both and refers to any financial instrument that accepts returns lower than market level as in the case of technical assistance or grants or no return at all.

The most common concessional tools include grants, concessional loans (usually featuring low interest rates, flexible collateral requirements, long maturities and grace periods), credit and risk guarantees, and technical assistance. Concessional can also come in a variety of other forms such as first loss equity tranches, deeply subordinated debt and hedging of interest rates and currency exposures and works best for specific projects, schemes or value chains.

Financial institutions were advised to identify and collaborate with value chain champions in the entire agricultural sector as a means of identifying value chain integrators who can work as change agents, obtaining thorough understanding of the differences in the agriculture value chains by nature of commodities and location, the profit margins, determining how they work and how to merge the value chains and in further understanding the entire ecosystem-actors and the role they play in influencing the agricultural sector.

- Financial Institutions should focus on and give attention to SMEs who form the majority of businesses supporting agriculture value chains and structure frameworks to enable them build capacity in areas of governance, financial & recording keeping among others in-order make the attractive for access to credit & to harness their potential.

- Financial institutions should leverage digitization and agricultural technology. There are numerous initiatives and innovations on digitization that can be used to understand, anticipate and mitigate agricultural financing related risks, capture and analyze data on weather patterns and other parameters, volatility of the agricultural sector, data pertaining to financial behavior and credit worthiness of farmers In addition, technology can be used to train and build the capacity of farmers in financial management.

1.3.1.2 Regulators

- Create incentives for financial institutions to mobilize long term finance for agriculture.
- Review regulatory provisions to cater for the unique nature of agricultural finance including loan provisioning in times of distress.
- Widen the scale/pool of existing de-risking mechanisms (Agricultural credit facility, Agricultural insurance scheme, guarantee schemes etc.).

1.3.1.3 Government/Policy Makers

- Finalize and adopt draft policy on agricultural finance to align the activities of institutions involved in the supervision of agricultural financing and guide the government's interventions.
- Fast track the enactment of the National Payment System Act and Regulations These instruments will provide consumers with protection from risks such as fraud when engaging in electronic payment transactions.
- Minimize uncoordinated interventions, policies, work plans by government agencies that end up ultimately impacting the agricultural sector negatively.
- Design & implement financial inclusion programmes that specifically target young people, backed by integrated employment policy responses. These include targeting value chains as a source of employment and mindset change and vocational skilling and digitization to strengthen their capacity to boost productivity.
- Facilitate the revival of cooperatives from the grass root (society, unions etc.) up to apex level. They bring the much-needed mobilization of farmers, for financial literacy, savings, credit, marketing, pricing, farm inputs management, standards, extension services, logistics e.g. transport to market etc.

Annual Bankers Conference 2019 Report

1.3.1.4 Government Agencies supporting Agriculture

- Improve data collection mechanisms and analysis to inform the policymaking process.
- Strengthen Agricultural research to help framers adapt to climatic/weather, farm inputs, pest, soil quality, related risks and to enhance/improve productivity.

- Develop guidelines and standards on provision of agricultural business development services and build capacity of agricultural advisory service providers. This is critical for the provision of quality agricultural sector-specific business development services and growth of the sector as a whole.

- Strengthen implementation of standards and develop innovative ways to ensure compliance with standards through two tracks: improvements to national standards systems and private sector self-regulation. Examples could include educating value chain stakeholders on legal requirements (including the application of standards) for storage, transport, grading, sorting, processing, retail, and export.

- Develop and strengthen the enabling environment for alternative forms of collateral including strengthening the implementation of Warehouse Receipts System (WRS) Act and Regulations, commodity exchanges, online markets etc.

- Improve implementation of regionally harmonized rules, including harmonized standards for financial services (short to medium-term recommendation). This is key to unlocking wider market opportunities for the agricultural sector within the East African Community.

- Re-evaluate tax exemptions and incentives to facilitate the supply of agricultural goods and services. This could also include government action to streamline the processes of claiming tax exemptions, so that agricultural value chain actors can take advantage of them, and continuation of existing tax exemptions.

- Improve processes and procedures for land tenure, focusing on balancing the needs of different stakeholders. Digitizing land records system in a way that upholds stakeholders' rights and streamlining procedures for land governance will be important.

1.3.1.5 Private Sector Agencies involved in agriculture (Value Chain Players)

- Invest in appropriate infrastructure such as specialized storage facilities, processing, transport & logistics, digital trading platforms etc. that facilitate trade in agriculture,

