AGRICULTURAL FINANCE YEARBOOK 2011

AGRICULTURAL FINANCE:
COPING WITH ECONOMIC REALITIES

Bank of Uganda and the Plan for Modernisation of Agriculture Secretariat
Sorghum grown with 30kg N and 10kg P per ha.
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Foreword

The Agricultural Finance Yearbook, of which this is the fifth edition, reviews developments pertaining to the modernization of the agricultural sector in Uganda, particularly those which have relevance for investment in, and the financing of, agriculture and agricultural marketing. The modernization of agriculture is a key development priority for Uganda but this will not be possible without improving the provision of a wide range of financial services to farmers, agro processors and traders.

One of the most striking features of agricultural finance in 2011 was the very rapid growth of loans and advances to agriculture by supervised financial institutions (banks, credit institutions and deposit taking microfinance institutions). New advances to agriculture grew by 60 percent in 2011, albeit from a relatively small base. Much of this increase was a result of a substantial expansion in post –harvest lending by commercial banks, with loans secured by warehouse receipts, which is testament to the fact that the efforts made in recent years to reform policy and legislation related to warehouse receipts and to undertake capacity building in this area have begun to bear fruit.

Food prices in Uganda were driven up sharply in 2011 by a combination of domestic and regional supply shocks and higher global food prices. The Yearbook analyses the recent food price shocks in Uganda and discusses policy measures to improve food security. Higher global food prices are likely to be a feature of the global economy over the long term, which will provide Uganda with an opportunity to exploit its comparative advantage in agriculture and boost agricultural exports.

The Yearbook explores in detail various issues pertaining to investment in value chains in agriculture, including the role of market information and the need to encourage greater utilisation of high quality seeds, fertiliser and other modern inputs. The Yearbook also discusses some important innovations pertaining to agricultural finance, including micro-factoring in Kenya and new approaches to the challenge of training agricultural bankers.

We recommend the Yearbook to everyone interested in agricultural finance and the modernization of agriculture in Uganda.

Hon. Tress Bucyanayandi M.P.                      Prof. Emmanuel Tumusiime-Mutebile
Minister of Agriculture,                             Governor,
Animal Industry and Fisheries                        Bank of Uganda

4AGRICULTURAL FINANCE YEARBOOK 2011
UGANDA DAY STATEMENT ON AGRICULTURAL FINANCE

Preamble
Uganda Day was focused on ‘Resolving the Challenges of Agricultural Finance in Uganda’. This consultative meeting, on 28th June 2011, was a precursor to the Making Finance Work for Africa (MFW4A) Conference titled Zipping Finance and Farming in Africa from 29th to 30th June 2011. It was aimed at enabling Uganda to resolve its own challenges and identify opportunities prior to hosting the MFW4A Conference.

The Uganda Day brought together approximately 350 stakeholders from public and private sector institutions, including policy makers, researchers, regulators, bankers, farmers, agriculture and agribusiness promotion agencies, international, regional and local development partners and representatives of apex institutions in the agriculture and finance sectors.

This Statement summarizes the key resolutions that came out of the extensive, lively and focused discussion on the challenges and opportunities facing Uganda’s efforts to provide agricultural financing. Fundamental to the discussion is the reality that agricultural finance policy is an orphan, with no recognised parentage.

KEY RESOLUTIONS
a) Embrace commodity value chain approach to farming development, following examples set in Uganda by the more efficient chains such as those for coffee.

b) Demand better flow of information from government and other sources on improved crop and animal husbandry, and the role of investment in raising productivity of resources on the farm.

c) Utilize savings opportunities offered by financial institutions to provide an ‘own contribution’ for significant investments e.g. in irrigation and motive power; at the same time address framework conditions including SACCO regulatory issues and enforce the law regarding non-deposit taking MFIs; these measures are to safeguard the deposits of rural people.

d) Understand the disconnect between farmers and banks. Embrace opportunities for better exchange of information in the business of agriculture.

e) Alert the appropriate Ministries to the reality that research and training on market and product development towards adding value to agricultural commodities is a public good and requires action.

f) Seize opportunities to work with farmers and farmer groups to smoothen supply of commodities by staggered production, within the scope of agro-climatic realities and address the difficulty of volatile pricing.

g) Develop financing technology to take account of the over-riding need to select borrowers on the basis of both motivation and competence in using purchased inputs and equipment.

h) Aggressively seek term liabilities in order to be able to meet the effective demand for term investment finance all along agricultural value chains.
i) Build on the promising examples of cooperative developments and farmers’ groups to establish societies providing inputs, collective marketing for improved farm incomes and clustering for advisory services.

j) Address the current need for effective linkages within the financial sector.

k) Focus on standards of inputs and machinery and give teeth to regulations governing these requirements in order to safeguard the productivity of these investments, many of which will be credit-financed. Similarly address enforcement of standards of farm produce.

l) Increase public sector investment in crop and livestock research, water for irrigated crop production and livestock farming, infrastructure for weather index insurance, rural energy and roads.

m) Address the need for concrete action to improve financial literacy and deepen financial inclusion in rural areas.

n) Address women’s rights as regards implementation of land ownership legislation.

o) Develop an Agricultural Finance Strategy (AFS) by means of an effective coordination framework involving key ministries and the central bank.

The above recommendations will form the basis for development of an Agricultural Finance Action Plan (AFAP).
01 Policy
1.1 Trends in Lending and Leasing in 2011

Section 1: Background

As shown in Diagram 1, agricultural lending by regulated commercial banks, credit institutions and microfinance deposit-taking institutions (MDI’s) increased substantially in 2011 - by over 60 percent. The overall contribution of agricultural lending to total formal lending also increased, from 7 percent in 2010 to 9 percent in 2011.

The significant increase in agricultural lending was mainly a result of increased volume of warehouse receipt products mainly in the coffee value chain - with two financial institutions accounting for much of this increase. The warehouse receipt product in these two financial institutions contributed over 26 percent of total agricultural lending. Without this business, the increase in agricultural lending in 2011 would have been substantially less than the 60 percent noted above.

It is believed that borrowing for speculation on food may have also contributed to the increase in agricultural lending in 2011,

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1 Author: Irene Sekamwa Kajoro, BoU/GIZ FSD Programme
2 As in the 2010 Yearbook a caveat is in order. Despite strenuous efforts, there is still reason to believe that some scope exists for improvement in the quality of data being collected in this area. It is hoped that as the situation improves, the future will see more reliable time series and comparative analyses, for publication in subsequent editions of the Yearbook.
given the opportunities for this type of activity prompted by the soaring food prices experienced in mid-2011.

The information on advances to agriculture by regulated financial institutions was first compiled for and presented in the 2007 Agricultural Finance Yearbook and subsequently followed in the 2008, 2009 and 2010 editions. This, the 2011 Agricultural Finance Yearbook, is the 5th edition and builds on the previous work. The format used for the compilation of the data has not changed. That is, it tracks the new advances to the agricultural sector rather than the outstanding portfolio. This approach provides a more dynamic view of movements in lending to the agricultural sector. As with the 2010 Yearbook, the information on leases to the agricultural sector has also been captured.

Diagram 1 below shows the pattern on a quarterly basis. It reveals a generally downward trend of agricultural lending from 2007 to 2009, until 2010 and 2011 when the trend reversed. That is, total agricultural lending increased from UShs 353 bn in 2010 to UShs 566 bn in 2011. Although the increase in 2010 (22 percent) did not match up to the decrease in 2009 (32 percent), the increase in 2011 (60 percent) significantly surpassed the increase in 2010 (22 percent).

Agricultural lending significantly and continuously declined from 2007 to 2009, as shown in Table 1. However, in 2010 it picked up, increasing by UShs 62 bn from UShs 291 bn in 2009 to UShs 353 bn in 2010. In 2011 it increased further, by 213 bn from UShs 353 bn in 2010 to UShs 566 bn in 2011. As in the 2010 Yearbook, the figures in the Annual Totals column also include leases to the agricultural sector.

