

Affordable agricultural financing to uplift subsistence farmers



Mr Edward Isingoma Matsiko, the Team Leader at Pearl Capital Partners. PHOTO/ALOSIOUS ATWIINE

Interview. Pearl Capital Partners (PCP) in partnership with Embassy of the Kingdom of Netherlands (EKN) recently launched the Dairy and Horticulture Credit Ltd to help small holder farmers. *Daily Monitor's Joan Salmon* talked to Mr Edward Isingoma Matsiko, the team leader at PCP.

Give a brief background about Pearl Capital Partners.

Pearl Capital Partners (PCP) is an agricultural focused fund management business managing funds that invest in agriculture businesses across the East African region for both financial and social impact returns.

We have been around for 18 years now and have managed five agricultural focused investment

funds, with the recently launched being the Dairy and Horticulture Credit Limited (DHCL).

Elaborate about the prior funds.

Our first fund was African Agricultural Capital (AAC), which started in 2005 to support agri-SMEs. It lasted 15 years and we invested in 16 agri-businesses across East Africa. The second was a seed fund worth \$12m that focused on agri-inputs and seed companies.

We invested it in six countries across the region in 13 seed businesses and some in Uganda include Fica Seeds, and Naseco Seeds.

Our third fund was slightly larger, \$25m and deployed it across Uganda, Kenya and Malawi, in eight larger SMEs.

The fourth was the Yield Uganda Investment Fund, which was only deployed in Uganda in 15 agri-businesses.

So, our track record has involved supporting SMEs quite a bit until recently when we got the DHCL for the Savings and Credit Cooperative Organisations (SACCOs), SMEs and other Cooperatives.

What is the criteria for an SME to get these funds?

For all the SACCOs, cooperatives, and SMEs we are onboarding, it is about the potential for growth, management team capac-

ity and work with small-holder farmers in terms of social impact.

That is not forgetting employment creation, climate change considerations, and gender balance sensitivities. However, the key priority has been supporting the SACCOs, cooperatives and SMEs to grow sustainably to have a financial return.

That is because we do not believe agri-businesses can grow by commercial financing hence opting for a private equity venture capital model rather than a banking model.

What is the DHCL's mandate?

The fund was born out of a feasibility study in Uganda, funded by the Dutch Embassy on SMEs organised in cooperatives, SACCOs and village farmer groups.

It was established that they were unable to access affordable and efficient capital regarding how fast they got the loan, repayment period, credit cost and the impact created.

With results showing a shortage in patient and affordable capital, we needed a solution to lower the cost to at most two percent per month for the smallholder farmer.

That birthed the Shs23.9b (€6m) fund for onward lending to SACCOs, cooperatives and SMEs with repayment grace period that favours agricultural cycles that will run for six years.

Who are the partners you work with?

To ensure the funds are used optimally, we are working with two partners that are providing technical assistance to SACCOs and farmers.

TechnoServe, under Market Acceleration Project (HortiMAP), is supporting horticulture SACCOs while SNV under Integrated Smallholder Dairy Development Programme (ISDAP) is supporting dairy SACCOs.



Ms Karin Boven, the ambassador of the Kingdom of Netherlands to Uganda signs the dairy-horticulture project board during the launch recently. PHOTO/JOAN SALMON

**2005
PCP LAUNCHED
ITS FIRST
AGRICULTURE
FUND**

The technical assistance to the SACCOs, especially corporate governance and performance management is by Agriterra, that was contracted by TechnoServe and SNV.

Therefore, we have worked through a business development services model where they are separately funded by the Kingdom of the Netherlands through grants under their various projects to support these SACCOs and farmers.

What are your focus areas?

The fund is looked at as a pilot scheme with a focus on the southwest, Rwenzori, Elgon/Eastern, central and western for dairy and horticulture.

We believe that within the next two to three years, if we successfully get this model running, we could raise more capital to expand across the whole country or increase the number of products we are dealing with.

What are your intended outcomes?

The first is increased production and productivity to address challenges of food security and nutrition.

Second is the financial return for the fund to continue growing hence lending to more farmers. There is also the aspect of social inclusiveness where more youth and women become involved and adaptive.