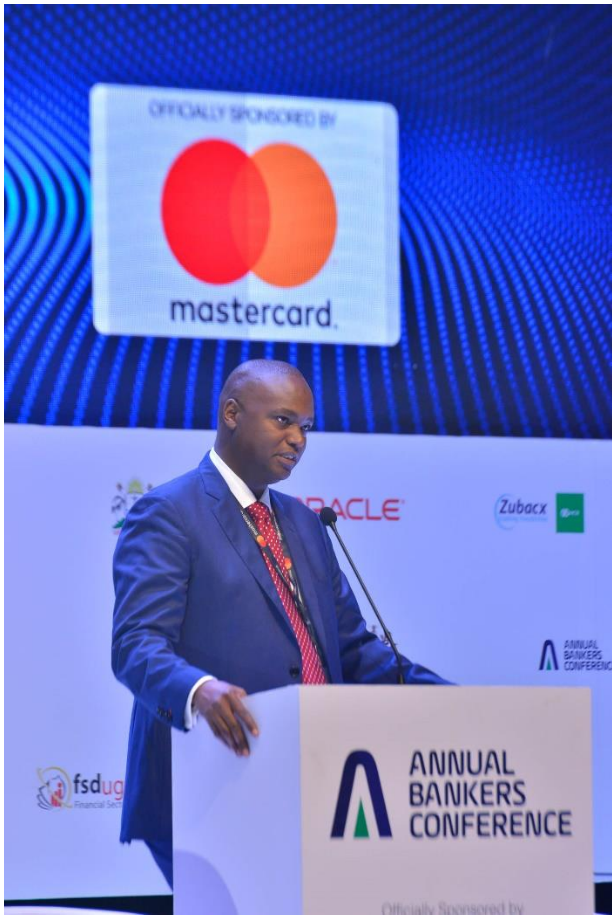
1.3.1.6 Farmers & Farmer Groups.

- Undertake farming as a business with the required discipline of therein including maintenance of records…
- Organization/Cooperatives: Organize around groups, cooperatives or structures that support common interests and enable easier targeting & channeling of interventions *(like training & capacity building, extension services, input supplies, post-harvest loss minimization, transportation, pricing & marketing support etc.)* by government or any other support partners & agencies.

2. CONFERENCE PROCEEDINGS

2.1 OPENING REMARKS

2.1.1 Remarks by Mr. Patrick Mweheire, UBA Chairman & CEO Stanbic Bank Uganda



In his address, Mr. Mweheire welcomed the delegates and thanked them for honoring the invitation to the 2019 Annual Bankers Conference. He specifically thanked the top government officials for their presence at the conference and expressed gratitude to government for responding positively to the investment risk concerns and other issues raised in the past two conferences. He singled out issues around stamp duty on bonds and guarantees relating to construction & infrastructure projects, withholding tax on treasury instruments, the new legislation on data protection and privacy, security interest in movable property, and the issuance of a statutory instrument enabling private sector led arbitration, through the establishment of a mediation Centre-ICAMEK.

He also acknowledged the ongoing consultative processes on the financial sector development strategy and the agricultural finance policy, adding that such public-private sector collaboration shall go a long way in fostering investor confidence in the financial sector and the country at large.

Mr. Mweheire proceeded to outline the purpose of the conference, which he said, was designed to provide the participants with the opportunity to engage in dialogue with the financial sector on how to advance the potential of the agricultural sector, by exploring the opportunities therein and ways of overcoming the financing challenges in order to make the sector more vibrant, competitive & productive.

He further explained that the agriculture sector had been singled out as a major focus area for the conference because of its significance to the growth of Uganda's economy. He made reference to statistics that indicate that at least 70 percent of the households report agriculture as the primary source of income, 50 percent of Ugandans spend their income on food, and agriculture contributes up to 60 percent to export revenue, yet only 12 percent of private sector credit goes into agriculture in comparison to its contribution of about 25% to the GDP. He thus underscored the need for the financial institutions to discuss and explore ways of addressing this mismatch.

He cited the Agriculture Credit Facility (ACF), the Agriculture Business Initiative (aBi), the Uganda Agriculture Insurance Scheme, and Agent Banking as some of the interventions that have helped increase the flow of financial resources into agriculture. He also cited the application of blockchain technology that facilitated the financing in Kapchwora by Stanbic Bank of about 3,000 farmers. He however, cautioned that, provision of finances per se could not solve the numerous challenges affecting the sector, he emphasized the need to deal with governance issues in small, micro, and medium-sized enterprises (SMEs), as well as, the need for a holistic approach in addressing the challenges within the agricultural sector. He appealed for partnerships and adoption of consistent coordinated approaches involving all the stakeholders, including policy makers, development partners, the farmers and agri-entrepreneurs and called on conference participants to take a holistic approach in discussing issues therein.

2.1.2 Remarks by Professor Emmanuel Tumusiime Mutebile, Governor, Bank of Uganda

Prof. Mutebile thanked UBA for inviting him to address the 3rd edition of the Annual Bankers' conference and commended the association for focusing attention on the potential role that finance can play in leveraging the agriculture sector to diffuse the demographic bomb that threatens to explode, if Uganda does not create decent jobs for the youth.

The Governor noted that the agriculture sector's contribution to Uganda's GDP, and employment in agriculture as a percentage of total employment had continued to decline, despite the high population growth. The Governor drew the attention of participants that only a tiny proportion of the youth aspire to get involved in the agriculture sector.

Regarding financing agriculture, he reiterated the need to improve financial access and lowering of lending rates to farmers and agribusinesses as a way of expanding the volume of their lending and attracting substantial numbers of businesses in the economy to borrow money for investment. He however informed conference participants that while he remained uncomfortable with the high lending rates and believed that these should be reduced sustainably over time, he restated that access to credit is not the outright constraint of growth in agriculture.

The Governor urged financial institutions to think holistically about the challenges holding back the power of finance to transform the agriculture sector and to re-evaluate what they consider as bankable projects. He advised that such diagnostics would aid in designing durable financial solutions that meet the needs of potential borrowers, most especially the informal businesses and microenterprises whose capacity to utilize credit effectively is constrained, due to inadequate business and technical skills, high costs of inputs, and unpredictable market conditions.