Diagram 1: Total Agricultural Lending

Source: Bank of Uganda Supervision Function
The increase could be attributed to a number of reasons some of which have already been mentioned in the 1st paragraph. Other reasons could include:

- An increase in operations of the 8 new regulated financial institutions which acquired licenses in 2008, 2010 and 2011, as a result of the lifting of the moratorium on new banking licenses.

- The continued increase in government investment to the agricultural sector in 2011 through provision of the Ushs 30 bn Agricultural Credit Facility, the objective of which was to increase agricultural productivity and incomes, and thereby stimulate lending to the agricultural sector.

### Table 1: Agricultural Lending by Regulated FIs and MDIs between 2007 and 2010 in bn of UShs.

<table>
<thead>
<tr>
<th></th>
<th>1st Quarter</th>
<th>2nd Quarter</th>
<th>3rd Quarter</th>
<th>4th Quarter</th>
<th>Annual Totals</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agricultural lending in 2007</td>
<td>86</td>
<td>84</td>
<td>108</td>
<td>172</td>
<td>450</td>
</tr>
<tr>
<td>Agricultural lending in 2008</td>
<td>92</td>
<td>73</td>
<td>118</td>
<td>142</td>
<td>425</td>
</tr>
<tr>
<td>Agricultural lending in 2009</td>
<td>69</td>
<td>57</td>
<td>86</td>
<td>79</td>
<td>291</td>
</tr>
<tr>
<td>Agricultural lending in 2010</td>
<td>69</td>
<td>72</td>
<td>73</td>
<td>139</td>
<td>353</td>
</tr>
<tr>
<td>Agricultural lending in 2011</td>
<td>97</td>
<td>104</td>
<td>191</td>
<td>174</td>
<td>566</td>
</tr>
</tbody>
</table>

Source: Bank of Uganda Supervision Function

### Section 2: Regulated financial institutions in Uganda by category

Commercial banks still constitute the biggest percentage of the total number of regulated financial institutions in Uganda. The numbers within the 3 tiers are as shown in Table 2 below.

The total number of regulated financial institutions increased from 28 in 2010 to 30 in 2011. There were 2 new entrants: Imperial Bank which gained a licence at the end of 2010 to operate as a Tier 1 institution, and UGAFODE Microfinance Ltd., which was granted a licence at the end of 2011 to operate as a Tier 3 institution (MDI).

### Table 2: Regulated Financial Institutions in Uganda

<table>
<thead>
<tr>
<th>Year</th>
<th>Tier 1</th>
<th>Tier 2</th>
<th>Tier 3</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>14</td>
<td>5</td>
<td>4</td>
<td>23</td>
</tr>
<tr>
<td>2008</td>
<td>20</td>
<td>5</td>
<td>4</td>
<td>29</td>
</tr>
<tr>
<td>2009</td>
<td>21</td>
<td>4</td>
<td>3</td>
<td>28</td>
</tr>
<tr>
<td>2010</td>
<td>22</td>
<td>3</td>
<td>3</td>
<td>28</td>
</tr>
<tr>
<td>2011</td>
<td>23</td>
<td>3</td>
<td>4</td>
<td>30</td>
</tr>
</tbody>
</table>

Note: Tier 1: Commercial Banks; Tier 2: Credit Institutions; Tier 3: Microfinance Deposit taking Institutions

Source: Bank of Uganda Supervision Function
Section 3: Agricultural lending by category of financial institutions

As shown clearly in Diagram 2, commercial banks remain the biggest contributors to agricultural lending, accounting for 95 percent of the total amount lent out for agriculture in 2011 (as in 2010, 2009, 2008 and 2007). They are followed by Tier 3 MDIs and Tier 2 credit institutions, in that order. 2007 and 2009, it increased in 2010 and even more significantly in 2011. A divergence to this trend was noted in lending to agricultural processing, which went up already in 2008. From 2009 to 2011, lending to agricultural processing continued to steadily increase.

Diagram 3 indicates that in 2011 lending across the value chain significantly increased. The increase in lending to agricultural processing was more evident than that for other value chain stages. Lending to agricultural production increased by over 100 percent in 2011 for reasons already explained in Section 1.

It is noted from Diagram 3 that although lending to agricultural production and marketing steadily declined between the year 2007 and 2009, it increased in 2010 and even more significantly in 2011. A divergence to this trend was noted in lending to agricultural processing, which went up already in 2008. From 2009 to 2011, lending to agricultural processing continued to steadily increase.

Diagram 3 indicates that in 2011 lending across the value chain significantly increased. The increase in lending to agricultural processing was more evident than that for other value chain stages. Lending to agricultural production increased by over 100 percent in 2011 for reasons already explained in Section 1.
Lending to agricultural processing increased by almost 1 percent while lending to agricultural marketing increased by over 37 percent.

In terms of contribution of each stage of the value chain to total agricultural lending, agricultural production contributed the highest (50 percent). Agricultural marketing contributed over 23 percent, while agricultural processing this year contributed the least (over 22 percent).

Although leases for agricultural machinery increased by over 21 percent in 2011, they contributed only 3 percent to total agricultural lending, indicating a reduced contribution of 1 percent from 4 percent in 2010.

Section 4: Agricultural finance lending by repayment period

Diagram 4 illustrates that as was in 2009 and 2010, most of the lending was medium term (1-3 years) with short term lending (< 1 year) also following closely. Medium term lending contributed 44 percent of the total agricultural lending to the sector, short term lending contributed 43 percent while long term lending (3+ years) contributed the least.

Section 5: Total agricultural lending

From Diagram 5, agricultural lending in 2011 progressively increased from the 1st to the 3rd Quarter and decreased slightly in the 4th Quarter.

It is important to note that regulated institutions are among the many other providers of credit to the sector. Many agro-based individuals access credit from informal sources like individual money lenders, and many agro-based industries also access credit from their overseas head offices or from cheaper capital markets abroad, as mentioned in the 2009 and 2010 editions of the Yearbook. For obvious reasons, data on these advances from outside of the regulated Ugandan financial sector are not presented in this article.
Section 6: Conclusion

From the 2011 statistics, there has been a very substantial increase in formal advances to agricultural value chains. Agricultural lending as a percentage of total financial institution lending has also increased – up from 7 to 9 percent. Though significant, the 9 percent figure is still low in relation to the importance and size of the sector in the national economy. So there is some way to go.

Given the very positive effect on lending of the Warehouse Receipts legislation, this has to be noted as a significant policy success for the Government. It also underlines the role of innovation in bridging the gap between the financial and agricultural sectors, so that both sides see profitable business opportunities through new types of banking products, coupled with access on both sides to better information.

The Yearbook series is clearly one important tool in making worthwhile innovations better known and in furnishing information about investment opportunities to the financial sector, while at the same time explaining financial products to farmers and others who earn their living in agricultural value chains.
1.2 Agricultural Credit Facility (ACF)

Section 1: Introduction

The Agricultural Credit Facility (ACF) was operationalised in October 2009 and disbursements commenced in March 2010. The ACF was set up by the Government in partnership with commercial banks, the Uganda Development Bank, microfinance deposit taking institutions (MDIs) and credit institutions; the financial institutions involved are referred to as participating financial institutions (PFIs).

The main objective of the ACF is to promote the commercialization of agriculture through the provision of medium and long term financing of capital investments in agriculture and agro-processing. The ACF enables loans to be extended to farmers and agro-processors on more favourable terms (e.g. lower interest rates) than are available through normal market channels, because the Government subsidises the scheme through the provision of interest free loans to the participating financial institutions and through its bearing of some of the credit risk. The Bank of Uganda plays a purely administrative role in the ACF.

