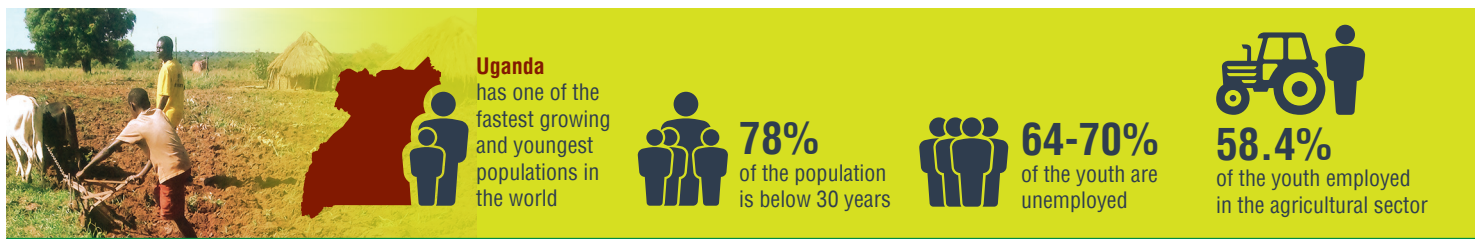


Implication of limited access to finance on youth participation in agriculture



Key Message

Access to finance is a critical factor established to drive productivity and development. Although, agricultural financing in itself has not received priority in the policy making process with no clear framework and strategy established up to date, several initiatives have been established by the government to improve access to finance such as the Agricultural Credit facility (ACF), Youth Venture Capital Fund Youth Livelihood Programme, Youth Entrepreneurship Venture Capital Fund, Uganda Women Entrepreneurship Programme, the Warehouse Receipt System, issuing and circulating Financial Consumer Protection Guidelines, reviewing and amending the Financial Institutions Act (FIA) and Micro-finance Deposit-taking Institutions (MDI) Act to enable Islamic banking, bancassurance and agency banking, preparing a Financial Inclusion Strategy, initiating the Financial Inclusion Project, issuing Mobile Money Guidelines, reviewing the Risk Management Guidelines, approving e-banking solutions, among others.

However, these have not adequately solved the issue of limited access to finance by youths in agriculture, which was ranked as severely affecting their participation

in the sector. This can be attributed to poor implementation and reach of the initiatives that is reported to stem from inadequacies in institutional setup and capacity, which impacts how well the planned actions can be executed, gaps in coordination, gaps in accountability, inadequacies in existing policies among others. The reasons behind the limited access to finance among interviewed youths included few financial institutions within their vicinity, high collateral requirements that youths do not possess for instance land, buildings, high cost of finance (interest), fear of credit, high risk in agriculture (unpredictability of agricultural output), limited information on financial services and processes and the perception of high risk of youths among some financial institutions.

An Officer from BRAC Microfinance Limited voiced that “high risk is not only in financing agriculture but also youths”.

Access to finance is likely to be enhanced through the following policy, legal and institutional recommendations.

