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Finance Market Segmentation: Sources of Finance for Non-Traditional Agricultural Export Projects in Uganda

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Prepared by

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[Uganda's Investment in Developing Export Agriculture (IDEA) Project]

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Acronyms

ADB	African Development Bank
ADC	Agribusiness Development Centre
AEF	Africa Enterprise Fund
ARB	Austrian Regional Bureau for Regional Cooperation
BoU	Bank of Uganda
CDC	Commonwealth Development Corporation
CDI	
DEG	German investment company
DFCs	Development finance companies
DFCU	Development Finance Company of Uganda
EADB	East African Development Bank
EDF	European Development Fund
EIB	European Investment Bank
FMO	Dutch development agency
GoU	Government of Uganda
IDEA	Investing in Developing Export Agriculture
IFC	International Finance Corporation
IFU	Danish development agency
mm	millions
NTAE	non-traditional agricultural exports
UCB	Uganda Commercial Bank
UDB	Uganda Development Bank
ULC	Uganda Leasing Company
USAID	U S Agency for International Development
Ush	Uganda Shilling

EXECUTIVE SUMMARY

The goal of the USAID-funded project Investing in Developing Export Agriculture (IDEA), and its implementing unit the Agribusiness Development Centre, is to increase incomes in Uganda from selected non-traditional agricultural exports IDEA is providing technical assistance to clients seeking to produce, process or trade in the selected crops, and also offers finance and business consulting services

A major constraint to agricultural export development identified during the project planning phase was lack of capital, despite the presence in Uganda of numerous financial institutions This study is an attempt to understand what constraints operate in the financial markets in Uganda, which financial institutions will serve the Agribusiness Development Centre's (ADC) clients, and how best to structure projects in order to access what financing is available

Sources of financing are divided into locally based institutions which have an office in Uganda and foreign based institutions, which although they do not have an office in Uganda, will provide financing for projects

Financial institutions are further divided into groups which reflect their primary business In principle, a number of distinct sources of financing are available However, the type of financing available will be dependent on the business policies of individual institutions and their own sources of funding

Development finance companies (DFCs) were set up specifically to provide long term financing Their sources of funds are their shareholders and specific lines of credit negotiated with multilateral and bilateral agencies Lines of credit are often targeted at particular groups of borrowers and may be restricted in their use It is important to recognize this and to understand that it may be difficult for a DFC to finance a particular project if it does not fit in with the conditions attached to the DFC's sources of funding

There is no restriction on the size of project which can be financed in Uganda, provided that the project is well structured and offers adequate security The greatest obstacle to borrowing, particularly for smaller projects is the requirement to provide fixed assets as security The experience of lending institutions in Uganda has not been good and as a result most institutions will not lend unless they are very well covered In this regard, the DFCs are more flexible than commercial banks, probably because the DFCs are more familiar with longer term, project-based lending The DFCs generally will not invest more than 50 percent of the total project cost as a combination of debt and equity in any one project. However, they are all prepared to allow a debt equity ratio of 60 40, and will co-finance with other lenders provided their loans are not subordinated to other lenders

Commercial banks form the hub of financing in Uganda There are three distinct types of commercial banks international banks, private local banks, and government owned banks including the Cooperative Bank

The international banks tend to have a head office in Kampala and possibly one branch in Jinja The focus of their business is therefore in the major commercial centres and they are not comfortable with lending in the rural areas As a consequence, their main activities are primarily based around short term lending instruments such as letters of credit and working capital loans

Most of the private banks have been set up in the last 5 years, mainly it seems to take advantage of the high margins that are available between lending rates and banks' cost of funding and to provide a source of cheap financing to associated companies However, it should be noted that both the Nile Bank and Greenland Bank have larger loan portfolios than Standard Chartered Bank, the smallest of the international banks

Uganda Commercial Bank (UCB) and the Cooperative Bank stand out as the only banks in Uganda with branch networks Large losses have been aggravated by defaults on loans resulting from high interest rates in 1992-93, and both banks are struggling to stay operational

Grants are available from numerous sources and at varying stages of the project They are very often targeted to specific areas of activity by sector, but may be available for more general activities such as marketing for exports Sources of grant funds are too numerous and disparate to deal with in the limited time available for this study

One interesting development in the availability of finance in Uganda in the last few months has been the establishment of the Uganda Leasing Company (ULC) ULC helps to fill the gap between the short term lending provided by the commercial banks and the longer term finance available from the DFCs