1 Author: ACF Section, Accounts Dept., Bank of Uganda
Section 2: Loan terms and conditions

Projects which are eligible for ACF loans include acquisition of agricultural machinery, post-harvest handling equipment, storage facilities, agro-processing and any other machinery and equipment used for agriculture and agro-processing. A maximum of 20 percent of each loan can be used to finance the purchase of material inputs used in production.

The ACF has been implemented in three phases: ACF I from October 2009 to June 2010, ACF II from July 2010 to June 2011 and ACF III from July 2011 to date. Each phase was partially funded by the Government. In ACF I and III, Government contributed 50 percent of the total funds to the ACF and bears 50 percent of the credit risk, whereas in ACF II the Government contribution and share of the credit risk is one third. Government’s contribution to the ACF is interest free to the participating financial institutions. The interest rate charged to the final borrower in ACF I and III was fixed at 10 percent per annum whereas in ACF II it was fixed at 12 percent per annum. The loans funded from the ACF have a maximum maturity of 8 years and minimum of 6 months, with a grace period of up to a maximum of 3 years.

Section 3: Disbursements under the ACF

In each of the three phases of the ACF, Government made available UShs 30 billion as its contribution to the financing of the scheme, which would have allowed total lending to the eligible borrowers of Shs 60 billion in each of ACF I and III and Shs 90 billion in ACF II.

Under ACF I, almost all of the funds available were fully utilized, enabling loans of UShs 58.6 billion to be made to final borrowers. In contrast only a small fraction of the funds available under ACF II were utilized, with loans to final borrowers falling to UShs 8 billion (less than 10 percent of the maximum). Disbursements have picked up slightly under ACF III, with loans to final borrowers amounting to UShs 15 billion, but only a quarter of the available funds have been utilized.

ACF I was popular with PFIs because the level of Government subsidy was high (50 percent of both the cost of funds and the credit risk) and the effective interest rate earned by the PFIs on their 50 percent contribution to the scheme was 20 percent per annum, which was in line with prevailing market rates at the time (the average lending rate for agricultural loans in the second half of 2009/10 was 21 percent per annum).

ACF II was much less attractive to the banks because the level of Government subsidy was cut to 33.3 percent and the increase in the interest rate which PFIs were allowed to charge the final lenders was not sufficient to offset the higher effective cost of funds and the increase in risk borne by the PFIs. In effect, under ACF II, the PFIs could earn an interest rate of only 18 percent on their own contribution to the scheme yet at the same time they bore a larger share of the credit risk than was the case under ACF I. This explains why the utilization rate of funds available under ACF II was so poor.

Although the terms of ACF III reverted to those of ACF I in terms of the level of Government subsidy, ACF III has become less attractive to the PFIs because of the sharp rise in market interest rates in 2011. Under ACF III the effective interest rate earned by the PFIs is 20 percent, the same as under ACF I, but

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2 Editors’ Note: This was the utilization at the time the article was written, with some five months left to the end of ACF III.
the average lending rate for agricultural loans rose from 22 percent in June 2011 to nearly 29 percent in February 2012. Consequently, ACF III is potentially very attractive for borrowers, because the lending rate is barely a third of the prevailing market rate, but it is not very attractive for the PFIs who are facing much higher costs of mobilising funds than they were in 2010.

Section 4: Investments funded under ACF I, II & III

The bulk of the ACF funds have gone to acquisition of machinery and equipment for agro-processing, tractors and heavy machinery for land opening and commercialisation of agriculture. The chart below gives the details of the various areas funded.

Section 5: Evaluation of the performance of the ACF

The ACF appears to have contributed to an expansion of bank lending to the agricultural sector. Between September 2009 (the month immediately preceding the inception of the ACF) and March 2012, total Shilling denominated lending by the commercial banks to the agricultural sector has increased by 118 percent. This is a faster rate of increase than Shilling denominated bank lending to all sectors of the economy, which increased by 59 percent in this period. All of the ACF lending was denominated in Shillings. Bank loans to agriculture denominated in foreign currency increased by 177 percent in this period, but this was a slightly slower increase than that of all foreign currency denominated bank lending which was 211 percent. Of course it is possible that agricultural lending would still have grown as fast even without the ACF, but that seems unlikely because there are no obvious reasons, other than the subsidy afforded by Government through the ACF, why Shilling denominated bank lending to agriculture should have been much more buoyant than lending to the rest of the economy.

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3 Editors’ Note: One reason could be the more widespread use of Warehouse Receipt modalities in lending (see Articles 1.1 and 4.2 in this Yearbook).
borrowers, which include companies involved in grain milling, sugar processing, poultry, tea growing and dairy farming, obtained loans which exceeded this ceiling; these loans in total amounted to UShs 45 billion, which is 56 percent of the entire amount of credit disbursed under the ACF to date. Another 5 borrowers have obtained loans which are either equal to the ceiling of UShs 2.1 billion or slightly less than it; these loans amount to UShs 10.4 billion.

Hence almost 70 percent of the credit disbursed under the ACF to date has gone to large borrowers with loans of UShs 2 billion or above. Many of these borrowers, who have benefitted from the low market interest rates available under the ACF, could probably have afforded to pay market interest rates for the investments, though admittedly this is not known for certain in each case. Hence whether there is a strong public policy rationale for subsidising their borrowing is debatable.

In contrast, there is a much stronger case for supporting the commercialisation of smallholder farmers, by improving their access to credit.

Smallholder farmers comprise 96 percent of all farmers in Uganda, but the level of commercialisation among this sector is very low. Very few if any of the loans extended under the ACF have been made to smallholder farmers. This is because the modalities of accessing loans under the ACF are not suitable for this group. For example, the PFIs require borrowers to provide land titles as loan security, but many smallholder farmers lack these titles.

The MDIs are better suited to lending to smallholder farmers than commercial banks and development banks, because they can use innovative lending technologies such as group lending, which obviate the need for physical loan securities.

However, the MDIs have not participated in the ACF, because the cost structure of the scheme is not suited to them. Because they incur much higher transactions costs of administering loans than banks, the fixed interest rate which can be charged to borrowers is a much more serious constraint for MDIs than it is for banks.

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4 This is one of the conclusions of the World Bank report: *Uganda Promoting Inclusive Growth*, released in February 2012.
1.3 Economic Realities Impacting the Agricultural Sector in 2011

Section 1: What were the ‘realities’?

Introduction

Economic effects and impacts are real to the persons who feel them, but to some in society they are more of an academic issue. Whereas for the brilliant scholar and dignified corporate executive, inflation is an object for scholarship and slight discomfort, to the wider population it is a serious personal challenge that can determine whether life continues (ability to feed and afford life's basics).

Thus, as the professionals sit in the air conditioned seminars and offices to discuss the magnitude and impact of economic phenomena, average people are reeling from the effect of such phenomena – sleeping hungry, contracting diseases they are unable to treat, closing businesses, losing jobs and living in constant fear of tomorrow. Quite often, the unspoken and unreported aspects of economic changes are more impactful than statistics tell us.

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1 Author: Andrew Obara, Friends’ Consult
This article therefore intends to engage the reader in empathizing with realities of various people in agricultural value chains and how economic changes in the year 2011 affected them. It is not based on any grand national survey, but on interpretation of facts in view of the impact of economic changes. The article takes changes in two phenomena – inflation and interest rate changes – and discusses their impact on the different people in the agricultural value chain. Economic realities are many and they all impact on people. For this article, we shall examine two: **inflation** (general rises in prices of goods and services) and **currency depreciation** (weakening of the Uganda Shilling against major international currencies). For both aspects, the year 2011 was full of drastic changes and challenges.