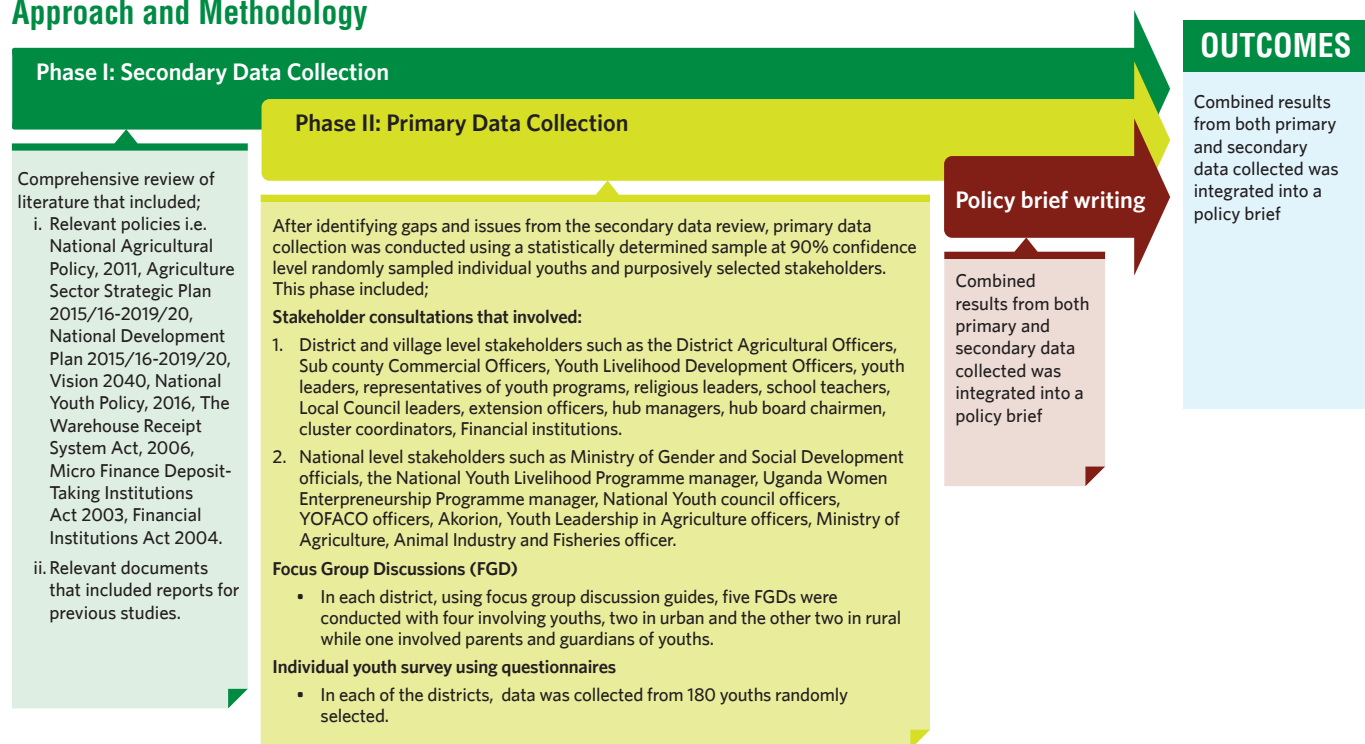
Gap/Issue	Recommendations	Government Role	Role of EAYIP and other non-state actors
Lack of an agricultural financing policy framework and strategy.	Developing an Agricultural Finance Policy (already committed to in 2016/17 budget speech), Strategy and Institutional Framework.	Develop the policy.	Advocacy.
Unclear and informal Agricultural finance models with limited reach.	Scaling-up and improving Successful Agricultural Finance Models for instance those used by non-bank rural financial institutions.	Support the piloting of the successful agricultural Finance Models under specific Formal Financial Institutions.	Expose potential actors to the models suited to financing agribusinesses.
High risk inherent in agriculture and not adequately addressed, coordinated and informed.	Public Private Partnerships (PPP) to ensure de-risking of the agricultural sector. Developing the climate change strategy. Increase awareness and reach of the agricultural insurance scheme.	Establishing a de-risking initiative. Development of the climate change strategy. Provide resources.	Propose national adoption of a PPP approach to de-risking agriculture in the relevant policies and strategies.
Inadequate low priced medium to long term finance options for Agriculture- most youth own start-ups 'that are not favored by most financing.	Mobilize and increase the reach and impact of the Catalytic and Patient Capital funds that have already been established. Harmonize the available funds through a single unit to handle youth financing efforts other than the current overlapping mandates through the different programmes.	Provide the funding and the regulatory mechanisms.	Organize and build the capacity of youths to ease connection to financial institutions and take advantage of the existing financing options.
High collateral requirements Vs collateral inadequacies.	Innovative means should be adopted- Collateral Substitution from the conventional Land, buildings, chattel, to more accessible assets such as stock under the WRS. • Revive and strengthen the Warehouse Receipt system (WRS) • Increase awareness about the Youth Venture Capital Fund (YVCF)	Provide resources and regulatory means.	Provide institutional support through capacity building of the value chain actors especially the youths in agriculture. Establishing certifiable storage facilities and increasing awareness of the WRS system and YVCF.
Many agricultural finance products are not well suited and well delivered in financing agricultural value chains.	Improve and Support Research and Development for Agricultural Finance Product Development and Delivery such as ICT. Establish Information Exchange Fora.	Support Innovations and research in agricultural finance.	Build capacity for financial service providers on Agricultural Finance - Products, Services and Delivery.
A gap in the implementation of the available government youth financing programmes.	Allocate the District Commercial Officers the role of monitoring other than disbursing the fund. Empower the youth leadership structures at local government to engage in implementation of these programmes and effect information flow. Strengthen programme monitoring and evaluation mechanisms. Funds disbursed to youth groups in agriculture should be done in installments to avoid misappropriation by youths. Increase awareness and sensitization on existing government initiatives towards agricultural finance. Engage the private sector in implementation of some of programmes.	Fast track these recommendations.	Advocacy and supporting the implementation.