The cost of finance in Uganda is high The current interest rates for Uganda Shilling (Ush) borrowing range from 13 percent for large multinational companies to 23 percent for smaller businesses Typically, commercial banks are making a margin of 12 percent or more on their lending Foreign currency lending lies largely in the domain of the DFCs The margins here are more reasonable with lending rates between 10 and 12 percent for medium to long term, fixed rate financing depending on the particular line of credit being used. Floating rate finance is being quoted at two to four percent above LIBOR

DFCs have come under much criticism in the past for taking too long in approving projects, and their staff have been accused of soliciting *ex gratia* payments for speeding up the process Whilst part of this criticism may be justified, a large part of the delay is due to borrowers not understanding the approval processes within the organizations The ADC can contribute by ensuring that financing proposals it has taken responsibility for meet the criteria of the lenders, and ensuring that the whole chain of approval knows the ADC is backing the project by keeping in touch with the key people in the financing institutions

Approval procedures in the commercial banks, except for the Cooperative Bank and UCB are relatively simple Loan proposals are reviewed by a loan officer and usually the managing director In principle, the process can take as little as a week if all the documentation required is available

A total of seventeen institutions were interviewed during this study Data sheets have been designed which can be used to easily update the information contained and to input data for new institutions The data sheets are also simple to input to a database, which will ease access to the data

Further work recommended includes completion of the inventory of financing sources for agricultural projects and consideration for jointly sponsored seminars The seminars should be geared to increasing dialogue between financing institutions and borrowers, and to improving the understanding by both of the financial instruments available, the risks involved in financing projects, and how to lay off such risk

I INTRODUCTION

The goal of the USAID funded programme Investing in Developing Export Agriculture (IDEA), and its implementing arm the Agribusiness Development Centre, is to increase incomes in Uganda from selected non-traditional agricultural exports The Agribusiness Development Centre (ADC) will provide technical assistance to clients seeking to produce, process or trade in the selected crops, and will also offer finance and business consulting services

A major constraint to agricultural export development identified during project design was lack of capital, despite the presence in Uganda of numerous financial institutions This study is an attempt to understand what constraints operate in the financial markets in Uganda, which financial institutions will serve the ADC's clients, and how best to structure projects in order to access what financing is available Appendix A contains the terms of reference Appendix B presents a checklist used to collect information and a contact data sheet in which information collected was organized

Within this context, this phase of the study is concerned with identifying the major sources of financing for agricultural projects in Uganda and with understanding the processes used by these sources in arriving at financing decisions [1] Recommendations are made as to which financing institutions are best suited for various sizes of projects A second phase will use the same format developed here to cover smaller financial institutions and also to make an inventory of support available to ADC's target clientele from non-governmental organizations and bilateral organizations

A total of seventeen institutions were interviewed during this study Appendix C provides a contact list The data collected on sources of financing is presented in Appendix D Each institution is presented on one sheet which gives the relevant information on contacts, types of financing the institution is extending, approval procedures, and general comments on the institution Information provided can be updated simply and data for new institutions inputted easily The data sheets are designed so that they can be programmed into a database if required, easing access and manipulation of the data

[1]The TOR was written covering the entire initiative but the effort was divided into two phases The author focused on those institutions most likely to be interested in agribusiness lending, with the other institutions to be reviewed using internal resources

II. NOTE ON SOURCES OF FINANCING

A. Sources of Financing

Sources of financing are divided into locally based institutions which have an office in Uganda and foreign based institutions, which although they do not have an office in Uganda, will provide financing for projects [2] Financial institutions are further divided into groups which reflect their primary business In principle, a number of distinct sources of financing are available However, the type of financing available will be dependent on the business policies of individual institutions and their own sources of funding

The data gathered here is based primarily on financial institutions which have an office in Uganda and which will provide financing to the agricultural sector in its broadest form Some development finance companies which cover East Africa from regional offices in Nairobi are also included In addition to the financial institutions listed here, a number of alternative sources such as export credits and credit insurance exist These alternative sources are discussed further below

