YOUNG FARMERS FEDERATION OF UGANDA (UNYFA)

Policy Position Paper

On

Inadequate investment in Inclusive Finance for Youth in Agriculture

November 2020

INTRODUCTION

This Policy position paper provides a set of policy recommendations designed to help promote the expansion of agricultural finance in Uganda. It is addressed to Ugandan policy makers from the broad range of ministries, from central banks and regulatory authorities involved in agricultural finance. It concerns also donors, financial institutions and farmers' organizations engaging in policy dialogue and advocacy. This paper focuses also on specific agricultural finance policy measures that can make the biggest difference in expanding access to financial services for producers, agribusinesses and other agricultural value chain participants in Uganda.

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A brief about UNYFA

UNYFA is an umbrella body for young farmers in Uganda started in 2016 and launched in June 2017 as a duly incorporated member-based organization, with a registration number 80020000478713 under section 18(3) of Companies Act 2012. It has over 60 members which are district young farmers associations, farmer youth groups and school agricultural clubs totaling to over 31,000 individual young farmers. UNYFA is driven by the desire to have a holistically transformed youth in agriculture for a sustainable economy: its target group is of youth between 12 to 39 years of age who are rural and/or urban agro-based and young farmers in and out of school/ Institutions. Due to diverse interests of farmer groups/farmer-based organizations, young farmers need specific training;

UNYFA provides platforms for these youths where they can express and acquire tailor-made training.

Youths have the propensity to move with the changing dynamics of the world and are capable of formulating and taking lead in farmer-based organizations. UNYFA believes that if Uganda is to realize development, the youth need to be involved in development programs so as to reduce the dependency syndrome and to transform youth groups into a productive force.

Problem Statement

Rural and urban youth have the potential to contribute to food security, economic development, social inclusion and stability. But sadly, three of every four youths in Africa live on less than USD 2/day (African Economic Outlook 2013). Access to finance is critical for agri-SMES and farmers to upgrade and expand their productive activities in order to support the agro-industrialization agenda.

Youth financial inclusion is a complex and interwoven challenge, and lack of access to finance is one of many challenges preventing youth participation in agriculture (Filmer and Fox, 2014). The current agricultural finance framework doesn't unlock Uganda's agricultural potential, as the existing financial landscape is unable to make appropriate and affordable financial products and services accessible.

Youth usually do not possess the collateral needed to make them eligible for loans from the formal banking sector, and informal mechanisms such as savings clubs, while useful (and often the source of funding for small capital investments), are only having a very limited impact on youth access to capital. In Uganda particularly, rural youth have opted out of agriculture due to the lack of access to land.

Limited access to formal sector finance, both for investments and for working capital needs is such a greater constraint for youth than for older entrepreneurs, as they have less assets and less access to informal finance. Female youth face even more challenge in accessing agricultural finance than their male counterparts.

Financing youth in agriculture is already happening, and where youth have had this opportunity, they have found innovative and creative strategies to secure a future for themselves while contributing to the development of the private sector and social stability in their countries. However, it has always been through election sloganeering to woe them to vote for the government in power. A number of programs intended to support finance the youth have been cropping up especially towards elections and many of which have not created the intended impact. Programs like the Youth Livelihood Fund (YLP), Youth Capital Venture Fund, the Bona Bagagawale, Operation Wealth Creation and the recently introduced Emyooga Program have all been intended to finance young people where majority enterprise selection is still within the agricultural value chain but have yielded little or no success to the extent that a great deal of the beneficiaries have found themselves in prison for failure of paying back.

Therefore, financing of youth needs to be scaled up. It should be noted that youth involved in agriculture or related activities comprise a key means for financial service providers to harness the largely untapped potential demand for smallholder agricultural finance.

In Uganda for instance, investments in agricultural value chain have a great potential to contribute to economic growth, agricultural development, food security, and poverty reduction. "Affordable mechanisms can help farmers and agricultural businesses to build assets, enhance their credit rating and build self-sustaining, profitable enterprises "(AGRA et al., 2009).

Investments in agriculture research through harnessing of the young energetic researchers can spur development of new agricultural technologies which may help to increase yields, improve nutrition, conserve natural resources, and expand agriculture markets. It is also common knowledge that if more funds are allocated through SACCOs and other established cooperatives of the young farmers, they would help farmers access loans and get farm inputs.