Background

Uganda has one of the fastest growing and youngest populations in the world with about 78% of the population below the age of thirty (Ahaibwe et al, 2013) and 20.6% between 15 and 24 years (UBOS, 2016). This section of the population faces a major challenge of unemployment estimated at 64% to 70% with about 400,000 youths released annually into the job market to compete for approximately 9,000 available jobs (Magalah and Ntambirweki-Karugonjo, 2014). The agricultural sector is a potential sector to combat this challenge since it employs approximately 58.4% of the youth (Deloitte, 2016; UNCDF, 2016) and majority of the youth reside in rural areas where the potential for creating employment lies in enhancing rural farm and non-farm activities (MoFPED, 2011). However, one of the factors reported to curtail youth engagement in agriculture is limited access to productive resources (Konrad-Adenauer-Stiftung & Young-Leaders-Think-Tank, 2015).

Of these productive resources, finance was mentioned by about 50% of the youths interviewed as a key deterrent towards their participation in agriculture. The issue with finance lies in its limited access by youth in agriculture.

Approach and Methodology



Magnitude of the problem

Limited access to finance was ranked by majority of youths and consulted stakeholders as highly affecting youth participation in agriculture. This was mainly due to;

- Few financial institutions within youth vicinity,

"A stakeholder in Amuria district reported that due to non-existence of formal financial institutions within the district, a youth who wants to access a loan has to spend heavily on transport parting with UGX14,000 to reach the financial institution in Soroti. In as much as youths complain of high interest rates in this district, this cost of accessing the financial institutions further frustrates them".

- High interest rates offered by financial institutions:

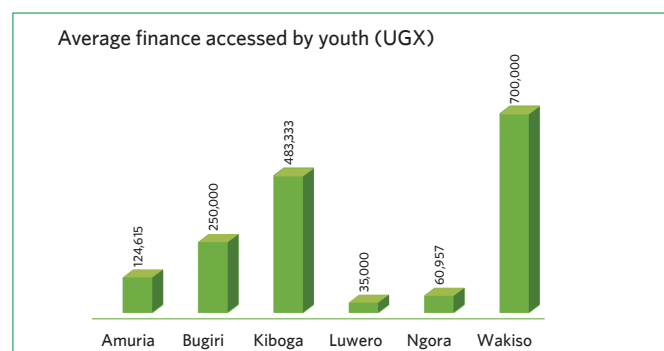
"A stakeholder in Kiboga elaborated on this problem reporting that money lenders charge 15-20% a month as interest rate, which is already high for youth however, it doubles if one violates the repayment period while banks charge 30% per annum, unaffordable to youth entrepreneurs".

- High collateral requirements: Poor asset base among youth limits their chances to access credit in financial institutions since these assets are often used as collateral. The commonest forms of collateral include land (mainly agreements or titles), chattels, buildings and machinery (Uganda-Agribusiness-Alliance, 2017). There is a high likelihood that those who have lower opportunity to own land and buildings (due to age-youth, income levels-poor or sex-females) are less likely to access financial services. Ahaibwe et al. (2013) reports a significant difference in credit accessibility among the groups.