1 Locally Based

a Bank of Uganda Refinancing Schemes

The Development Finance Department of the Bank of Uganda (BoU) administers a number of credit programmes which are intended to promote development in agriculture Access to the funds is only through an accredited commercial bank or credit institution A brief description of these BoU programmes are given on the following page in Table 1

b Development Finance Companies

Development finance companies (DFCs) were set up specifically to provide long term financing Their sources of funds are their shareholders and specific lines of credit negotiated with multilateral and bilateral agencies Lines of credit are often targeted at particular groups of borrowers and may be restricted in their use It is important to recognize this and to understand that it may be difficult for a DFC to finance a particular project if it does not fit with the conditions attached to the DFC's sources of funding

[2] An exception to this general segregation of sources is the European Development Fund (EDF) The EDF does have an office in Kampala lending directly to private sector projects It is in the process of reorganization and will not be active again until the end of September 1995 when other projects under the banner of the European Community will also become clearer

Table 1 Bank of Uganda Administered Credit Programmes

Development Finance Fund.

- Established in 1986
- Funding - USh 4 8 billion
- Available for agriculture and agro-industry including manufacture and distribution of inputs
- Funds are available for up to five years with a grace period depending on the project's requirements
- This programme is open to all banks and financial institutions

Export Refinance Scheme:

- Funding - USh 2 billion available in USh or foreign currency
- Objective to add liquidity to institutional lenders on concessional terms
- Targets non-traditional exports
- Eligible for pre-shipment credit against export contract, post-shipment credit for working capital between shipment and payment, medium term loans to exporters for investment in infrastructure

Investment Term Credit Refinance Fund (World Bank):

- Funding US$25mm
- Eligible for investment by private sector in public enterprises, expansion of enterprises, working capital associated with new fixed investment
- Max loan 70 percent of project cost or 100 percent of foreign exchange needs or US$2mm
- Refinance is 100 percent of term loans, 80 percent of working capital
- Loans in USh or US$ at floating rates
- Loan repayment max seven years, including two years grace

Crop Finance Fund:

- Funding USh 3 9 billion
- Eligible sectors are coffee, produce
- Refinance 60 percent of coffee, 80 percent of produce
- Loan term depends on crop season

Uganda APEX Private Enterprises (European Investment Bank):

- Funding ECU 15mm (US$22mm)
- To provide long term financing to small and medium size enterprises and start up ventures
- Finances equity participation, convertible loans are possible
- Investments in most sectors eligible for new projects and restructuring, project must earn or save foreign exchange and input new technological skills
- Min loan ECU 50,000, max ECU 1mm
- Min equity ECU 25,000, max ECU 350,000
- Loans finance up to 50 percent of project in USh or US$
- Convertible loans up to 75 percent of project cost in USh
- Loan maturity at least five years, max 12 years
- Grace one to four years

Cotton Sub-Sector Development Project:
• Provides seasonal and medium term credit for small farmers in cotton growing areas • Concessional interest rate (currently six percent) • Loans for seasonal inputs, suppliers of inputs/services, livestock restocking, acquisition of equipment, small income generating activity • Loan term 12 months for seasonal loan, up to five years for medium term credit
Livestock Service Project:
• To promote livestock enterprises • For the construction of buildings, purchase of breeding stock, establishment of poultry, bees, expansion of animal support units • Max loan US$50,000 or 80 percent of project cost • Repayable over five years, including one year grace

DFCs based in Uganda are

- Development Finance Company of Uganda (DFCU)
- Uganda Development Bank (UDB)
- East African Development Bank (EADB)

DFCs were for many years the only source of long term lending in Uganda During the last year, some commercial banks have started to look at long term lending using lines of credit administered by the Bank of Uganda However, DFCs still hold the major share of this market

c Commercial Banks

Commercial banks form the hub of financing in Uganda There are three distinct types of commercial bank.

- **International banks** Barclays, Stanbic, Standard Chartered, Bank of Baroda

- **Private local banks** Nile Bank, Greenland Bank, Sembule Investment Bank, International Credit Bank, Kigezi Bank of Commerce, and others

- **Government/Cooperatives** Uganda Commercial Bank (UCB), Cooperative Bank

All the international banks except Standard Chartered were part nationalised and are 49 percent owned by the Government of Uganda (GoU) All these banks have pre-emptive rights and are likely to buy back their shares rather than allow the GoU to float its shareholding to the public The international banks tend to have a head office in Kampala and possibly one branch in Jinja