Prof. Mutebile highlighted and commended the initiatives taken by some financial institutions to improve access to credit to the informal sector through business incubation programmes and adoption of appropriate financial technologies. He expressed optimism that financial institutions would continue to embrace the potential in *bancassurance* to exploit synergies with the insurance sector and design appropriate products for the riskier borrowers.

Prof. Mutebile reiterated that it is possible for Uganda to industrialize through harnessing of key priority sectors and industries such as agro-processing, ICT, transport & logistics sector that have the potential to absorb majority of youth seeking employment.

He concluded his remarks by urging government to steer demand driven agriculture development by boosting export-oriented manufacturing and growth of the tradable services to meet the rapidly growing urban demand for food. He argued that the rural-urban linkages had the potential to create market for rural production, foster innovation and advancement in production, processing, and packaging, across all the stages of the value chain; and eventually reduce the import bill. He, thus, called upon both Government and the financial sector to invest in infrastructure such as roads, cold storage, transport that support farmers to boost production and access markets, and provision of services such as agricultural extension, and matchmaking between international firms and local suppliers.

In the same vein, he pledged Bank of Uganda's continued commitment to work with Government and financial institutions in promoting affordable agricultural finance through the Agricultural Credit Facility, which he encouraged all eligible borrowers to take advantage of.

2.1.3 Address by Hon. Matia Kasaija, Minister of Finance, Planning & Economic Development representing the Prime Minister:

Hon. Matia Kasaija represented the Rt. Hon. Dr. Ruhakana Rugunda, Prime Minister of the Republic of Uganda, who was unable to attend the conference due to other official commitments.

Minister Kasaija expressed his appreciation to UBA for bringing together financial institutions and all stakeholders in one room to deliberate on matters affecting the agriculture sector. The minister also expressed delight that the financial institutions who play a major role in driving the economy, had chosen to reflect upon how to unlock the flow of the so much needed finances to the agriculture sector and its value chains.
Minister Kasaija pointed out that the theme of the conference underpins the critical facets of the country's economy and priorities of the government of Uganda. He said the

importance of agriculture to Uganda's economy cannot be underestimated given that it accounts for more than 72 percent of Uganda's labour force, contributes more than 22 percent to GDP and to over 40 percent of the country's export earnings. In addition, the sector is a major source of raw materials to the Agro-processing industry and serves as the backbone of the country's food and nutritional security. Thus government is mindful of the need to transform agriculture from just a means of producing food, into a powerful engine and epicenter of economic growth in Uganda. He however, noted that for agriculture to achieve its full potential, critical elements had to be taken into consideration including innovation, mechanization, and other investments by farmers, agricultural input suppliers, processors, traders, storage firms, exporters, distributors, financiers and many other actors along the agricultural value chain.

The Minister presented an overview of the actions undertaken by government to prioritize agriculture within its development plans He explained that within the second National Development Plan (NDP II), agriculture was prioritized alongside other sectors such as Tourism, Minerals, Oil and Gas sectors, infrastructure development and human capital development, as the five key investment areas with the greatest multiplier effect on the economy. He however, emphasized that the agricultural sector had the biggest multiplier effect from all the five mentioned, agriculture was number one. He emphasized the following key focus areas critical to transforming agriculture from subsistence to commercial farming,

- Adoption of modern farming practices and technologies:
- Strengthening agricultural research to help farmers adapt to the changes in climate/weather, risks from pests, new crop varieties, high yielding and climatic resistant seeds as a way of increasing productivity per unit area of land.
- Improving the extension system and delivery of extension services.
- Technology adaptation at the firm level
- Increased access to and effective use of critical farm inputs

- Promoting sustainable land use and soil management
- Increasing access to agricultural finance with specific options for women farmers
- Strengthening agricultural institutions for effective coordination and service delivery

Regarding agricultural financing, The Minister rejected accusations of government under funding to the agriculture sector explaining that for the past five years, government had progressively increased funding to support the agriculture sector through development of road infrastructure to ease access to markets, provision of electricity, water for irrigation and ICT services, all of which indirectly support agriculture.

In terms of direct allocations, he said funding to the sector had increased from Shs. 400 billion in FY 2015/16 to Shs. 1 trillion in FY 2019/20.

On the issue of de-risking financing and investment in agriculture, The Minister argued that agriculture was just as risky like any other business and financiers should not use it as an excuse. He cautioned financial institutions against lending money to farmers and failing to guide and follow them up to see how best they are using borrowed money. In the same vein, the Minister appealed to the farmers and other borrowers to always engage banks whenever they are faced with repayment challenges

Annual Bankers Conference 2019 Report

The Minister highlighted the various interventions and policy frameworks that the government had put in place to aid in de-risking financing and investment in agriculture to promote decent youth employment and inclusive growth. These included:

- Agricultural Credit Facility (ACF) established in FY 2009 in collaboration with commercial banks to offer medium and long term loans to projects in agriculture and agro-processing on more favorable terms than are usually available from the commercial banks. The fund is managed by BOU.
- Uganda Agriculture Insurance Scheme (UAIS) set up in FY 2016/17 to cushion farmers from risks associated with losses arising from natural disasters; and to also attract financing to agriculture.
- Uganda Microfinance Regulatory Authority (UMRA) established in 2017 to promote the growth of a sound and sustainable non-banking financial institution's sector to

enhance financial inclusion, financial stability, and financial consumer protection for the lower income segment of the population in Uganda