We also want to see sustainable cooperatives with improved corporate governance where more women join SACCO boards. Ultimately, improving livelihoods is key and the target is a minimum of 12,000 small holder farmers in each agribusiness sector.

What should be done better going forward?

We can still do better with improvements in professionalism and looking at agriculture as a business rather than subsidiary farming.

That means paying attention to things such as agricultural risk insurance to help in times of climate change effects and other disasters. That calls for hand holding our smallholder farmers to adapt to sustainable yet organic farming for better yields.

Patient capital to unlock agricultural potential

BY JOAN SALMON

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More than 70 percent of Ugandans work in agriculture and according to World Food Programme (WFP), more than three and a half million family farms.

These, according to the National Planning Authority (NPA), make up 80 percent of the farming population, operating on one to three acres. These farmers seldom use production inputs, depend on rains to water their crops and operate on a subsistence basis.

They perceive agriculture as a means of survival rather than a business thus explaining the low production and productivity in the sector. The irony is that these are the farmers envisaged to bring about a transformation in the sector. Therefore, looking for ways to empower is crucial to the economy.

In that vein, the Dutch Embassy in Uganda, in partnership with Pearl Capital Partners (PCP), an impact investment fund management business injected Shs23.9b to form the Dairy and Horticulture Credit Ltd (DHCL).

As per the name, it is targeted to serve smallholder farmers in horticulture and dairy in the southwestern and central Uganda.

PCP is also working SNV, the Netherlands Development Organisation (dairy) and TechnoServe (horticulture) to provide farmers with technical assistance.

"Savings and Credit Cooperative Organisations (SACCOs) receive technical assistance while farmers receive financial literacy to prepare them to borrow money and use it well. SACCOs also get support to develop loan products that suit their farmers' needs," Mr Joseph Kiirya, the senior investment advisor at SNV says.

Essence of the fund

Mr Kiirya says the funding is essential because while there is money, access is troublesome.

"These financial institutions are in urban areas yet most small scale farmers are in rural areas. The distance hampers access, which is already encumbered by the hefty loan application requirements," he says.

Owing to agriculture dynamics of seasons, farmers need loans that are not only patient but also cheap. However, those in most financial institutions

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FUND TARGETS

Pearl Capital Partners want increased production and productivity to address challenges of food security and nutrition. Second is the financial return for the fund to continue growing hence lending to more farmers. There is also the aspect of social inclusiveness where more youth and women become involved and adaptive.

Pearl Capital Partners eases access to finance for smallholder farmers

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Ms Karin Boven, , the ambassador of the Kingdom of Netherlands to Uganda makes a speech during the launch of the dairy and horticulture credit fund recently. PHOTOS/ JOAN SALMON

patient nor cheap with the cheapest being at four percent interest.

"The DHCL is at only two percent, with a grace period which suits the agriculture enterprise," he says.

Even when there is an agricultural fund from Bank of Uganda with a long repayment period, Mr Kiirya, says because it goes through commercial banks, farmers do not access it as many fear to deal with banks.

Beneficiaries

Nazigo SACCO brings together farmers dealing in pineapples, bananas, tomatoes in the Kayunga and Kangulumira locales. The journey with PCP started early this year with due diligence by TechnoServe. That was followed by capacity building on governance, per-

formance, management, strategic planning in the SACCO.

It was by AgriTerra (under TechnoServe) for the board and top management of the SACCO. Thereafter, the SACCO was taken through to Horticulture Market Acceleration Project (HortiMAP) for fund mobilisation and got the Ebibala Bugaga loan product.

"The loan looks to boost the whole value chain and has a grace period of three to six months, depending on the maturity period of the crop one is dealing in," Mr Kigenyi Richard, the acting manager of Nazigo SACCO, Kayunga says.

The SACCO, whose membership is 9,200 farmers was appraised for Shs300m, under DHCL fund that was approved, to be disbursed in given in two batches of Shs150m with the second coming in May,

2024.

Mr Kigenyi believes these funds will help in increasing production and since the whole value chain is greased, there will client influx hence more disposable income and savings. "We are already doing announcements calling upon other value chain players to come for loans. That will widen the market and its accessibility," he says.