The focus of their business is therefore in the major commercial centres and they are not comfortable with lending in the rural areas As a consequence, their main activities are primarily based around short term lending instruments such as letters of credit and working capital loans All lending instruments require good quality fixed assets as collateral unless the borrower has developed a good relationship with the bank over a number of years

Most of the private banks have been set up in the last 5 years, mainly it seems to take advantage of the high margins which are available between lending rates and banks' cost of funding and to provide a source of cheap financing to associated companies Lending margins are typically on the order of 12 percent Other reasons for setting up banks include the use of foreign exchange facilities to facilitate trading activities

The private banks are small and a number appear to be in financial trouble However, it should be noted that both the Nile Bank and Greenland Bank have larger loan portfolios than Standard Chartered Bank, the smallest of the international banks Some private banks do have access to BoU lines of credit, but capital adequacy requirements restrict the amounts the banks can lend It is unlikely that the private banks will lend long term Short term financing, as for all commercial banks in Uganda, is driven by the availability of collateral

UCB and the Cooperative Bank stand out as the only banks in Uganda with branch networks Such networks should place them well to finance agricultural projects, but instead, the networks have been the basis -- along with past poor management -- of both of the banks' current problems Large losses have been aggravated by defaults on loans resulting from high interest rates in 1992-93, and both banks are struggling to stay operational

With the support of USAID, the Cooperative Bank, which is owned by the cooperative movement, seems to be in a better position at present It is showing an operating profit and should be in good shape in another two years provided its non-performing portfolio can be taken over, either by the government or under some form of donor funding such as USAID's continued use of the PL-480 programme, which has allowed the bank to recapitalise itself The bank may then provide a real alternative to the domination of the international banks and introduce a competitive element into the banking environment in Uganda.

UCB was the only commercial bank which provided long term finance and has, by far, the largest portfolio of loans of all the banks in Uganda It also has the largest portfolio of non-performing loans There seems to be some uncertainty about how UCB will deal with its current problems, and the bank is unable at present to access the World Bank and European Investment Bank (EIB) lines of credit which are administered by the BoU The bank maintains that it can still provide long term finance from its own funds It may be worth testing this assertion, particularly given the current funding situation for cut flower projects [3]

d Finance Companies

Finance companies are deposit takers but may not operate current accounts, a licence must be applied for to handle foreign exchange No finance companies were interviewed during this phase of the study because they are all small institutions that provide short term finance at rates higher than the commercial banks and are likely to be a last resort for borrowers in the formal sector

e Others

The advent of **leasing** is a promising addition to the finance sector in Uganda in the last few months The Uganda Leasing Company (ULC) is owned by DFCU, the International Finance Corporation (IFC), the Commonwealth Development Corporation (CDC), the German development agency (DEG), and two local companies -- the Nile Bank and Pan World Insurance

ULC may help to fill the gap between the short term lending provided by the commercial banks, and the longer term finance available from the DFCs At present, ULC is considering only finance leases, whereby it owns the leased assets and charges a monthly fee for their use Leases will be conditional on maintenance and insurance cover which will both be the responsibility of the lessee

More complex issues such as operating leases and cross border leases will be addressed in the future depending on demand and the early experience of the company In addition, ULC has only one office in Kampala, and may therefore suffer from the same reluctance as the commercial banks do when it comes to extending its services in the rural areas where access to and monitoring of its assets will be difficult

Grants are available from numerous sources and at varying stages of the project They are very often targeted to specific areas of activity by sector, but may be available for more general activities such as marketing for exports Sources of grant funds are too numerous and disparate to deal with in the limited time available for this study However, some sources are listed below

[3]Because of the already large number of flower projects financed by DFCs during the last year, most are waiting to see how their investments perform before increasing their exposure in this area, creating an opportunity for UCB if indeed it has funds to invest.

