

Addressing short term and Long term financing needs

Breakout session B: Investment Financing for Agricultural Enterprises

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Dfcu bank – who we are

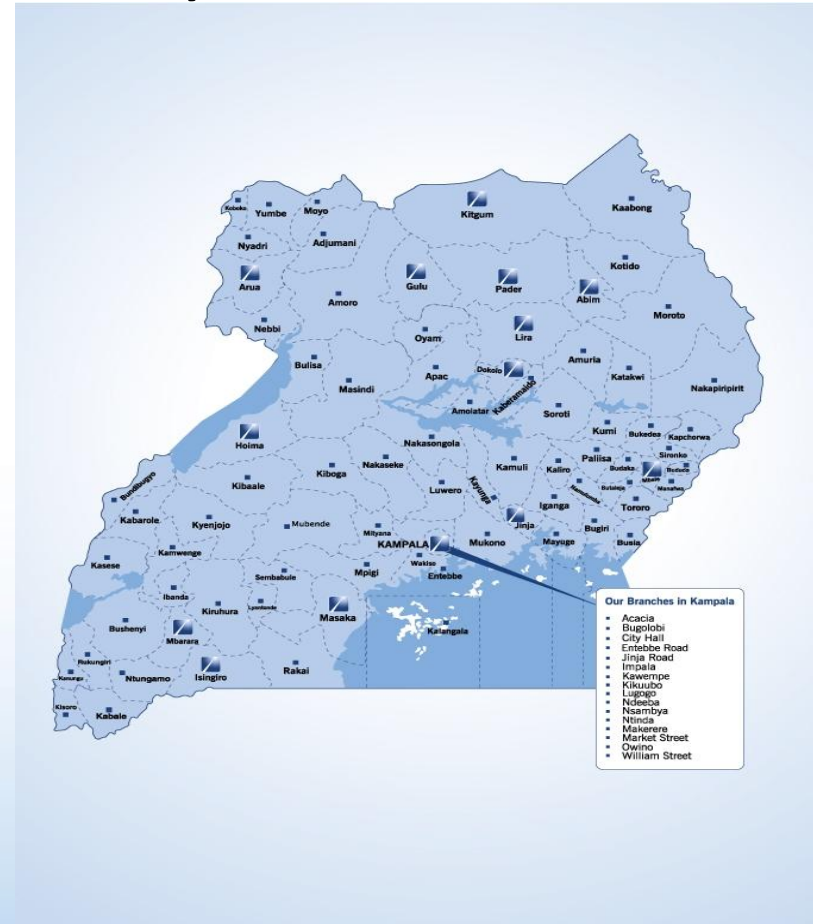
■ One of the leading commercial banks in the country

■ Owned by dfcu Ltd a company quoted on the Uganda Stock Exchange.

■ 29 branches spread across the country.

■ 5% (\$10m) of the bank's credit portfolio is in the Agriculture Sector up from 3% two years ago.

■ 66 customers have accessed these loans
With another +2m dependent on them



Trend: Term Finance 2009 - 2011



Product	No of Customers	Amount (USD)	No of Customers	Amount (USD)	No of Customers	Amount (USD)
	2009		2010		2011	
Leases	420	21.7m	206	5.1m	231	18.3m
Term Loans	182	43.5m	216	41.6m	194	53.0m
Commercial	403	31.8m	338	22.8m	284	33.0m
Total Sector	1,005	97.0m	760	69.5m	709	104.3m

Trend: Agricultural Sector Credit 2009 - 2011

	Dec 2009	Dec 2010	Dec 2011
Balances (USD)	8.8m	9.3m	9.1m
Numbers	40	61	62

Distribution by type of product

Product	Term	No of Customers	Amt (Mill. USD Equiv.)
Leases	1-5 years	19	2.2
Term Loans	3-10 years	23	5.3
Commercial Loans	1-3 years	24	1.4
		66	8.9
<i>Data as at 29th February 2012</i>			

Distr. of Ag Credit by sub-sector and purpose – Feb 2012 (Mill. USD Equiv.)