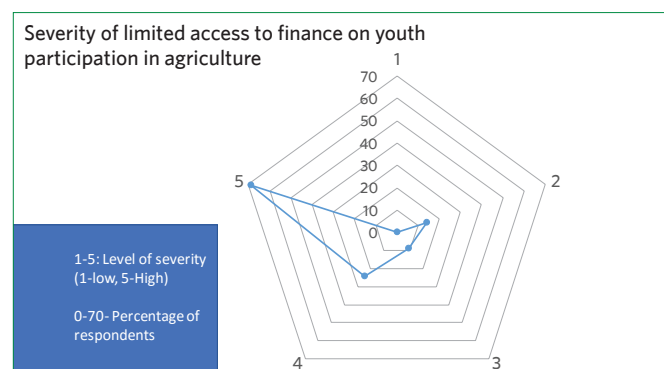
- Other factors included fear of credit, high risk in agriculture (unpredictability of agricultural output), limited information on financial services and processes and the perception of high risk of youths among some financial institutions.

Because of these factors, among the interviewed youths, only 18% had accessed credit for agricultural use over the past two years and majority of the youths used Village Savings and Loan Associations (VSLAs) and families as common finance sources, however, the amounts accessed are usually very low which affects the extent and scale of participation

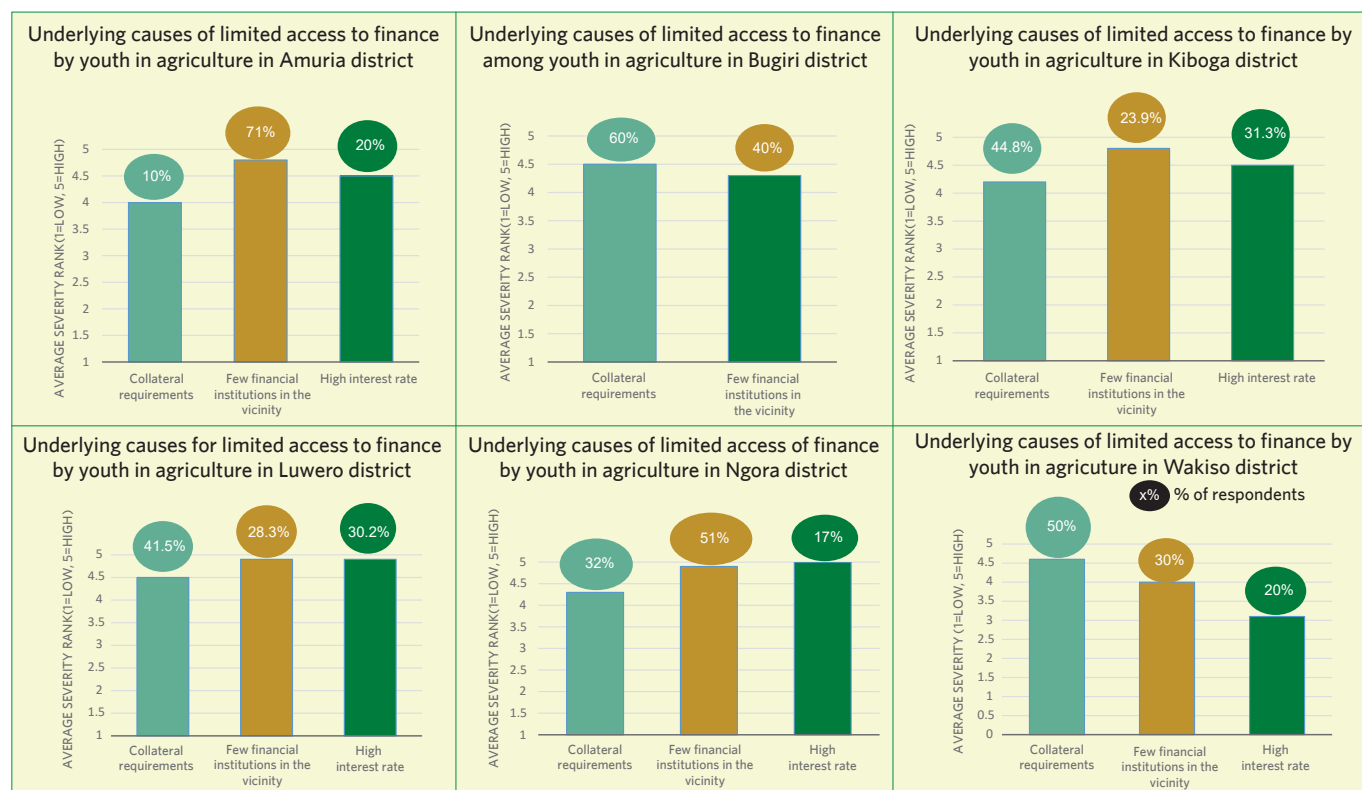
in agriculture. Informal sourcing was reported as highly convenient because of the source's ability to address capital emergency, avail small capital amounts and their less restrictive procedures "less paper work and less signatures". Majority of the credit used in agriculture by youth was obtained for input purchase and labor hire. Apart from credit, youth also used their savings which makes it extremely important for agricultural financing.