**Inflation**

In its simplest definition, inflation is the rate of general rise in prices of goods and services in an economy (and subsequently the rate of decline in purchasing power of the currency). The commonly used measures of inflation in Uganda are the ones we shall examine here. They are:

- **Annual headline/ national inflation** – This is the raw inflation figure as reported through the Consumer Price Index (CPI) monthly by the Uganda Bureau of Statistics. It is not adjusted for seasonality variations or for exceptional items that usually show price volatilities.

- **Food crop inflation** – Rise in the prices of representative food items

- **Core inflation** – General price rises in goods and services excluding those items that usually face volatile price movements (like food and fuel/ petroleum products)

- **Energy, fuel & utilities (EFU) inflation** – General rise in the prices of fuel, energy and utilities

After years of low and fairly stable inflation, 2011 saw inflationary shocks in Uganda. It is difficult to say that anyone in the private sector was prepared for these shocks. Table 1 below presents inflation rates for the selected months of the years 2010 and 2011.

The figures below and their likely impact on different agricultural value chain actors are discussed under Section 3 of this article. The box below presents an extract of the private sector perspective on the 2011 inflation from an article posted by PSFU (Private Sector Foundation Uganda) on its website. From PSFU’s viewpoint, the main reasons for the high inflation were:

- Rising fuel prices on the international market (up to 50 percent since June 2010 due to very strong demand growth and,

<table>
<thead>
<tr>
<th>Table 1: Inflation in 2010 and 2011</th>
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<tbody>
<tr>
<td>-----------------</td>
</tr>
<tr>
<td>Annual National</td>
</tr>
<tr>
<td>Food crop</td>
</tr>
<tr>
<td>Electricity, fuel &amp; utilities</td>
</tr>
<tr>
<td>Core$^2$</td>
</tr>
</tbody>
</table>

Source: UBOS 2011

$^2$ A measure of inflation that excludes certain items that face volatile price movements (like food and fuel/ petroleum products)
“The world is experiencing unprecedented high prices of agricultural and commodity prices. In February 2011, the World Bank Food Price Index reached its 2008 peak, after rising by 47 percentage points since June 2010. Food prices are rising across the globe, driven in part by the higher transport costs that accompany rising oil prices. During the same time period, the international fuel prices have increased by at least 32 percent on account of strong demand growth and political instability in the Arab region. The East Africa region too has experienced increased prices for fuel and agricultural prices. In Rwanda, the fuel prices have increased by 14% from RWF 887 in January to RWF 1,015 in March 2011. Kenya and Tanzania, which unlike Rwanda are not land locked, have seen increments of about 15 percent. In since early 2011, regional geopolitical risk in North Africa and the Middle East);

- Most of Uganda’s major trading partners have been experiencing rising inflation (notably Kenya, China, India and the Eurozone);
- Depreciation of the Uganda Shilling against most major currencies over the past one year (from below 2,200 per US$ in Dec 2010 to over 2,800 per US$ by August 2011 - key causes being strong demand for fund externalization and fuel imports);
- Persistent drought as the country experienced delayed rains at the beginning of the year. This affected food production and consequently food supplies to the markets, leading to increases in food prices.

Currency depreciation

Currency depreciation in this context refers to a weakening of the value of the Ugandan Shilling relative to the main international currencies, notably the US Dollar, the Euro and the Pound Sterling. As will be shown in Section 3 of this article, the Ugandan Shilling swung widely, unpredictably and sometimes suddenly during the year. Some level of relative stability of the currency is necessary for continued stimulation of economic activity. The effects of currency depreciation in 2011 are discussed under Section 3 of this article.

Interest rates

The market interest rates rose by two to three percentage points between January and June 2011, mainly following a modest increase in the BoU rate to commercial banks.

In the second half of the year, BoU introduced the minimum interbank rate which was meant to check inflation by making borrowing expensive. This saw the prime lending rates of commercial banks increasing by 10 percentage points or more. So generally, borrowing became very expensive during the year.

High demand for food in neighbouring countries

Demand for food from neighbouring countries, especially Sudan, continued to attract exports of such food items from Uganda. This also had the effect of increasing the food prices within the country.

From PSFU website www.psfuganda.org
**Adverse weather**

Though not purely economic phenomenona, weather patterns affect fundamentally the economic realities of people in agricultural value chains. While any detailed discussion of the effects of adverse weather is beyond the scope of this article, it is useful to note that adverse weather affected agricultural production in 2011.

Examples are:
- Late rains and later on floods in parts of northern and eastern Uganda
- Droughts in north-eastern Uganda (Teso and Karamoja)
- Landslides and threats of more landslides, resulting from torrential rains
- Pests and diseases of crops and animals (e.g. cattle)

**Section 2: The people affected**

There was a fairly popular view during the year that the 2011 inflation was good for farmers and other actors in agribusiness value chains. To validate or disprove this, it is necessary to compare the year’s food price inflation (as a proxy for agribusiness related inflation) to the general or headline inflation during the year.

The graph below reveals the following:

- Annual national (or headline) inflation was higher than food crop inflation for all the months of 2011 (although October to December figures were not yet available by the time of writing this article). To the extent that farmers and other agricultural value chain actors use other goods and services (which is a fact of life), this suggests that they got high prices but did not necessarily have a purchasing power advantage since the overall inflation was higher than the general rises in food items;
- Food crop and electricity, fuel and utilities (EFU) inflation were neck-to-neck, meaning that food producers’ advantages were minimal since most of the actors spend significantly on fuel and utilities (or are indirectly affected through other price rises);
- The fact that the general (headline) inflation was significantly higher than all...
the other three components of inflation validates, to a significant extent, the argument that inflation was mainly caused by external factors (imported inflation).

If the food price inflation had been higher than the monthly annualized headline rates, there would have been reason for the farmers and agribusiness traders to rejoice. This would mean that in real terms, those in the agribusiness sector were earning more. This was not the case and thus they are not clapping hands. If we looked more closely at the agribusiness value chain actors to distinguish between the commercial farmers (typically large, fairly well informed) and the majority of small scale farmers, we would find another pattern. The small scale producers often get low prices and, because of their relative lack of information and power, enjoy less of the price increases in their products. Typically the middle-men or traders do not immediately translate higher market prices into proportionately higher prices paid to the small scale producers. It is only the competition among the traders for produce that later on translates into higher prices for the small scale farmer. Thus, the MSME types of agricultural producers most likely benefited less than the more commercialized farmers.

Another interesting closer look would be at those agribusiness value chain actors who were in the market mainly as sellers in comparison to those who were there mainly as buyers. If one takes the prices of agricultural commodities in isolation from the rest of the price levels in the economy, the conclusion would be that the sellers were advantaged and the buyers were disadvantaged because of the price rises. The case being that inflation was mostly imported (evidenced by the higher headline rate than all the three major components of domestic inflation); neither group was in a position of absolute advantage. The following newspaper article extract in part illustrates.

“Kitgum — Many families in Kitgum are beginning to forego meals and other essentials due to daily increase in prices of commodities on the market. Margaret Akello, an orphan who is taking care of her young siblings, said it is becoming increasingly hard to buy items like salt and sugar because their prices have gone up. Akello said the situation has been made worse by the dry season where other food items like vegetables and fruits are no longer being sold in big quantities like it used to be about a month ago…

“It also comes at a time when fuel prices have escalated, raising transportation costs and weakening the local currency. This is likely to cause inflationary pressures on the economy…”
Margaret Lamunu, who owns a retail shop in Kitgum town council, said she is realising little proceeds from her sales because consumers are foregoing some commodities. ...

By Stephen Komakech, 12 March 2011 Daily Monitor

The above could have been a story in any of the districts of Uganda during the year 2011. The names of people and places would change but the story would be similar:

- The peasant or small scale agricultural producer, producing and selling normal quantities, had a hard time getting normal basics;
- The shopkeeper who has increased prices because of general inflation finds that fewer and fewer customers show up to buy anything;
- The transporter who appeared to overcharge the produce trader for transporting produce to the market went to the market and spent his ‘excess’ earning and a bit more on the normal basics;
The agricultural processor who initially got delighted about “good prices” soon realized that this comes along with higher raw material and other input prices – thus no reason to rejoice;

The produce trader who might have been expected to have benefited most from the inflation (although no research has yet been undertaken on this for the year 2011), was negatively affected, since the overall price increases were higher than those of food/ agricultural commodities.