However, lack of affordable finance remains a major obstacle for farmers especially youth who wish to raise farm productivity. In Uganda only 30 percent of smallholder farmers use improved seed and fertilizers (AGRA et al., 2009). The situation is worse for urban young farmers, where majority (69%) have not accessed any funding to improve their agriculture enterprises. This could be because most of the government agriculture mechanisms are rural focused. The commercial mechanisms are unavailable to small urban farmers.

It must be noted that for the foreseeable future, agriculture will remain the sector that absorbs most Ugandan youth and this is the big dream of the National Strategy for Youth Employment in Agriculture. It is this reason that UNYFA through this policy position paper emphasizes policy proposals that favor youth as small holder farmers as employees in the agriculture and food security sector. The policy proposals are a reflection of the dynamic nature of the youth of Uganda and brings out new inventions and approaches that rhyme well with their energies, technological advancement and their being highly communicative and trendy setters.

POLICY DEMANDS:

UNYFA strongly asks that government fast tracks the national agriculture finance policy. The Youth demand government especially through MAAIF Top Policy Management, the Ministry of Finance, Planning, and Economic Development, and the Cabinet Secretariat to demonstrate political will and buy-in for a speedy policy development process.

UNYFA further asks the government to consider ease access to agricultural finance and insurance by farmers, for increased production in the agricultural sector. Many agricultural insurance pilots have been conducted in this country and the youth feel it is time for the MAAIF and the agro-consortium of other actors to consider rolling out the agriculture insurance after the many pilots.

In the same vein, Parliament should approve a statutory instrument in order to facilitate the writing off of delinquent loans. We further recommend that this provision work hand in hand with agriculture insurance. Therefore, securing youth access to credit, savings, and insurance can be one sure way that will unveil their talent for entrepreneurship, boost their self-esteem and allow them to have a positive transformative role in their society.

UNYFA additionally calls on government through Bank of Uganda to review the guidelines for accessing the Agricultural Credit Facility (ACF) but also oblige the banks that are implementing ACF to make it easily accessible to the youth.

UNYFA also recommends that Promoting financial literacy amongst youth is one sure approach to help the poor youth save. Increased savings may help individuals meet day-to-day financial demands and invest in their futures. Furthermore, increasing the savings rate especially from the agricultural produce sales in the general population may help promote large-scale changes in a country's economy by allowing increased investment in productive resources. In order to maximize the benefits of increased savings at both the individual and country level, it may be most effective to encourage youth to save. Young people may be more likely to adopt new habits, and they have many working years ahead of them.

UNYFA further recommends that financial service providers take advantage of the immediate business opportunities available in the countryside especially those with overarching potential in the agriculture sector, so that young adults who are already saving and borrowing through non-digital channels are included. This can be achieved through investment in expanding financial services infrastructure in rural areas, as well as by enhancing digital literacy among young adults.

UNYFA also seeks opportunities for increased dialogue among all stakeholders. As such there must be a deliberate move to introduce regular dialogue between government ministries, the central bank/regulatory authorities, financial institutions, representatives of the agriculture sector, development partners, researchers, academics, technology and communications players and other stakeholders. This leads to the development of commonly embraced policy solutions and creates buy-in and ownership from the various public and private sector stakeholders.

Finally, UNYFA demands that government strengthens farmers' organizations, putting them in a better position to represent the needs of farmers in outreach to the government and to the financial sector.

Conclusion

An adequate agricultural finance policy framework is the cornerstone of creating a conducive environment for financial institutions to develop and over appropriate financial products for agricultural clients. Such a framework looks at all levels of policy intervention, support and enhancement: macro and micro.

An Appeal

Financing youth in agriculture is a must. Financing mechanisms that are beneficial to young agripreneurs are also beneficial to others, and to a large extent, developing sound mechanisms that improve access to finance for young people that wish to become more involved in agriculture or to expand their existing agribusinesses is a matter of improving the overall environment for agricultural financing in a country.

UNYFA takes it from her exchange programs to urge that it would be very helpful for more knowledge exchanges across regions, where lessons and innovations from Uganda can be shared with other parts of the world that are also making good progress towards sustainable agriculture and innovative finance that supports small farmers.

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