Source: Kilimo Trust (2017)



Source: Kilimo Trust (2018)



Source: Kilimo Trust, 2018

Access to finance was reported to affect youth participation in agriculture, productivity, production area and mechanization. Partly attributed to limited access to finance, all the interviewed youths were operating on small scale, allocating less than 2 acres of land to agriculture and use of technologies and inputs was limited. These conditions have led to the persistent low productivity and output. Kangai et al. (2011) reports that lack of capital and access to affordable credit by youth is a main factor behind the low productivity in agriculture.

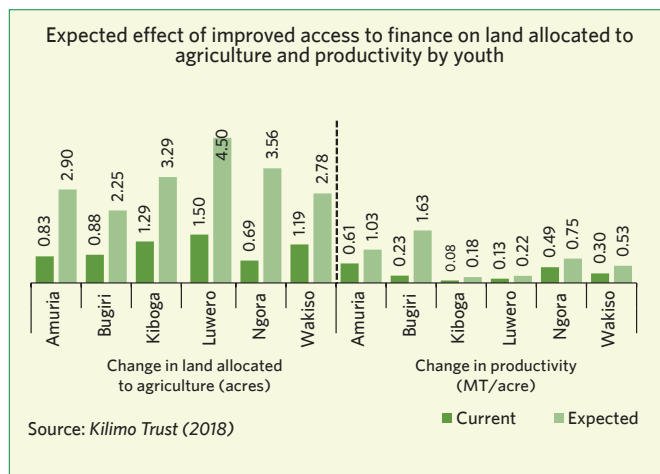
In Wakiso, a stakeholder voiced that

“due to limited finances, most youths can only afford traditional technologies such as hand hoes, home saved seed, etc. as opposed to improved technologies they could opt to use if they had better access to finance”.

Some stakeholders voiced that

“because some youths cannot access finance, they only participate in subsistence and family enterprises”.

Credit availability increases the ability to invest and purchase productive inputs and critical agricultural assets important for improving farm productivity and returns. With enhanced access to finance, youths reported an expected increase in productivity of their enterprises by about 170% as they approach the potential yields since they will be able to access good quality and adequate inputs, technologies and hire labor to do things on time. The same youths would increase their current production area by an average of 218% if only they had increased access to finance. Youths would increase their land area mostly through hiring more land. Most youths not currently in agriculture especially in the rural areas indicated that they would engage in agriculture if there was adequate finance available.