- CDI, Brussels Assistance with project feasibility studies
- World Bank (under prep) Assistance with management consultancy
- FMO (Holland) Technical assistance for untried technologies
- IFU (Denmark) Project preparation (with Danish involvement)

Apart from the larger agencies, grants are often available from non-governmental organizations, although these tend to be targeted at groups or associations rather than at individual beneficiaries

Guarantee schemes have in the past been tried with little success A new scheme being promoted by the Austrian Regional Bureau for Regional Cooperation (ARB) has attempted to address problems with guarantee schemes and should be operational at the beginning of 1996 The salient features of the scheme are

- Loan to be extended by a commercial bank
- Maximum guarantee US$25,000
- Guaranteed amount must be matched by non-guaranteed loan from bank
- Interest at commercial rates
- Fee of one percent charged for facility plus 50 percent of bank's margin on guaranteed portion of loan

The fee received from the bank will be used, if the costs of the scheme can be covered, to reduce the interest cost to the borrower The effect of the scheme will be to reduce collateral requirements and therefore make borrowing easier in cases where a good project would otherwise not proceed The guarantee fund will evaluate projects itself, a requirement which may make loan approvals cumbersome and expensive to process, and make the projected three week turnaround time optimistic

Of the commercial banks interviewed during this study, only Stanbic expressed interest in this scheme Stanbic, however, is also trying to move its business away from small borrowers (less than US$250,000) and, therefore, will not be active if the guarantee fund sticks to a maximum of US$25,000

Insurance companies may be a source of project financing in the future if they become more sophisticated in their approach to risk and return At present, other than some indirect involvement, such as in the Uganda Leasing Company, insurance companies are not a source of financing for agricultural projects

2 Foreign

a Development Finance Companies

Apart from the DFCs based in Uganda, numerous bilateral and multilateral companies exist which could be sources of finance for Ugandan projects Of the multilateral agencies, IFC's Africa Enterprise Fund (AEF) and the PTA Bank, both of which are based in Nairobi, will be the most useful Both deal with projects in the range US$250,000 to US$5mm which comprises the majority of projects in Uganda requiring long term financing The PTA Bank can accommodate larger projects if required

For projects above US$5mm, the possibilities widen in the number of institutions available and in the terms of financing Sources of funding include the EIB in Luxembourg, IFC in Washington, the African Development Bank (ADB) in Abidjan, and various national development agencies such as FMO, DEG, IFU Interest rates charged are generally lower than those charged by the smaller DFCs EIB, through the European Development Fund (EDF) may charge interest at below market rates for some loans

b Export Credits

Export credits are essentially credit guarantees extended by government agencies to commercial banks or other accredited lenders in a country from which goods are to be exported to Uganda The government guarantee usually covers political risk, but occasionally will also cover part or all of the commercial risk associated with a project

In cases where political risk only is covered, the commercial risk will have to be covered separately, e g , by a local bank guarantee The cost of export credits is usually a small margin above treasury bond yields and is therefore very competitive with the rates typically charged by DFCs in Uganda However, the cost of a local bank guarantee must be added in and this may tilt the equation back in favour of the DFC A further point to note is that some governments may not be willing to take the risk on Uganda, in which case the export credit will not be available

An alternative to government political risk cover is the World Bank agency MIGA, which will provide cover for projects in Uganda, or the commercial insurance market, which is generally restricted to providing three year cover and so may not be suitable for long term loans

c Commercial Banks

Foreign commercial banks will not lend to Ugandan companies unless they are covered by export credits and can cover the project commercial risk Commercial risk cover could be provided by a local bank guarantee or, in the case of exports, by the buyer of the goods For short term financing, a charge over the goods being exported would also be a solution

B Size of Investment

There is no restriction on the size of project which can be financed in Uganda, provided that the project is well structured and offers adequate security The greatest obstacle to borrowing, particularly for smaller projects is the requirement to provide fixed assets as security The experience of lending institutions in Uganda has not been good and as a result most institutions will not lend unless they are very well covered

In this regard, the DFCs are more flexible than commercial banks, probably because the DFCs are more familiar with longer term project based lending The DFCs generally will not invest more than 50 percent of the total project cost as a combination of debt and equity in any one project However, they are all prepared to allow a debt equity ratio of 60 40, and will cofinance with other lenders provided their loans are not subordinated to other lenders

DFCs will usually invest in equity if it is required, but will not take a controlling interest in any company The commercial banks, utilising an EIB line of credit administered by the Bank of Uganda may take equity in projects, to date only Stanbic has shown any interest in doing so

As the commercial banks become more familiar with long term lending, they may become more comfortable with managing project risks and therefore demand lower levels of fixed assets as collateral This effect is unlikely to impact on smaller borrowers requiring loans of less than US$100,000 Below this level, the larger commercial banks and the DFCs are not interested in getting involved Smaller borrowers will therefore have to resort to the small private commercial banks or finance companies These institutions are not likely to invest the effort required to understand and analyse medium to long term project financing risks and will continue to demand high levels of security for their loans Credit guarantee schemes such as that proposed by the Austrian Regional Bureau may be effective in reducing collateral requirements Table 2, on the following page, offers general guidelines for targeting institutions based on loan size