- Capitalization of Uganda Development Bank with Shs. 103 billion in FY 2019/20 to provide low-interest loans to manufacturers, farmers and other players in the sector in order to speed up government efforts to modernize agriculture and expand agro industry.
- 100 percent government stake among financial services providers such as Pride Microfinance, Microfinance Support Centre Limited, Post Bank and UDB to address market failure risks in financial service delivery.
- Agricultural Business Initiative (aBi) established in 2010 in partnership with the Denmark Government to provide Lines of Credit (LoCs) to Financial Institutions for on-lending to agribusinesses across the entire value chain. aBi Finance also runs an Agriculture Loan Guarantee Scheme (ALGs) for Financial Institutions to minimize losses incurred from loan default.
- Expansion of agriculture markets beyond EAC and COMESA, to include China, EU, USA and Asia for Ugandan agriculture products.

The Minister further highlighted the following specific policy instruments and legislation developed to align, coordinate and incentivize investment in Agriculture.

- Tax exemptions offered on plant and machinery equipment, agricultural equipment as well as inputs.
- The Financial Institutions (Amendment) Act, 2016 that provided for Agent Banking in Uganda and Regulations in 2017 to guide its implementation.
- The National Agriculture Finance Policy and Strategy that is being finalized to harness the full potential of agriculture so that farmers can expand absorption of financial products and services.

2.2 KEY NOTE ADDRESS

2.2.1 De-risking financing & investment in agriculture to promote decent youth employment and inclusive growth

The keynote speaker was introduced by Mr. Jimmy Mugerwa, Chairman DFCU Bank Limited.

In his introductory remarks, the dfcu bank chair, informed conference participants that the banking sector was continuing to grow and to attract investments, but it was being undermined by the ongoing negative publicity on social media, where banks and some executives were being targeted. He appealed to the Minister of Finance and Government in general to address this concern, since it had far reaching implications, not only to financial institutions, but also on the investor confidence in the country. He urged the government not to remain silent in such circumstances.

The Chairman introduced the guest speaker Ms. Marianne Schoemaker, Managing Director Rabo Partnerships, a division of Rabobank focusing on partnerships in emerging countries to further financial inclusion and access to financial services.

He noted that Rabobank was the second largest bank in the Netherlands in terms of total assets and also a global leader in the food and agriculture sector. He shared with participants the relationship between Rabobank and dfcu Bank noting that it was through these linkages that 20% of dfcu bank's portfolio was dedicated to supporting agriculture value chains in Uganda.

Annual Bankers Conference 2019 Report

Ms. Marianne Schoemaker, Managing Director, Rabo partnerships, Netherlands; set the scene for the day's discussions by giving the participants a series of takeaways on de-risking financing and investment in agriculture on which to deliberate. She presented the history of agricultural financing in the Netherlands using the case of Rabobank to demonstrate the bank's and the country's long term commitment to the food and agriculture sector. Schoemaker took participants back in time to demonstrate how Rabobank evolved to become a global leader in food and agriculture financing. She explained that Rabobank emerged from Raiffeisenbank and the Boerenleenbank, two banks modelled on an agricultural credit cooperatives established by the rural German mayor Friedrich Wilhelm Raiffeisen (1818-1888).

She told the conference that during that time rural areas faced extreme poverty and access to credit for farmers was a challenge. Farm work was extremely labour intensive, and the literacy levels were low. It was around that time that Friedrich Raiffeisen began looking for ways to assist struggling farmers and craftsmen to transform their lives and came up with a model for a type of credit union which used the savings of the local community to meet the community credit requirements under favorable conditions. She further explained that the model was based on self-help, taking individual and mutual responsibility, and the involvement of all stakeholders. These organizations also had a social function, since Raiffeisen’s philosophy emphasized education and learning. The Raiffeisen idea was also adopted in the Netherlands around 1895 and several agricultural cooperative banks were established and structured along the Raiffeisen system.

The keynote speaker revealed that the cooperative agricultural banks quickly took root in the Netherlands because of the efforts and collaboration between high and lower social classes, agricultural society organizations, government institutions, churches and saving societies. This was rooted in Raiffeisen’s cooperative idea of ‘standing strong together’. In addition, the members of the banks who were mostly local farmers, horticulturalists, and small, local agricultural cooperatives shared responsibility for managing and operating these banks in conformity with another of Raiffeisen’s tenets of “*walk the talk and follow your money”.* Schoemaker explained that members were also required to provide personal guarantee and the savings collected by the cooperative banks, funded loans to their members. Any profits generated were added to the annual reserves to compensate losses without having to rely on the members’ unlimited liability.

Owing to the proper governance structures and level of stakeholder engagement, by 1920, more than 600 agricultural credit cooperatives were affiliated to the central bank. She added, that ten years later, their number had grown to 1148, with a total combined membership of approximately 144,000 and by the 1930, every municipality had at least one credit cooperative, which in some cases also had a dual function as a trade association. As a result, this structure resulted into a close-knit network of autonomous agricultural credit cooperatives, which laid the foundation for the success of Rabobank in particular and Netherlands in general.