Source: Kilimo Trust (2018)

National Policies and Initiatives relevant to access to finance and youths

The major document relevant to youths is the **National Youth Policy 2016** that aims to provide a framework for harnessing the full potential of the youth for improved productivity and equitable socio-economic and political development through specific objectives that include to; i) improve youth accessibility to quality services, ii) enhance the productivity and employability of youth for sustainable livelihood, iii) promote equitable participation in decision-making processes that impact on youth and community at all levels and iv) promote effective coordination and programming of youth interventions at all levels.

Vision 2040 that sets out the goals and targets to be achieved to realize the desired socioeconomic transformation in Uganda recognizes agriculture as a strategic opportunity that needs to be harnessed. It aspires to transform the agriculture sector from subsistence farming to commercial agriculture. It recognizes the need for behavioral change, equitable access and use of resources as well as gender rights. One of the constraints to this goal listed in the vision is the access to finance. It recognizes the importance of youth in development in that this population segment presents an opportunity that the country can capitalize on to increase its competitiveness and as a vulnerable group that needs to be socially protected.

National Development Plan II (NDPII), 2015/16-2019/20 aims at achieving the Uganda Vision 2040. The goal of this Plan is for Uganda to attain middle income status by 2020 through strengthening the country's competitiveness for sustainable wealth creation, employment and inclusive growth. In regard to the finance sector, the plan provides the following objectives (i) increasing access to finance; (ii) increasing private investments; (iii) reducing interest rates, (iv) improving public financial management and consistency in economic development; (v) increasing insurance penetration; (vi) increasing national savings to GDP ratio; and (vii) increasing the level of capitalization and widening investment opportunities in capital markets.

National Agricultural Policy, 2011: The overall objective is to promote food and nutrition security and household incomes through coordinated interventions that focus on enhancing sustainable agricultural productivity and value addition, providing employment opportunities, and promoting domestic and international trade. This policy acknowledges enhancing access to agricultural training and skills development, financial services, good quality agricultural inputs, services and equipment along the value chain and market information as one of its strategies.

Several other Acts and policies however exist although they do not explicitly target agricultural financing are crucial towards enhancing access to finance and these include the **Financial Institutions Act, 2004** amended in 2016, **Micro Finance Deposit-Taking Institutions Act 2003**, **Financial Institutions Regulations, 2018**, the **Mobile money guidelines, 2013**, among others.

Some of the existing Government Initiatives

The Agriculture Credit Facility was started in 2009 with the aim of facilitating the provision of medium and long-term financing to projects engaged in Agriculture and Agro processing. It provides low interest loans at a maximum of 12% rate in collaboration with selected financial institutions. The maximum loan amount to a single borrower is up to UGX. 2.1billion although it can be increased up to Shs.5billion while no designated minimum loan amount is stipulated to the final beneficiary (farmer/ agro-processor) with a repayment period of 6months to 8 years but Bank of Uganda can only reimburse a minimum of UGX 10million to the participating financial Institutions. Existing gap is the limited reach of the participating institutions in the rural areas where agriculture is prominent, high collateral requirements since it is up to the financial institutions to set the collateral requirements, unawareness of youths and agricultural value chain actors at large about the product. Among the interviewed youths, less than 10% of the youth in all districts aware of the agricultural loans except in Wakiso where 16.7% were aware. Of these, only 4% and 6.7% of the youth in Bugiri and Wakiso respectively had obtained the agricultural loans before while none of the youths had accessed in the rest of the districts.

Youth Entrepreneurship Venture Capital Fund is a government programme started in 2012 and since 2017, is under the mandate of the MGLSD (Ministry of Gender, Labour and Social Development) and the implementing bank is Centenary Bank. Currently, government has provided 16billion shillings, while an additional 16billion shillings will be provided by Centenary Bank. The YVCF targets Ugandan youth aged 18-30years, youth with registered businesses/enterprises that have been existing for at least three months, youth of sound mind and with no criminal record or bad credit history. To access the funds, one must provide two personal guarantors with active accounts in Centenary Bank. Individuals can access up to 5million shillings, while youth partners or cooperatives and companies can borrow up to 25million shillings. The interest rate for the Fund is 11percent per annum and it's computed on declining balance basis. The loan period is a maximum period of 24months for working capital and up to 48months (4years) for capital investment. One of the challenges faced in the fund is the failure of youths to manage the credit while some divert the finances resulting into failure to repay.