Animal (30%)		Crops (70%)	
Beef	0.7	Sugarcane	2.4
Dairy	0.2	Tea	2.0
Fisheries	0.5	Grain s (<i>Wheat, Maize</i>)	1.3
Poultry	1.2	Others (<i>fruits, cotton, coffee, beans, sorghum, flowers</i>)	0.6
	2.6		6.3

Purpose	numbers	Amt
Equipment	43	7.7
Farm structures	09	0.5
Working capital	14	0.7
	66	8.9

Purpose	numbers	Amt (Mill. USD Equiv.)	%age
Primary production	29	2.6	28.6%
Trade/transport	23	0.3	3.7%
Processing	14	6.0	67.7%
	66	8.9	100%

The bank's main Long Term mechanisms for financing the Agriculture sector:

▣ **Leasing** – finances acquisition of agricultural machinery like tractors, milk equipment, harvesters, and agro processing equipment.



▣ **Loans** – long term financing for farm structures, farm expansion, restocking or installation of equipment.

Performance indicators for loans and leases

Agricultural Credit	PAR	NPA	Provisions	Write-off	Portfolio Growth (12 months)
Leases	10%	1%	Nil	0.4%	32%
Term Finance Loans	5%	0%	Nil	Nil	214%
Commercial Loans	13%	7%	Nil	3.1%	-78%
Total Sector	7%	2%	Nil	0.6%	-9%

Note: The commercial loans are of a short term nature. They are complementary, for purposes of working capital, and therefore the trend should not be alarming.

General Process for accessing credit

- The borrower approaches the bank to apply for a loan
- The need is assessed and a suitable product is identified
- The proposal is appraised in line with the bank's credit risk policy
- The loan officer visits the project to verify and advise where necessary
- On successful approval, the loan documentation is drawn and signed
- The process takes two to three weeks if it is a straight loan from the bank.
- It may take longer if a guarantee is required from a third party.
- Cost is Prime + margin depending on the bank's risk assessment of the loan profile (av. is 5%)
- Loan processing fees are about 3% of value of the loan.

Requirements for borrowers

1. Brief history of the company
2. Business plan showing source of repayment
3. Audited Financial statements (3-5 years) and management accounts if the most recent financials are older than three months
4. Projected cash flow to cover the loan period
5. Borrower(s) identification and KYC information
6. Insurance cover for the asset(Leases) or the accepted security(Loans)

For Leases

- The borrower needs to identify the equipment/supplier
- Submit an inspection report together with an invoice
- An upfront contribution ranging between 10% - 50% of the total cost
- The equipment remains the property of the bank until pay off

For Loans

- Valued landed property as security

Success factors – what would make a product like this work?

- ❑ Technical expertise to understand the customer's needs and structure the appropriate deal
- ❑ Turnaround time – quick decision making on the side of FIs in line with the seasons
- ❑ Record keeping – borrowers having adequate records to facilitate the FIs' decision making.
- ❑ Infrastructure – availability of infrastructure like roads and electricity
- ❑ Information – on the side of the borrower (about the enterprise they are engaged in)
- ❑ Increased support from the government through interventions like extension services, favorable policies, legislation, improvement of the infrastructure.
- ❑ Marketing and price stabilization mechanism
- ❑ Close collaboration with other partners like government ministries, institutions (e.g. NAADS and PMA), NGOs (like DANIDA, Kilimo Trust, WFP, DFID and USAID) and companies like NBL, EABL.
- ❑ Outreach – FIs devising ways of making the products accessible to the target market segment

Challenges.

- ❑ Poor post harvest handling & storage facilities.
- ❑ Poor Infrastructure – market accessibility.
- ❑ Lack of collateral by the average farmer.
- ❑ High costs of doing business pushes up the interest rates.
- ❑ Underdeveloped agricultural insurance sector.
- ❑ Land tenure system especially in central and eastern Uganda.
- ❑ Recent inflationary pressures in the country have also curtailed the bank's involvement in lending to the sector