She reiterated that based on Raiffeisen's model, agricultural credit was extended through savings and credit unions, bringing scarce capital within reach of farmer & entrepreneurs. In turn, access to financial services gave a strong boost to investments in agriculture, enabling higher yields, which gave a strong boost to economic development in the Netherlands, bringing about improved welfare, prosperity and stability. According to Schoemaker, it is this turnaround of events, within just a few decades that has made these cooperative agricultural banks become the epitome of rural banking and made the Netherlands the world's second largest exporter of agriculture produce, a leader in chemical industry, high-tech, logistics and life sciences. She reaffirmed that it was against this background that Rabobank developed into a renowned leading food & agri bank worldwide.

Regarding the mitigation of risks involved in banking Food and Agriculture, Schoemaker argued that the financial sector needs to invest in understanding and following the food and agricultural value chains right from the farm to the plate, She advised financiers not to jump into financing agriculture without understanding the entire eco-system in terms of influencers like government policies, societal and infrastructure issues, the actors in the value chain and what role they play along each specific commodity value chain. She explained that Rabobank is able to remain comfortable in financing the sector not only because it is deeply engrained in the bank's ambition and origins, but because it invests in understanding the risks, volatility and unpredictability of the sector that ultimately have an impact on the production, demand, pricing of agricultural products and food, and therefore income and investments of businesses. She noted that the bank had a global team of over, 90 analysts who follow the food and agriculture sector prices, trends and commodity flows on a daily basis and share this information with all the knowledge centers worldwide. She emphasized that financiers need to become the best risk information collectors in the F&A sector and this requires deep knowledge of the agri food sectors.

Regarding food availability, she observed that food was becoming and would continue to be an important global topic in the future because of the growing population and the reducing amounts of arable land. She noted that in Africa only 15 percent of the land is arable land, yet Africa hosts 15 percent of the world's population, while Asia hosts 60 percent of world population on 35 percent of the world's arable land. This implied there was already an inbuilt competition for food as population continues to grow significantly in the years to come. She further explained that by 2100, Africa will have a population of 4bn while Asia will have 5bn. This will have a massive impact on demand for food, both in quantity, variety (the latter because of the increased prosperity of large numbers of people in especially developing and emerging countries which will result in shifts in diets) as well as on the global trade in food and food commodities. Schoemaker, therefore advised, that for Uganda to provide food for its population in the future, agri-business and agriculture production must be prioritized. She also called for deeper understanding of the impact this situation would have on trade, and the likely measures that Asian countries may deploy to become more food self-sufficient.

The keynote speaker noted that although value chains may look the same, they are actually different and it was therefore important for financiers to invest in understanding the value chain by focusing on the following,

a) *How value chains work.*
b) *The margin in a particular chain.*
c) *The level of integration.*
d) *If the type of crop is a cash crop with export potential or a food crop for local production*
e) *Who the particular players are in this chain and who can be the change agent.*
f) *What this particular chain needs to produce more and better quality*
g) *The level of organization of the farmers.*
h) *What structures support the chain including land ownership, tenure, other infrastructure like road networks and access to the markets?*

Schoemaker emphasized that by answering the above questions, the financiers will be in position to determine that the margins along the chain as well as identify which policies are crucial to support sustainable & equitable growth of those chains.
She also advocated for dedicated farmer skilling programmes, a service that could be provided by both the government and the private sector.

On the issue of youth employment in the agriculture sector, she noted that while the previous speakers had indicated that in Uganda over 70 percent of the workforce was engaged in the agriculture sector, this was not the case in the Netherlands. She explained that in the Netherlands only 10 percent of the working population is actively engaged in the food and agriculture sector, and the number of farms is consistently decreasing by 10 per cent per year. She however, pointed out that the sector was becoming highly dynamic, data driven and with innovations that are making it more capital intensive, hence making it more attractive to the young people. She therefore appealed to the participants to make agribusiness appealing and attractive to the younger digital savvy generation by launching supportive policies and education, and actively supporting digitization of agriculture.

Regarding the role of technology, Schoemaker appealed to financiers to embrace digital platforms such as the agri wallet, since new technology can mitigate risk and help with credit assessment by creating data driven individual farmer profiles track record for farmers using blockchain. She concluded her presentation by urging for appropriate financing policies and a long term vision to enable the necessary reforms required to stimulate agricultural infrastructure to take root.

2.3 PANEL SESSION 1

Mr. Arnold Bagubwagye from Bank of Uganda moderated the session. The session focused the key note address as well as the following specific discussion areas.

- **Legal, Regulatory and Policy Frameworks to attract more funding towards the agricultural sector**
- **Role of Financial Institutions in harnessing the Potential in Agriculture**.
- **Value chain financing. How has it worked for Nile Breweries and its value chain?**
- **Role of Technology in the Agricultural Value Chain: Regional experiences.**

The panelists for this session were:

- Mr. John Byaruhanga, Acting Director Economic Affairs, MoFPED.
- Mrs. Esther Muiruri, Associate Director- Agribusiness, Equity Bank Group Kenya
- Mr. Thomas Kamphuis, Country Director Uganda & South Sudan, Nile Breweries
- Mr. Raghav Prasad, Division President, Sub-Saharan Africa, Mastercard
- Dr. Charles Abuka, Acting Executive Director Research, BOU.

The session reiterated the main speaker's emphasis on technology as an enabler for financial institutions to offer more products and services to the agriculture sector.