C Cost of Finance

The cost of finance in Uganda is high The current interest rates for Uganda Shilling borrowing range from 13 percent for multinational companies such as British American Tobacco to 23 percent for smaller businesses Deposit rates are of the order three to four percent and the 90-day Treasury Bill rates, which is the marker for most short term loans, is currently six percent Most commercial banks make a margin of 12 percent or more on their lending

Table 2. Financing Guidelines by Loan Size

Below US$100,000	
Short term	Coop Bank, UCB, finance companies, private commercial banks, non-governmental organizations, grant funds
Medium/Long term	UCB, Austrian guarantee fund, UDB (above US$50,000), ULC (preferably above US$30,000), grant funds
US$100,000 - US$5mm	
Short term	Coop Bank (max $0 5m), larger commercial banks, UCB, EADB (working capital), grant funds
Medium/Long term	DFCs, UCB, ULC, IFC/AEF, PTA Bank, ADB, export credits, MIGA, grant funds
Above US$5mm	
Short term	Foreign commercial banks, discount houses, etc, grant funds
Medium/Long term	IFC, ADB, EIB, FMO, DEG, IFU, etc, MIGA, export credits, grant funds

This large margin seems to be a result of past bad management and large losses in the two biggest banks in the country, UCB and the Cooperative Bank According to recent BoU records, the total outstanding bank debt in Uganda US$256mm of which UCB accounts for 38 percent. Combined, UCB and the Cooperative Bank control about 50 percent of total lending, the five largest lenders 75 percent Clearly, the revival of UCB with its branch network, as a source of financing will have a large impact on the reduction of lending margins

Both UCB and the Cooperative Bank are trying to break even in operational terms, and high interest rates are the only way in which this can be done The lack of competition, as indicated by the degree of concentration in lending due in part to the small number of commercial banks, means that even the more profitable banks can charge similar interest rates without risking loss of business Further, most loans are extended for trading purposes which seem not to be as sensitive to higher interest rates as are longer term investments

The rehabilitation of the Cooperative Bank and the fate of UCB will determine the level of competition in Uganda, barring any aggressive new entrants into banking It is unlikely that the Cooperative Bank will be able to drop its interest rates for the next two years, although it is interesting to note that the bank has increased deposit rates and seen a large increase in deposits

However, most depositors are small and the bank will only start to make an impact once it can attract larger customers

Foreign currency lending lies largely in the domain of the DFCs, although some lending under the BoU's export refinancing scheme is available in foreign currency The margins here are more reasonable giving lending rates between 10 percent and 12 percent for medium to long term fixed rate financing, depending on the particular line of credit being used Floating rate finance is being quoted at two to four percent above LIBOR.

Larger projects (above US$5mm) can benefit from accessing financing directly from IFC, EIB, or a number of bilateral development agencies at lower rates In the case of EIB interest rates may be significantly below interbank rates

D Information Requirements

DFCs are generally funded by their shareholders and by lines of credit from multilateral and bilateral development agencies Most lines of credit are constrained and it is important to understand what these constraints are when a loan is being applied for If a particular loan application does not fit the lines of credit available, then there will be delays as the DFC tries to gather additional information, or requires the project to be restructured in order to fit

Information which will be required by all lenders includes

- Details of the project sponsors including business experience
- Description of project including products, quantities output, process technology, raw material requirement and sources of raw materials, location of project, site data, buildings, utilities and equipment requirement.
- Size and structure of market for products, existing and expected competition, competitive advantages
- Management of project
- Total cost of project including working capital requirements
- Financial structure proposed.
- Financial projections for up to ten years of project operations
- Project timetable, details of work done to date

- Status of official approvals, licences necessary for setting up the business
- Corporate structure of business
- Details of security offered

Commercial banks require similar information Despite ensuring that they have sufficient collateral to cover any losses in the event of loan defaults, it is in the banks' interests not to have to resort to exercising its rights in the disposal of property offered as security Banks will therefore need to know to what use their funds are being put and on what basis financial projections have been prepared

Information requirements for short term financing will not be as extensive Unless already a client of the bank, evidence will be required of corporate structure, contracts, etc around which the financing is being drawn