Section 3: Effects on investing opportunities and challenges

The two other economic aspects that changed drastically and relate to investments are interest rates and foreign currency exchange rates. Their brief examination in this section will highlight the likely effect their movements had on investment in the agribusiness sector.
Interest rates

Bank interest rates, which had for years been fairly stable, rose rapidly during the year. Whereas at the start of the year most banks had their Prime lending rates at around 15 percent, two major drastic changes saw this jumping up to the mid and higher 20s and even to 30 percent. The changes, both triggered by the Central Bank’s actions, were i) increase in the Bank Rate (rate at which BoU lends to commercial banks) at the start of the year and ii) introduction of the Interbank Rate (minimum rate at which banks can lend to each other) in July.

As noted, and in response to the increase in the Bank Rate, the banks increased their prime lending rates substantially. Introduction of the Interbank Rate at 20 percent and later an increase to 23 percent saw interest rate jumps of a magnitude that had not been experienced in Uganda’s recent past. By the close of the year, interest rates charged to bank borrowers were generally more than 30 percent p.a.

Without going into detailed argument, investment and business in general was not helped by the sudden rise in the cost of money during the year. The threats and strikes by trading groups like Kampala City Traders Association (KACITA) were representative of the desperation of all other businesses including agribusinesses.

Whereas the traders were the most visible of those affected (they are in cities, they have an association and they feel the immediate impact of interest rate rises), farmers and other agribusiness operators were equally or worse affected; input prices rose and unfortunately for the farmers, they had to wait for a longer time to recoup the higher costs from sales. At 30 percent, the cost of borrowing was largely prohibitive (which is what the interventions were meant to achieve).

Foreign exchange rates

The line graph in Figure 2 shows the exchange rate movements during the year 2011.

The exchange rate between the Ugandan Shilling and the US Dollar swung from UShs 2,300 in January to UShs 2,900 in September and then back to below UShs 2,500 by December 2011. Such wide and unpredictable swings in a relatively short period cannot be conducive to investments – less so in the agribusiness sector. While the traders in agricultural commodities could have benefited in the short term from the upswings, their excitement was checked by immediate downswings. It is very likely that some could have made losses by buying and transporting produce across the border when the Shilling was very weak, only to sell the produce for hard currency and realise that the Shilling had strengthened significantly in the short lead period. For farmers (small or large) the most immediate effect was an increasing uncertainty in the long term viability of their enterprises.

Overall, therefore, investment opportunities for agribusiness people were bleak during the year.

Section 4: Responses of the authorities

What was done?

One year is a short time for any government to respond to economic phenomena in a meaningful way (save for Band-Aid or short term relief activities). The Central Bank, on the other hand, has the instruments and authority to respond to such phenomena for both short and long term benefits to the economy. During the year 2011, Bank of Uganda (BoU) strove to maintain sanity in the economy through:
Figure 2: Exchange Rate UShs/US$ 2011

- BoU raising the Bank Rate
- BoU introduction of the Interbank Rate and later raising it
- BoU selling forex to stabilize the market

The first two interventions above were aimed at checking the spiralling inflation in the short run by reducing the amount of money in supply. They were warranted and appropriate though not popular. The milder methods like raising the yields on government securities to mop up liquidity seemed inadequate at that time and in the circumstances. Inflation was so bad that it had to be dealt with pragmatically.

This, however, to some extent came at the expense of economic growth which must be supported by increased consumption and fuelled by enhanced investment. In this regard, the BoU interventions checked investment and perhaps production by making both long term and working capital financing too expensive for business people in all businesses, including those in agricultural value chains.

BoU interventions on the foreign exchange front were also merited because extreme swings in exchange rates, mainly typified by swift and wide depreciation of the Shilling, would have been bad for all businesses in the long run.

Overall, therefore the interventions were appropriate in the circumstances – but what caused the circumstances? This is the question that is seldom asked, let alone answered. For over two decades, Uganda was known as one of the African countries that had tamed inflation and therefore created a truly enabling monetary environment for private sector led growth. Evidence is in the investments we have attracted and realized since the early 1990s.

Causes of high inflation rate

So, what caused this sudden onset of high inflation? Only when we fully answer this question can we avoid similar experiences in the future. There are a number of possibilities:

a) Was it purely external factors (imported inflation)? If so, why was Uganda’s “imported inflation” experience more adverse than that of its neighbours? According to Figure 3 below (extracted from http://www.bloomberg.com), Kenya’s inflation rate for all months of 2011 kept rising but remained below 20 percent unlike Uganda’s which went up to 50 percent.

b) Was it an unsupported increase in the domestic supply of money (Shilling) in circulation?
c) Was it a shrinkage of the productive and business activity (figures might not support this)?

d) Was it a combination of these three factors, or perhaps some inexplicable *force majeure*?

Reason would suggest that as more evidence is available and more analysis is done, then the true picture will emerge. This, and its relevance for agricultural finance, may well be the subject of a future Yearbook article.

**Figure 3: Panoramic View of Kenya’s inflation**

Kenya Inflation Rate - Annual Change on Consumer Price Index

Source: [www.tradingeconomics.com](http://www.tradingeconomics.com) | Kenya National Bureau of Statistics
1.4 Food Supplies and Prices: Crisis, Opportunity or Both?¹

Section 1: Introduction

Global context

This article explores the state of food supplies and prices and how changes in either may constitute a crisis or an opportunity, especially in the Ugandan context.

Since 2007, globally, the supply of food has not been stable, resulting in widespread hikes in food prices. The rising food prices have led some people deeper into poverty, hunger, civil strife and/or in some instances to death. In 2008, global maize prices tripled, wheat prices increased 127 percent, and rice prices increased 170 percent. Since January 2011, World Bank estimates that there has been a net increase in extreme poverty of about 44 million people in low- and middle-income countries. FAO expects the price of agricultural commodities to continue to be at high levels throughout 2012.

A food crisis is usually set off by a shock to either supply or demand for food and often

¹ Author: Tom K. Mugisa, Programme Officer, Technical Services, PMA Secretariat, Ministry of Agriculture, Animal Industry and Fisheries (MAAIF)
involves a sudden spike in food prices. The nature and impact of food crisis or insecurity on peoples’ lives is determined by its severity and duration. Although a food crisis can be set off by a shock such as drought, it is not solely ‘an act of God’. Weak or ineffective agricultural systems that fail to produce enough food/market opportunities in good times and break down completely in bad times also play their part.

The 2008 rise in food prices re-occurred in late 2010. Examining the price index gives an indication of the extent of the price changes over the period (Figure 1). The index measures monthly prices for a food basket which includes cereals, oils, dairy, meat and sugar.

**Uganda context**

Fortunately, global price movements have a limited effect on Uganda, as the country is largely food secure. Therefore, most of the country’s households are not directly exposed to rising global food prices. Only a very limited range and volume of food is imported. Examples include: wheat, some rice and food concentrates. Indeed, for a long period of time the country has been and continues to be a reliable source of surplus food, which is sold to neighbouring countries such as Kenya and South Sudan.

The main sources of calories for the Ugandan population are crops that are not extensively traded across borders, i.e. foods such as sweet potatoes, cassava and matooke (cooking banana). These staples are grown by over one million households every season. However, the country does experience seasonal and localised food shortages, triggered mainly by the effects of prolonged droughts and floods.