The session called on financial institutions to rise above issues of risk by being innovative and working in partnerships with other actors such as government, fintechs & development partners The session shared Kenya's experience in financing the agriculture sector benchmarking against Equity Bank especially their experience with tea farmers and related value chain as well as the support of partners like IFAD & AGRA. Panelists noted that government needs to continue providing incentives for the private sector to participate. Emphasis was made to the effect that financing agriculture is not just about credit, but payment solutions, markets and prices as well and farmers ought to be educated about all the above.

The Nile Breweries experience on using blockchain technology to manage their transactions with the farmers, in terms of, identification of how much inputs, how much yield, the quality of products, pricing of the crop and effecting payments was shared. It was noted that tracking and storing such farmer data would enable financial institutions get assurance on funding farmers from an informed point of view. It was however, noted that Uganda still needs to improve the telecommunications connectivity and other infrastructure to facilitate digital transactions, most especially in the rural areas which would in turn reduce on the risks of carrying money around. The panel noted that the current weather monitoring system in the country were inadequate to guide farmers.

A key recommendation towards reducing the cost of financial services (specifically agricultural credit insurance was to consider waiving taxes from agricultural insurance. Financial Institutions were advised to re-train not only their commercial officers, but their entire staff on the dynamics in the agriculture sector and the inherent risks therein. . On the other hand farmers need to be supported by way of financial literacy and overall appreciation of credit and the discipline required in utilization of borrowed funds.

2.4 BREAK AWAY SESSIONS

2.4.1 Session 1: Making financing agriculture /agribusinesses more attractive to financial institutions.

Mr. Patrick Kamara, from NTV-Uganda moderated the session which focused on the following areas.

- **Agriculture Financing: Experiences & Perspectives from Financial Institutions.**
- **De-risking Agriculture Financing, Lessons & recommendations from the Uganda Agriculture Insurance Scheme.**
- **Integrated approaches to catalyze the growth of agriculture as a business.**
- **Financing & Investment in Agriculture & Agri-Businesses: Perspectives from farmers & non-bank stakeholders.**

The introductory presentation to set the scene was delivered by Mr. Jared Osoro, Director Kenya Bankers Association. The Panelists included:

- Mr. Robert Kabushenga, farmer and Chief Executive Officer, Vision Group
- Mr. Mathias Katamba, Chief Executive Officer, dfcu bank
- Mrs. Josephine Mukumbya, Group Chief Executive Officer, aBi Trust
- John Makosya from the Uganda Insurers Association (Agric Insurance Desk)

The session noted that the current public resource allocation is not effectively contributing to de-risking the agriculture sector and that according to the Comprehensive Africa Agriculture Development Programme (CAADP) guideline, agriculture spending as a percentage of total public spending should be 10 percent. The session however highlighted issues that required attention including,

a) Budget absorption challenges.
b) Execution/implementation challenges of programmes.
c) Policy inconsistency.

The session noted that the structure of the Agriculture Sector is dominated by small-scale holders, practicing subsistence agriculture and most are still net buyers food, meaning that they produce, but in a manner that does not make them self-sufficient. It was pointed out that another dimension that needs to be examined, was the extent to which small scale farmers produce tradable and non-tradable commodities, adding that production has been skewed towards the non-tradable commodities. The session highlighted other constraints beyond financing that have to be critically considered including lack of good quality inputs, distortion of input and output markets mainly due to government interventions that create opportunities for rent seeking, minimal adoption of modern production technologies, high incidence of pests and diseases, poor or declining soil health, poor delivery of extension services, low investments in infrastructure, and inadequate land.

The session emphasized the need to focus on value chains and value addition to ensure famers adhere to standards, deliver commercial quantities and have a market where value is added to their agricultural commodities through backward & forward linkages.

The session urged financial institutions to invest in understanding the agriculture sector, the dynamics that drive farming as a business, the specific commodities, their production processes. Financial institutions were further advised to shorten and adjust their processes, more especially the credit assessment processes to suit the conditions farmers operate in, taking into account farming/harvest seasons versus loan repayments schedules. .

During this session, participants were taken through the different approaches, including guarantees & matching grants that the agricultural business initiative (aBi) uses to support the financial institutions in agriculture lending.

Discussions from the participants in the session mainly focused on how to scale up the de-risking mechanisms and ensure availability of tailored and long term financing to the agriculture sector.

The following were some of the key takeaways from the session. Public investment through resource allocation is very key in making the sector commercially attractive to private sector financiers.

- There is need to differentiate resources for small scale farmers from demand. Needs are not necessarily demands
- The cost of credit is a constraint, but access is even more critical
- Financing is very important in transforming the agricultural sector, but it is not the only constraint.

2.4.2 Session 2: Leveraging on Technology/Digital Infrastructure to revolutionize the agricultural value chains in Uganda

Mr. Micheal Niyitegeka moderated the session aimed at stimulating debate on how technology can be adopted and used to support information generation to unlock the potential of Uganda's Agriculture sector for increased production and productivity.

Panelists focused on the following,

- **How Equity Bank Uganda has deployed ICT/Digital Infrastructure in Uganda to harness the potential in Agriculture.**
- **Beyond Technology & Finance what are the other essentials framers & value chain players require to access credit?**
- **What Fintech/Agri-tech solutions/offerings are out there in the market that can support both financial institutions & farmers/value chain players in facilitating**

information asymmetry to support agricultural productivity, credit profiling, access to market information?