E Security Arrangements

Security requirements for loans in Uganda overwhelmingly revolve around the provision of collateral Most banks will advance loans up to 60 percent of the collateral cover, Standard Chartered Bank will go up to 75 percent

The DFCs are slightly more flexible in that they will make some attempt at assessing the project risk and will take less security if they feel that the project is robust enough to cover debt service even in adverse conditions However, they will take whatever they can get their hands on unless some serious effort is made at analysing and laying off the project risks

F. Approval of Financing

The commercial banks and the DFCs have very different approaches to approving financing DFCs have the more cumbersome procedures usually involving

- Preliminary appraisal 1-2 weeks
- Detailed appraisal 4-8 weeks
- Internal approval 2 weeks
- Board approval 2 weeks

Board meetings tend to be held quarterly and it is important to keep a timetable for the approval procedure in mind If a board meeting is missed, the project will be delayed by three months Dates for board meetings are not fixed and they may slip by 1-2 weeks or more For this reason, projects should not rely on one financing institution It should be made clear to the DFC that delays in approving the financing may mean that the project looks elsewhere Also, for example, if a DFC is intending to use one particular line of credit and then finds that the line is exhausted, the financing may not be approved even though the project is perfectly viable

Most DFCs have limits within which internal approval for loans can be given without board approval For instance, the PTA Bank may approve up to US$700,000 internally, EADB can approve up to US$450,000 In most cases, given that some DFCs will only finance up to 50 percent of the total project cost, more than one DFC will be involved in financing a project Clearly, if projects are structured so that internal approvals provide sufficient funding, then that approach will save a considerable amount of time

DFCs have come under much criticism in the past for taking too long in approving projects, and their staff have been accused of soliciting *ex gratia* payments for speeding up the process Whilst part of this criticism may be justified, a large part of the delay is due to borrowers not understanding the approval processes within the organisations Delays are compounded when financing proposals do not fit the lending criteria which come packaged with the DFCs' lines of credit, and thus have to be adjusted until they do fit This process can take months and lead to frustrations and accusations of incompetence from both sides, but could be avoided In this respect, the ADC can contribute by ensuring that financing proposals it has taken responsibility for meet the criteria of the lenders, and ensuring that the whole chain of approval knows the ADC is backing the project by keeping in touch with the key people in the financing institutions

Approval procedures in the commercial banks, except for the Cooperative Bank and UCB are relatively simple Loan proposals are reviewed by a loan officer and usually the managing director In principle, the process can take as little as a week if all the documentation required is available

UCB and the Cooperative Bank, because of their branch networks, have more lengthy procedures Both banks accept applications at the branch level, decisions to approve are taken in the head office It is recommended for both of these banks that loan applications are followed up by the ADC through all the levels of approval, and, as for DFCs, contact is kept with key people at branch level and in the head offices

Potential borrowers of less than US$100,000 have little choice other than to borrow from commercial banks One exception is UDB, which will consider loans as low as US$40,000 However, UDB has its share of non-performing assets and may suffer from liquidity problems UDB is not allowed to access the lines of credit from the World Bank and EIB which are administered by the BoU, although it does have access to funding from OPEC and the Kuwait Development Fund

Almost invariably, commercial banks will only lend against collateral cover Generally, lending will be at 60 percent of the cover available Assets preferred are urban property, preferably in Kampala Rural borrowers such as the small farmers targeted by the ADC have almost no chance of borrowing in these conditions However, two possibilities stand out the Austrian credit guarantee scheme and leasing

It is not clear whether either of these two possibilities will solve the problem for small borrowers The credit guarantee scheme needs to work through banks with branch networks to have any effect in rural areas, unless an intermediary such as the ADC is willing to process and pass on applications The credit scheme also needs a larger limit than US$25,000 Twice that amount would be appropriate and would then straddle the gap between the micro-enterprise level which are served by non-governmental organizations and others, such as PRIDE, and the minimum lending limits of commercial banks and DFCs

The availability of leasing mechanisms will also ease the problem of credit below US$100,000 Once again, the problem is only part solved The Uganda Leasing Company is unlikely to spread outside of Kampala in the next one to two years, and it will therefore be up to projects such as the ADC to act as go-between for rural borrowers