In 2011 Uganda experienced some food supply constraints, leading to concerns among many people of an impending crisis. So, what is the pertinent evidence? Food prices periodically rise and fall according to the seasonal nature of farming in the country (Figure 2). For example, prices of most agricultural products fall immediately after the normal harvest for

**Figure 1: FAO Food Price Index: 1990 – 2012, with high price peaks in 2008 and 2011**

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*The real price index is the nominal price index inflated by the World Bank Manufactures Unit Value Index (MUV)

Source: [http://epianalysis.wordpress.com/2011/03/20/foodpricecrisis](http://epianalysis.wordpress.com/2011/03/20/foodpricecrisis)
crops and, for milk, following periods of high production triggered by good rainfall. The food prices for many commodities rise again during periods of prolonged stress resulting, in particular, from drought.

Furthermore, according to the Background to the Budget for the Financial Year (FY) 2011/2012, food crop production grew by 2.7\% percent, the same level as of the FY 2009/2010. Food production was affected by a prolonged drought in the early part of 2011. This partly contributed to inflationary pressures the country experienced, with the general price level of all items combined increasing by 16 percent in May 2011. Food crop prices registered the greatest increase in prices recorded, at slightly over 44 percent over the same period (Figure 3) gives an example of rice and maize. Excluding all food items, the non-food inflation went up to 6.5 percent for the year ending April 2011, which was close to the country’s 5 percent target range. This suggests that the major drivers of the surge in inflation were food items, including food crops and other processed food items such as sugar\(^3\).

Section 2: Causes of food shortages

The recent food shortages in the country affected some parts of the population more than others. Thus the most affected were the income-insecure, whose ability to get food is marginal in the best of times and therefore not at all resilient in bad times. On the other hand, regional food shortage or famine is usually localised, affecting only a particular region of the country, such as Karamoja.

Causes of regional food shortages include natural and human factors. The key human cause is civil strife or war. Others include poor i.e. inefficient food distribution systems. Natural causes include drought, floods, other unfavourable weather conditions, pest infestation, plant and animal diseases. Crop failures due to drought or floods hit harder when too many people are challenged by limited access to land.

Poor rainfall and drought conditions during early 2011 have been the main drivers of food price inflation. The drought affected production areas by causing crop failure and consequently led to an increase in food prices.

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2 Ministry of Finance, Planning and Economic Development (MoFPED) – The Background to the Budget 2011/2012 Fiscal Year
3 Editors’ Note: The readers should note that the period quoted does not take into account the huge food price increases in the middle of 2011 – see Article 1.3.
Flood and landslide-prone areas such as Katakwi and Bududa districts, respectively, have in the recent past suffered total crop losses due to excessive rain. Crops such as cassava, groundnuts and sweet potatoes simply rot and/or have been washed away. Increasing demand for food products in the neighbouring countries also contributed to the increase in food prices in both the domestic and regional markets. Traders responded by exporting more food to the regional markets, especially to Kenya and South Sudan. Some media commentators have maintained that food exports to the region are the main cause of domestic food shortages.

Increasing demand for food products in the neighbouring countries also contributed to the increase in food prices in both the domestic and regional markets. Traders responded by exporting more food to the regional markets, especially to Kenya and South Sudan. Some media commentators have maintained that food exports to the region are the main cause of domestic food shortages.

**Section 3: Response to rising food prices**

The response to the food price rises varies depending on how the prices are perceived – a crisis, an opportunity or both. The responses may also be short or long term in nature. For those who see high prices as a welcome opportunity, the immediate response has been to boost investment in production of a marketable surplus of food. There is also an increase in demand for farm land and in some cases over-exploitation of natural resources. Farmers have intensified production of tradable commodities such as rice, maize, beans, fish and poultry. As a result, their incomes have risen significantly. With improved income security, these farmers have also increased their expenditure on basic services such as education, health, shelter and generally have improved their livelihoods.

However, for the country’s poorest, particularly those who rely on local markets to get food, rising prices and increased volatility are obviously negative – a crisis. The poor have been forced to resort to buying more staple foods at the expense of vegetables and other nutritious foods. People are forced to eat less, or buy less expensive and less nutritious food.
Of course a diet of carbohydrates might quell hunger pangs, but a lack of nutrients has a significant impact on long-term cognitive and physical development, especially for children under the age of two. Poor mothers have had to forego meals to ensure their children can get something to eat. With less money available, families on the margin feel they have very limited choices to make. As a result, such farmers may sell even seeds and tools so as to buy food now, even though it affects their ability to grow food for the subsequent season. Others resort to removing their children from school to toil for food, with many finding it impossible to return.

The vulnerable group includes extremely poor people in urban slums, landless laborers in rural areas and subsistence farmers who cannot grow enough food to last the year. These groups already live on the very margin, spending as much as 80 percent of their income on basic foods. For them, even a slight increase in food price results in devastating effects. They need to be offered social protection through appropriate safety nets such as inputs vouchers, cash transfers, food for work and school feeding programmes.

At country level, high food prices are an opportunity for triggering increased domestic food production as well as enhanced income security for farmers through domestic and external trade. The typical supply side support required includes better access to improved seeds, planting and stocking materials. In this connection it is important to make agricultural productivity enhancing technologies or inputs accessible and affordable by promoting bulk procurement of inputs and support to small and medium scale distributors around the country. Provision of appropriate agricultural credit and targeted smart input subsidies is also critical.

Other responses at country level have included:

- Undertake deliberate interventions that promote trade, continue modernising transport and market infrastructure including provision of market information and intelligence.

- Establishment of strategic food reserves or warehouses as in Masindi, Kapchorwa, Kasese, Jinja and Gulu.
- Avoiding the introduction of food price controls, domestic movement restrictions and export bans.
- Introducing accessible crop and livestock risk management schemes for farmers.

In the longer term, however, investment in agriculture, not just in increased production, but all along commodity value chains will ensure that farmers can grow enough food for their families and be cushioned from fluctuations in local market prices. When farmers can grow a surplus and are able to access a market, they gain from higher prices and are likely to spend this income on local goods and services, leading to strong multipliers in local income.
Section 4: How to prevent a future food crisis

There are a number of measures that can be taken to ensure sustainable domestic food supply, enhanced export growth and control of supply-driven inflation. It is essential to ensure that the country’s food security is enhanced so that every citizen has sustainable access to adequate daily food for consumption in order to attain a productive and healthy life. To be effective, the policy environment for food value chain actors should ensure that exploiting Uganda’s potential for food production becomes a profitable and attractive avenue of entrepreneurship and work.

Interventions for increasing food availability address the supply side of food security. They are aimed at increasing the amount of food that is physically present in an area or country through all forms of domestic production, reserves, imports and/or food aid - supported by appropriate food storage and mobilisation. Listed below are some of the most effective measures that have proved successful in increasing food production sustainably. They include various policy and other interventions to enhance food availability, access, utilisation as well as price stability.

Policy interventions

- Provide an enabling environment with predictable policies, application and stability so that key actors along the food value chains can operate effectively and efficiently.

- Ensure production of adequate food, irrespective of weather variations. Introduce varieties that can produce food during seasons of water shortages or drought. Research needs to develop

a) crops that mature early, consume less water and grow in harsh environments, and

b) livestock breeds that can sustain high levels of production during periods of water shortages. Improved and affordable water harvesting, storage including valley dams, irrigation and drainage technologies should be made available to farmers according to their scale and type of farming - covering small, medium and large scale irrigation infrastructure.

- Provide appropriate guidance to farmers to undertake timely crop and animal husbandry operations. Assist farmers to undertake agriculture as a business through provision of strategic commodity-specific advisory/extension services. Prioritise the value chain approach around the selected commodities, which have the greatest impact on employment, food and income security.

- Assist farmers to minimize post-harvest losses (estimated at 20 and 40 percent for grain and perishables, respectively), through better handling and improved storage (upscale the warehouse receipt system). Use of better post-harvest handling practices and facilities should result in more of the harvested food being available to the population for a longer period of time.