- **How can Uganda's agriculture be better commercialized as a business away from just subsistence to make it more attractive to financial institutions?**

The introductory presentation to set the scene was made by Ms. Rashmi Pillai, Executive Director, Financial Sector Deepening Uganda (FSDU).

Panelists included the following persons who shared their experiences in use of appropriate technologies, be it for weather, agronomic, market information or payment services in aiding penetration of financial services:

- Mr. Samuel Kirubi, CEO Equity Bank.
- Ms. Anja De Feijter, Agribusiness Development Centre.
- Mr. Stephen Waiswa, United Nations Capital Development Fund (UNCDF).
- Mr. Adolfo Cires Alonso, European Union (EU).

The session noted that only 9 percent of the rural population was using formal savings and farmer credit uptake in rural areas was only 3 percent which was why the formal financial sector needed to take steps to tap into the rural markets, by first digitizing the payment systems because there are several person to person payments, business to person payments and the reverse. The session noted that most fin-techs capture the value and frequency of payments and that this data is important in building customer and business profiles of potential borrowers.

The Amata App which provides for information asymmetry and provision of unsecured credit to actors along in the milk value chain was cited as one of the simple technologies already in place. The system had facilitated to digitization of information generated by Savings & Credit Organizations regarding individual farmers, their needs and earning on a fortnight basis.

Other technologies referenced included Geo Gecko, Gigi Farm and Farm Drive, which provide satellite services to farmers.

Also mentioned in the session was the Hello Tractor App in Nigeria that uses the Internet to offer Uber like tractor services that have aided in mechanization of agriculture. Farmers can rent a tractor at the request of an SMS. The farmers are connected to the nearest available tractor and the services are about 40 percent more efficient and affordable than the ordinary tractors.

The session called on financial institutions to take a long-term view when it comes to investing in agriculture

The session also covered the types of trainings provided to farmer based organizations including good governance, financial literacy and marketing skills so as to make farmer organizations and individual farmers bankable.

It was made clear that if farmers are trained in financial literacy, they become better customers for banks, the default rates reduce and they become less risky.

Equity Bank shared its journey in support of agriculture in Uganda anchored on four (4) key pillars.

- Value Chain Approach.
- Identifying and working with strategic partners.
- Deploying technology. (digital Channels including Agent Banking)
- Building capacity.

The session also benefitted from UNCDF's approach to digitization and the hard lessons learned over the last four years noting that the majority of the companies still shy away from going into the rural areas, but through UNCDF's financial tools and technical expertise in public financial management, SME development, and financial services development they have been able to incentivize actors across different economic value chains to think differently, break from their silos, and incubate new ways of serving the "last-mile" to . Boost productivity and generate economies of scale.

The session discussed the case of Kapchorwa where UNCDF worked together with liquidity management firms that had experience in mobile money operations, and was able to de-risk their operations in going rural, helped to solve issues around liquidity management and tackled the issue of literacy levels through booster teams to create top of mind awareness about digital financial services. Through their interventions, networks got properly set up, had customers registered, and introduced renewable energy as an alternative for charging their phones. In addition UNCDF was able to unlock the dairy, grain, and seed oil value chains by fostering transparency between the processors, traders and farmers through a. a trade app.

Regarding Agent Banking, the session noted that UNCDF was working with ministry of Agriculture, Animal Industry and Fisheries to accelerate the village agent model by helping them create a sustainability plan for the village agents. The models uses local community members as knowledge champions to sensitize and transfer knowledge to other farmers and communities. Participants learnt that UNCDF was in the process of aggregating all the financial literacy curricula to ensure harmony and comprehensiveness.

Participants learnt that in line with governments focus on agro-industrialization, the EU was working towards strengthening companies both on the demand and supply side.

The session attracted concerns around management of data, confidentiality and security of information and the need for safeguards. Panelists however concluded digitization is happening in rural areas and uptake of digital technologies is on a high in Uganda and called upon the financial sector players to utilize the existing telecommunications and internet infrastructure set up by government and other private sector actors to expand and scale up financial service provision to the rural areas.

The session concluded as follows.

- Several initiatives, models and innovations that offer digitization options for financing and enhancing productivity in the agriculture sector exist. These need to be scaled up to facilitate access and knowledge transfer to the farmers, as well as ease the operations of the financial institutions.
- Technology is a key factor, but is not the silver bullet to de-risking financing and investments in agriculture. The financial sector requires to invest more energies

in understanding the entire ecosystem of the agriculture sector, that technology and digitization are intended to drive and support.

- Financial institutions need to focus on the targeted clientele when designing technologically based solutions for the farmers for appropriateness & uptake.

2.4.3 Session 3: Improving overall agricultural productivity, youth employment and inclusive growth

Mr. Oskar Semweya of Capital FM moderated the session aimed at stimulating debate on how to ensure that the majority of the population—the youth are adequately supported to boost their productivity and incomes within the agricultural value chains.

Discussion areas included the following,

- **Financial Sector Interventions to support smallholder farmers in sustaining productivity and access to markets.**

- **Financial Inclusion & Employment: Interventions required for youth to harness opportunities in Agriculture & Agri Business.**
- **Scaling the Commercialization of Agriculture/Agro Processing: Perspectives from Development Finance.**
- **Key areas for interventions that financial institutions should focus on or undertake in-order to be able to extend more financing to the agriculture/agri-business sector.**

The introductory presentation to set the scene was made by Julius Kiiza, Associate Professor of Political Economy and Development at Makerere University.