Financing for agricultural projects has a bad name in Uganda largely because the past experience of the major lenders -- the Cooperative Bank and UCB -- has been so bad All the other financial institutions in Uganda shy away from lending to the agricultural sector because of the difficulties of monitoring loan performance from Kampala. There are exceptions to this general rule· projects which include an element of processing will usually find a favourable audience with at least the DFCs, and export oriented projects will in general receive a more favourable review provided they meet normal criteria for sound projects

III. USE OF DATA

A Dissemination of Data

The most obvious way in which to use the data is as a guide to choosing the most receptive financing institutions for a particular project, and then to prepare and follow through financing proposals so that they can be approved in the minimum possible time and with reasonable convenants In addition, more general awareness programmes may be useful where potential project sponsors and financing institutions can be introduced to short term financing instruments and to the concepts of medium and long term project financing The objectives here would be

- To get sponsors and financiers talking to understand one another's problems and to try and seek mutually acceptable solutions,
- To give sponsors the opportunity to understand how documentary credits and other short term financing mechanisms work,
- To develop ideas of project risk with both sponsors and financiers, and explore ways in which risks can be laid off, and
- To introduce sponsors to the various forms of financing available and develop ways in which to take advantage of what is available

B Updating Data

In order to stay useful, it is important that the data sheets are updated regularly If the ADC is taking projects to particular institutions then the experience built up from various projects should be reflected in the data sheets Even if the ADC is not using certain institutions regularly, contact should be maintained, availability of financing changes, managements change and policies change It is necessary to be aware of the opportunities available, especially, as is likely to be the case with the ADC, when a steady flow of projects is coming through the office

Informal meetings should be arranged at least once every three months with the larger institutions, and once every six months with the others It would be of benefit to the ADC if contacts from financial institutions could be shown around the ADC projects so that they become familiar with the way in which the ADC works and get to know the ADC personnel

Updating sheets would be simpler if the data were programmed into a database, which could also serve to provide a record of progress of projects through the financing approval process APDF's experience accessing financing, and the performance of NTAE loans should also be documented.

IV. RECOMMENDATIONS FOR FURTHER WORK

A Completion of Inventory of Financial Institutions

The data sheets cover the major financing institutions active in Uganda However, a number of other institutions exist which may be useful from time to time and should be included in a database These institutions include

- Private commercial banks
- Non-bank financing institutions
- Bilateral agencies acting through embassies and high commissions
- Non-governmental organizations
- Insurance companies

B Database Development

In order to use the data collected efficiently and to keep it in a form which can be easily updated, a database should be developed on one of the proprietary packages available such as Paradox or Microsoft Access The database could be designed so that it is integral with the other record keeping and reporting databases which the ADC is using Development of the database and initial data input should take no more than one week

C. Seminars and Training

In line with the notes on dissemination of data above, it is recommended that a seminar be arranged to start the process of getting project sponsors and financing institutions to talk to each other and become aware of what the important issues are It would, for example, be useful to throw open the question of whether the Austrian government sponsored credit guarantee scheme will actually work given the major commercial banks' reluctance to deal with small clients The scheme is clearly relying on cooperation from the commercial banks and an open discussion may help to ensure that the scheme does take off rather than suffer the slow disintegration which has been the hallmark of most other credit guarantee schemes in Uganda.

A basic format for the seminar is an open forum, probably with financial institutions from the broad spectrum invited to put up stalls The seminar will attract more institutions if a list of participants can be advised at an early stage A list of participants consisting of as many people as is practical who are active in the areas of interest should be made up, and these people given invitations to attend the seminar The seminar should be thrown open to anyone else who is interested

A series of short workshop sessions at which participants should be invited to take bankers to task should be organised around the following topics Suggested speakers are in brackets

- Letters of credit and other documentary credits (Barclays/Stanbic/Standard Chartered)
- Security issues for short term credits (Barclays/Stanbic/Standard Chartered)
- Austrian credit guarantee scheme (Michael Wong)
- Project financing risks (DFCU, EADB)
- Bank of Uganda Refinancing Schemes (Achelis Okema)
- Rehabilitation of the Cooperative Bank (Dirk Van Hook)
- Rehabilitation of UCB (?)
- The World Bank private sector support programme (Iradj Alikhani)
- Private sector support from the European Union (Mr Ring, EC Delegation)
- USAID programmes supporting the rural agricultural sector (Jim Dunn)

Other topics for discussion should be solicited from the invited participants