- Assist farmers, farmers groups and other actors to extend shelf life of agricultural commodities through value addition interventions.

- Deal decisively with crop and animal pests/vectors and diseases. Introduce crop varieties and livestock breeds that have ability to resist pest, vector and disease attacks.
• Increase the provision of financial services to farmers as well as to other agricultural commodity value chain actors.

• Replenish fish stocks in existing natural water bodies, promote aquaculture and explore the commercial introduction of properly regulated cage farming on the lakes.

• Provide safety nets for those who are unable to provide adequate food for themselves because of reasons beyond their control - various vulnerable groups. Such safety nets include food aid and school meals.

Information management

Access to information is one of the critical inputs in enhancing food production and preventing future food crises or shocks. Strong evidence that there is a problem or an opportunity is hard to ignore. If fairly reliable and timely information is made available about the level of food prices, then farmers can seize the opportunity to benefit. It is also true that information on the level of hardship, nutritional levels and the number of people affected by shortages of food can be used to lobby for resources and immediate intervention, otherwise the situation could get worse in a few weeks or months.

Provision of inputs and support services

One of the major food supply constraints is limited access to quality productivity-enhancing inputs and guidance on how to maximise benefits from their use. Therefore, it is critical to ensure that farmers have ready access to adequate and appropriate seeds, planting and stocking materials - and know how to use them. Articles 3.1 and 3.2 in this edition of the Yearbook give more information on the issues surrounding key farm production inputs in Uganda.

Financial services

Given the already established fact that access to finance is key to unleashing Uganda’s agricultural potential, it is important to continue making the sector better understood and attractive to investors. A major challenge has been lack of appropriate agricultural financial products and services that are accessible to farmers. This seems to have been aggravated by absence of a designated institutional home fully mandated to handle agricultural finance policy. Fortunately there is increasing recognition of the key issues here, not only for Uganda but also for Africa as a whole. The remedial measures required, especially on the policy side, are summed up in the Kampala Principles – see Article 1.5 in this Yearbook.

Section 5: Conclusion

In summary, the recent food price rises have not been a national crisis, but rather a shock – Uganda as a country had not run out of food. The crisis did exist, but the effects were localized to certain regions and to particularly vulnerable groups. Key to note is that the supply response in agriculture is quite slow due to seasonality – it actually takes one bumper harvest in one season to send the prices down again, as it happened in the recent past.

In the case of Uganda shocks of this type are also an opportunity for the well prepared to enhance their income security. Again at country level, as a net exporter of food, Uganda benefits from high food prices and experiences favourable terms of trade within the food deficit Eastern African region.

The resulting opportunities must be seized.
1.5 International Dimension: The Kampala Principles for Agricultural Finance Policy¹

Section 1: The call for a policy focus

“Agriculture plays a vital role for economic growth and sustainable development. Investment in the sector has been shown to be an effective instrument to alleviate poverty and enhance food security. Evidence suggests that gross domestic product (GDP) growth originating from agriculture is twice as effective at reducing poverty as GDP growth linked to the non agricultural sectors.”²

The Year 2011 saw a renewed call by a number of countries and bilateral and multilateral development partners for a new focus on poverty alleviation and food security.

This article discusses some of the reasons for this renewed call, describes the push and pull factors, the commitments/resolutions and finally, outlines the implications of these processes for re-vamping Agricultural Finance Policy in Uganda and elsewhere in Africa.

¹ Author: Robert Akoda Ocaya, GIZ/FSD.
The Problem

Despite Africa's comparative agricultural advantages, the continent is still a net food importer. In order to address this challenge, a massive increase in the production and productivity of the continent's agriculture is needed to turn Africa from a net food importer into a net food exporter. There is a broad consensus that sustainable growth of the agriculture sector is central for development in Africa.

The Role of Finance

Access to finance is key to unleashing Africa's agricultural potential. However, as agriculture is subject to high systemic risks, both from the environment (e.g. drought, flood and diseases) and markets (e.g. price volatility, trade policy barriers, dumping, transport and logistical challenges), engaging with the sector has been traditionally challenging for financial institutions. Reliable data on crop cycles, yields and weather are scarce, and financial institutions can seldom use the information.

As a result, financial institutions are often unable to adequately conceptualize and assess risk and therefore are unable or reluctant to develop sustainable financial products for actors in agricultural commodity value chains. Consequently, agricultural clients, from small holders to larger agricultural businesses often lack access to adequate financial services and therefore face severe growth constraints.

A suitable policy framework is a major building block for creating an enabling environment for financial institutions to develop and put in operation effective financial products for agricultural clients.

Section 2: The broad environment for agricultural finance

There are several long-standing issues impacting on the effectiveness of agricultural finance in Africa. Recent years have brought out new challenges. A brief overview of the key issues is set out below.

Many of the issues are beyond the authority of policy makers in agriculture and finance. Nevertheless, they are very pertinent to strengthening the crucial interface between the agricultural and financial sectors on the continent, since they affect fundamentally the business of agriculture.

Food security issues

Recent food shortages (e.g. in Kenya and Somalia) coupled by spikes in food prices, the resultant inflation and civil strife have heightened the discussions on food security, which encompasses food affordability and incomes. Therefore the focus of agricultural finance policy needs to be broader than food production. It calls for consideration of a more holistic approach to value chains including adequate consideration of the various stakeholders involved. Food security is very closely aligned with poverty alleviation and the generation of livelihoods, both being important and fundamental objectives for policy makers in all countries.

Demographic issues

A growing and especially young population could be a recipe for civil strife, due to lack of available employment opportunities. Efforts to address this problem by various stakeholders such as governments and development partners ought to include the

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3 With its vast amounts of cultivable land and significant scope to increase production, the continent is endowed with the resources both to service its own food demand and to take advantage of export opportunities arising from rising global demand.

4 See also Article 1.4 in this Yearbook.
potential opportunities in value addition industries for those youths who can acquire the skills that such industries require.

The migration of people, predominantly youths, to towns in search of better employment opportunities affects labour supply on farms and contributes to the higher market demand for food. Despite the fact that women contribute a large part of the agricultural labour force, cultural stigmatization limits their ability to own property (collateral) and even to access financial services.

Arable land availability

Africa has enormous resources in terms of arable land actually or potentially available for crop production and also, by implication, for intensive as opposed to extensive livestock production. However, in many regions of Africa, soils especially those in high rainfall areas, are typically degraded in terms of some key nutrients, e.g. nitrogen. Intensification as a recommended practice is still largely ignored. It will also require the application of appropriate fertilisers at the correct growth stages of crops. Seasonal investments in the form of crop finance will be in demand.

Animal and plant health issues become more important as production intensifies. As farm management capability increases and with it the ability to make productive and profitable use of disease and pest control measures, so too demand for appropriate agro-chemicals and veterinary products increases.

Environmental and climate issues

Climate changes in recent years have highlighted the vulnerability of agriculture – both cropping and livestock enterprises – to shocks such as failure of rains, especially the effects of successive droughts. Management of this type of risk is now an essential accompaniment of investment, especially when this is financed by loans.

Demand in export markets

Africa in the main still exports its products in primary form (raw or semi processed). In cases where products have been produced in their processed form, the performance has been mixed. This is not, perhaps, surprising. With the business structure of agricultural value chains in most African countries geared to export of unprocessed or semi processed commodities, major changes will be needed in order to move towards significant value addition. These changes demand investment – in product development as well as in manufacturing, transport and storage.

Starting with markets, the growing domestic and regional populations constitute an important market for processed items. Within the continent trade is now being assisted in the various regional and continental blocks like the EAC and COMESA, but easing movements of goods between blocks will need continued attention by governments – a process that is now ongoing. At the international level, African governments require expertise in trade related discussions. Without strengthening of markets, investments in product development and value addition will have limited impact.