The panelists included:

- Mr. Fabian Kasi, Managing Director, Centenary Bank.
- Mr. Steven Muhangi, Financial Services Advisor for Driving Youth-led New Agribusiness and Microenterprises (DYNAMIC) Program.
- Mr. Mahamoud Andama, Director Investments, Uganda Development Bank.
- Hon. Victoria Sekitoleko, Chairperson, Uganda Agri-business Alliance.

The session shared Centenary Bank's experience with the support of the Agricultural Business Initiative (aBi) where credit had been extended to over 120,000 small scale agribusinesses alone of up to the tune of 150 billion shillings on a rollover basis. The idea of extending finance to clients whose collateral was insufficient had gestated for quite a long time and the collaboration with a likeminded partner, aBi Finance was the long-awaited break through matching grants & guarantees to mitigate risk. It was noted that the agriculture portfolio now contributes up to 19% of the bank's total portfolio equivalent to about 1.6 trillion shillings.

The session noted that access to land was a big challenge constraining youth from participation in agriculture. Mr. Steven Muhangi, the financial services advisor, (DYNAMIC) Programme **(**Driving Youth-led New Agribusiness and Microenterprises) , shared with participants how their programme operates in the rural areas and focuses on skilling the youth aged between 15 and 24 and are out of school, especially those engaged in agriculture in the districts of Lango & Acholi. The programme operates as a brokerage that connects and ensures that the youth access skills either from private sectors actors who are off-takers in different value chains or financial service providers or vocational-technical institutes through short courses. Such deliberate and targeted programs have high impact and should be embraced by partners in the public and private sector alike.

The session participants urged government to further streamline the livelihood programmes to ensure that they reach out to the vulnerable youth, who are not necessarily yet established.

The session also heard from Uganda Development Bank whose 2018 agriculture loan book stood at 132 billion up from 111.5 billion in 2017 benefiting over 100,000 smallholder farmers and creating 40,207 jobs of which 43% went to youth and over 291,816 acres put under cultivation. This investment also contributed 8.3billion in taxes and earned 89.2 million dollar in foreign exchange.

UDB has provided support in the organization and formalization of farmers into cooperatives, associations and limited companies as a vital step in sharing risk. It has implemented several risk management methodologies including agriculture credit guarantee schemes, cross guarantees, agriculture interest subsidies and agriculture supported grants.

The bank has also adopted innovative ways of collaterizing loans to reduce reliance on the conventional methods including warehouse receipts, structured finance for export commodities, 3rd party guarantees, linking farmers to off takers and contract finance among others

UDBs strategic plan ending 2022 looks to grow the agriculture loan book by over 358 billion and will focus on sustainability & building resilience focusing on the following.

a) Increasing availability, use and supply of key agricultural inputs & technologies.
b) Reducing the impact of natural uncertainties and systemic risks in the sector.
c) Promoting use and adaptation of climate smart technologies.
d) Promotion of value addition.

The session concluded as follows.

- Over 70percent of Uganda's 40 million population is under 33 years, with many currently unemployed. Yet 68 percent of the country's populace is still engaged in subsistence farming. If this group is empowered to engage in commercial agriculture, the problem of unemployment will be resolved.

- Emphasis should be placed on understanding the entire agriculture ecosystem and identifying which value chains are of significant interest to the youth and support them through skills transfer, mindset change and capital to actively engage in production under those prioritized chains.
- The government should create the conducive policy, legal and regulatory frameworks and focus on broadening of agricultural value chains, such that the banks can have bankable customers.

3.0 CLOSING REMARKS

The Royal Netherlands Ambassador to Uganda, H.E. Henk Jan Bakker, officiated over the closing ceremony.

He thanked the Uganda Bankers Association for pulling together such an extraordinary event, adding that the theme of the conference, “De-risking financing and investment in agriculture to promote decent youth employment and inclusive growth,” resonates with Uganda’s Vision 2040 as well as with the priorities of the Netherlands Embassy Multi Annual Strategic Plan 2019-2022.

He reiterated the observations made by previous speakers on the difficulties farmers and agribusinesses face in accessing credit noting that sometimes the discussion on access to credit is only narrowed down to high interest rates of lending and that while lending rates may be high, limiting the discussion to interest rates would deter reflection on and capturing the complexity of the entire agriculture financing concern.

He called on stakeholders to recognize the complexity of agricultural financing noting that it is systemic in nature, involving many actors and factors both from the demand and supply side, all of which need to be considered to identify solutions that address the issue of de-risking financing and investment in agriculture & agri-businesses.

He informed conference participants that his staff at the embassy where working on developing a new business development services program for financial institutions and other companies to ready them for additional investment

The Ambassador noted that development partners have a role to play in addressing the issue of agriculture financing and called upon other development partners to emulate their strategy, adding that this would improve and strengthen the financial institutions access to long-term capital which would in turn be channeled to farmers and agribusinesses. He concluded his closing remarks with a slogan: **Targeting, Tailoring, Layering;** which he translated as follows:

1) Targeting: Be clear what type of customers you want to reach, know their business, and understand what they need and what they can afford.

2) Tailoring: Model your financial package so that it fits to the specific needs of customers and their businesses.

3) Layering: Combine the financial products & services with other products (like insurance, guarantees, training) to achieve optimal de-risking.

1

Annual Bankers Conference 2019 Report