The Youth Livelihood Programme (YLP) was designed to empower the youth to harness their socio-economic potential and increase self-employment opportunities and income levels. It targets young people aged 18 – 30 years and is operational in 122 districts and 41 municipalities of Uganda offering interest free loans of up to UGX 25million to youths organized in groups of 10-15 members with at least 30% female membership. The current gap in accessing this product as reported by the interviewed youths and stakeholders lies in long process of acquiring the loans, limited capacity and knowledge of the youths to run commercial agribusinesses, unclear processes of selection of benefiting youths at local level, unawareness of the youths about the products and procedure to acquire it, high risk in agriculture especially due to pests and diseases as well as climate change which makes youths uncertain whether they will be able to repay

the loans. Only 8% and 6.7% of the interviewed youths in Bugiri and Wakiso districts respectively reported to have accessed the Youth Livelihood Fund, with none reporting access to this fund in the other districts.

“Gabriel, a young farmer in Amuria reported that some of the youths in the district have moved to the neighboring districts due to fear of arrests after using the YLP loans in their agricultural enterprises that succumbed to losses thus couldn't pay”.

Uganda Women Entrepreneurship Programme (UWEP): an initiative aimed at improving access to financial services for women in groups and equipping them with skills for enterprise growth, value addition and marketing of their products and services. It targets women within the age bracket of 18-65 years includes a revolving fund component where Districts can approve proposals to the tune of Shs12.5million while proposals exceeding Shs12.5 million to a maximum of Shs25 million will be approved at the Ministry. The current gap is in the limited awareness and resources for capacity building of the target groups. Only 24%, 3.3% and 13.3% of the youth interviewed in Bugiri, Kiboga and Wakiso respectively were aware of the programme, while none of the interviewed youth in the rest of the districts were aware. Of the interviewed youth, only 3.3% in Ngora had accessed funds from the UWEP.

The Warehouse Receipt System: established in 2006 by the Ministry of Trade, Industry and Cooperatives is governed and regulated through the Warehouse Receipt System Act, 2006 and regulations there of 2007 and is a system where commodities can be used as security/collateral for financing (Inventory Credit). The issuer of the Warehouse Receipt will certify the deposit of commodities, hold the commodity in safe custody until the depositor or a new ascertained buyer claims the goods. A Warehouse Receipt (WR) is a document of Economic Value (representing the monetary worthiness) and also a document of Title (Proof of Ownership) issued by the Warehouse Operator/ Warehouse Keeper or Collateral Manager, as evidence that a specified commodity of stated Quantity and Quality (Grades) has been deposited at a particular certified warehouse by a named depositor and can be used as collateral for finance. Use of this system is only possible where commodities are deposited in regularly inspected, certified, licensed and regulated storage facilities and where the key stakeholders such as financial institutions are cognizant of the system. This condition has been the gap in implementation of the system where very few warehouses are licensed or even seek to be licensed, producers are not organized to produce enough surplus for bulking, financial institutions are not cognizant of the warehouse receipt value due to limited awareness, unpredictability of the markets (observed instabilities) thus difficult to establish value, limited capacity in postharvest handling and quality.

In a bid to de-risk or reduce the risk in agriculture to increase its attractiveness towards financing, the Government of Uganda initiated; i) an agricultural insurance subsidy scheme in 2016 to run for five years providing insurance premium subsidies to farmers starting from 50% to 80%, however, the reach and utilization has been low due to unawareness of the product and limited reach of the involved players; ii) through MAAIF, a Platform for Agricultural Risk Management whose other members include IFAD, FAO and the NEPAD Agency.

Conclusion

Limited access is a major constraint to youth participation in agriculture that severely affects their output, scale of production and extent of involvement in agriculture. Addressing this challenge is likely to enhance youth participation in agriculture and this requires government, private sector and individual interventions.

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