Mr Peter Tumuhimbise, the general manager of Butuuro People's SACCO in Bushenyi District says they deal with smallholder farmers who have one to seven cows. However, apart from suffering scarcity of cheap capital, the dairy farmers suffer severe price drops in bumper season from Shs2,000 per litre to Shs500.

"These farmers are also faced with poor quality acaricides, and costly agricultural insurance. These negatively affect incomes," he says.

With the onset of the DHCL, the interest rate of loans given reduced from 2.5 to two percent per month. "The SACCO accessed the first phase was Shs500m from DHCL fund payable in 24 months (two years), with six months grace period and this birthed the Amate loan," he says.

Partners

Mr Kiirya, who is also the deputy project manager of Inclusive Dairy Enterprise, says while SNV had capital, Mr Kiirya says it was not cheap or patient hence writing a proposal to the Dutch Embassy for a grant to showcase the need to change the narrative for agricultural loans.

"If cheap capital is availed in financial institutions, farmers can borrow and thrive. If this scheme is successful, SNV can talk to Central Bank to reserve a fund specifically for high performing SACCOs. We also hope that we will ably set a cap on the interest rate for agricultural loans, which will benefit more agricultural enterprises," he says.

Ms Annette Kawooya, the project director of HortiMAP at TechnoServe says up to Shs910m from the fund has been accessed by the farmers for horticulture.

"However, many have not adopted the loan because of bad previous experiences, such as losing property to loan sharks. Therefore, our job is to popularise the fund to our farmers

TechnoServe works in 33 districts in the Central and South Western Uganda and has so far reached about 20,000 farmers.

"We have rolled out the horticulture credit line in the central and southwest Uganda. We believe that before the end of the year, we should have rolled out in the eastern," she says.

On the other hand, SNV has prepared 26 SACCOs so far, while 19 have applied and since the fund was initiated six months ago, Shs5.8b



A dairy field officer from SNV conducts farmer monitoring and technical support.



Workers prepare animal feeds. The project was funded under the Yield Uganda Investment Fund.

has been raised by the SACCOs with 612 smallholder farmers have borrowed. "By the close of 2024, this fund should have benefited about 12,000 farmers," he says.

In the training wheels in Agriterra which renders training across the board in technology, knowledge transfer, and capacity building

These implementing partners are also teaching mechanisms that improve credit delivery to smallholder farmers. These include helping SACCOs to digitise their work even when physically absent all farmers can acquire the loan.

"We create other alternatives through digital loans, supporting these institutions to have options beyond the brick and mortar lending while also doing check-off systems. For instance, if one supplies milk to a cooperative, the cooperative can pay on their behalf," he says.

Adding, "The potential to unlock Uganda's opportunities in agriculture lies within the localised financial institutions, of which SACCOs are part of the basket."

SNV and TechnoServe are equipping farmers on how to access and use the loan so that ultimately, ensuring that they will ably repay.

Ms Kawooya says they are training farmers on good agronomical practices, leading them to markets and looking at climate change issues.

"The finances are the icing as they ease access to items such as fertilisers, chop cutters and other inputs. Their availability also help the farmers to get good quality inputs," she says.

Mr Kiirya says in appraising the SACCOs, they have taught the leadership how to provide value

judgement to farmers.

"For instance, it is not enough to tell a farmer that they do not qualify for a loan but also why. It could be that the cow is unhealthy or they do not have sufficient infrastructure," he says.

Loan prerequisites

For a SACCO to get this loan, it must have a strong management team, a management information system, provide reports, and have a special product to offer the market.

"You must prove to PCP that you have line and enterprise farmers who are involved in the trade, horticulture, in this case as the funds are tailored to specific fields," Mr Kigenyi says.

On an individual side, these can only get loans if they are bona fide members of the SACCO. In the case of Nazigo, they must have an account with the SACCO which is sealed by buying shares, and each goes for Shs33,000. These are then trained on loan acquisition.

PARTNERS

TechnoServe works in 33 districts in the central and South Western Uganda and has so far reached about 20,000 farmers in horticulture.

SNV has prepared 26 dairy SACCOs so far, while 19 have applied. In total, 612 farmers have been reached.

Agriterra is the other partner supporting both TechnoServe and SNV in knowledge transfer and capacity building trainings for farmers and SACCOs.



Horticulture farmers during an on-farm training.