On-farm production and post-harvest issues

The need for a reliable and competitive input market is obvious, as is the need and scope for group formation in order to capture economies of scale that are otherwise not available to the small operator. Post-harvest losses, in terms

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5 See also Article 3.2 in this Yearbook
of quantitative losses and erosion of quality, are claimed to be high in Africa.

**Research and extension**

Research capability in support of investment in agricultural value chains is needed not only for enhancing farm production – crops and livestock - but also for product development, to extract more value out of basic agricultural commodities.

Extension should be a smooth and effective transfer of knowledge to where it can be applied – down on the farm. It is notoriously weak over much of Africa, plagued by insufficient resources, poorly trained and weakly motivated staff. One exception to the generally poor performance of extension services is when they are part of contract farming arrangements, focusing on a particular crop or livestock product.

**Foreign investment capital**

Spurred by rising commodity prices on the one hand and food security concerns on the other, the foreign investment appetite in agriculture both from commercial and “developmental” sources has increased in recent years. Given the continent’s vast potential for increasing agricultural production, Africa is an obvious target for those seeking to invest in agriculture. Policy is needed to protect local populations from negative consequences of this investment, while optimizing its benefit in terms of jobs and incomes.

**Section 3: The Kampala Principles**

Financial Inclusion is a key to achieving the MDG’s and Africa’s Development. The MFW4A Conference, *Zipping Finance and Farming in Africa*, held in Kampala in late June 2011, recognised that while Agricultural Finance is a part of the overall financial system of a country, the financial service needs of agricultural sectors in Africa are particularly pressing and demand special attention. The Kampala Principles, set out below, were developed on the basis of deliberations at the MFW4A Conference in 2011, in Kampala.

**Kampala Principle 1: Address Agricultural Finance Policy strengthening through establishing a specific high-level coordination body and by recognising a single entity as the advocate for Agricultural Finance.**

In most countries Agricultural Finance is a policy orphan. It falls somewhere in an awkward gap between various ministries responsible for Finance, Agriculture, Trade and Commerce and might even impact on Water and the Environment! For none of these Ministries is it a major topic. This fact, together with the shared responsibility, means that Agricultural Finance all too easily falls off the desks of key policy makers.

One aspect of the policy process is the development and adjustment of policy. This needs to be informed by a consistent flow of relevant data – e.g. as generated and analysed in conjunction with the Supervision Function of Central Banks.

The second key part of the policy process is delivery, plus the monitoring of this delivery. The monitoring enables feedback to the first part – policy making and adjustment. In many cases the second part – delivery – is more challenging than the first.

However, in both phases there is a need for leadership - a champion. Should this role be assumed by the Central Bank, or by one of the key ministries? This will vary from country to country. In any case, the overall policy process (both phases) must have leadership that is recognised, that can coordinate the interested

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parties and that has the resources to function effectively.

Kampala Principle 2: *Strengthen farmers’ organizations so that the production end of agricultural value chains becomes an effective influence on agricultural finance policy making.*

Too much reliance for feedback and advice is placed by policy makers on sources physically close to them. This is hardly surprising, but often results in policies are being delivered that are “off-message” as regards farmers’ real needs. Given the impossibility of surveying the whole sector, the policy making process has to be informed from the rural areas through the intermediation of farmers’ associations. In some countries this can be strengthened by sample surveys such as those conducted under the FinScope label, in Southern and Eastern Africa.

Farmers’ associations or organizations are often poorly resourced and can readily become focused on a single issue, or become aligned with a particular political faction. Thus ensuring their effectiveness as genuine mouthpieces for the farming sector can be a serious challenge.

Kampala Principle 3: *Focus public sector policy on a value chain/commodity approach, with clustering of smaller farmers to facilitate economies of scale in input purchase, value addition, marketing and advisory services.*

Policy making needs to be based on the improvement of conditions for investment in adding value in agricultural commodity chains. This can start with a policy to foster the clustering of small farmers in order to permit economies of scale in input purchase, convenience for advisory services and collective marketing (and local processing) in order to improve sales returns by offering larger volumes of better quality products.

The group approach to these services may or may not involve group lending, but even lending to individuals is facilitated by the ready means of contact through group input supply and marketing activities.

Kampala Principle 4: *Ensure legislation is in place and is implemented to foster innovation and to remove barriers to financing the business of agriculture, through measures such as, but not limited to: asset-backed products, warehouse receipts, contract farming, credit reference bureaux (and better client identification), consolidation of small but viable rural financial institutions and other support to the informal financial sector.*

It is well appreciated that there are very real barriers to building effective business linkages between banks and farmers (and even with downstream processors), using classic financial institutions and products. Clearly innovation in product design, including collateral, is needed.

Legislation is often involved here – or regulation as is the case for central bank supervisory requirements. One difficulty is that product design will nearly always precede legislation, so there is an inevitable time gap. Addressing this with political pressure may be possible.

Kampala Principle 5: *In accordance with CAADP Principles, and in encouragement of private sector investment, increase public sector expenditure in areas such as, but not limited to: crop and livestock research and extension, water for irrigated crop production and livestock farming, infrastructure for crop insurance, rural energy supply, communications and roads.*
CAADP Principles call for governments to invest in the necessary public sector infrastructure to encourage and indeed enable farmers and others who make a living in the agricultural sector to invest for increased productivity using their own funds and/or borrowed money. This remains a pressing need in many countries, since the CAADP expectations have been met in few if any cases.

Apart from the obvious public sector responsibilities of roads, agricultural research applied to local conditions etc. the issue of water for irrigation is one of the more pressing concerns in the continent. Here the situation is patchy. Some countries, for example Swaziland, with 38% of arable land irrigated, have made impressive strides. Others, for example Rwanda, Uganda and Lesotho all register less than 1% irrigated.

Whereas topographical and agro-climatic differences place limitations on the validity of such cross-country comparisons, the fact remains that in many African countries the potential for irrigated crop production is vastly underutilised. The Author’s own country, Uganda, is a classic example.

**Kampala Principle 6:** Support transformation of the agricultural sector through encouragement of longer term productivity-enhancing, on-farm investments such as water supply/irrigation, fencing and farm buildings, through consensual approaches to land tenure issues.

Can longer term investment be encouraged if the investing farmer occupies land under traditional tenure? Some innovative measures to enhance confidence include long term leases or the formation of trusts by the “owning” clans, so that no one person actually has title – whether or not this is traditional or freehold.

**Kampala Principle 7:** Enable financial institutions to meet the demand for longer term financing by developing financial markets so that lenders can gain access to the term liabilities required.

There is wide acceptance of the necessity and scope for transformation of much of the productive structure of African agriculture. This is emphasized in the NEPAD/CAADP process. There are many aspects to the required transformation. These include management capacity, technical competence, access to advisory services, inputs, financial services markets, and, crucially, to on-farm investments.

On the farm there is a pressing need for longer term investment in production-enhancing measures such as water supply, irrigation works and equipment, orchards and other tree crops, livestock handling facilities (including fencing and specialised structures), drainage, shelter etc. The funding requirement for investments of these types, across the farming sectors of most countries, is substantial. The development of financial markets to facilitate access by banks and their clients to longer term liabilities is a basic priority.

**Kampala Principle 8:** Encourage the commercialisation of agriculture and of farming as a business, whether by consolidation of small holdings or through involvement of the private sector (domestic and foreign); in both cases ensure that social, cultural and environmental concerns are met and, in the latter case, that appropriate controls are in place to prevent undesirable exploitation.
The move from subsistence farming to commercial production is only partly a change in resources. Examples exist where the resource base has been expanded (e.g. by land acquisition) but the attitude of the farmer has not become fully commercial. In some parts of Africa there is a distinction between villagers, for whom farming is part of the life of a resident, but who do not see farming as a means to a worthwhile cash income and the farmers, who do have this attitude.

Undoubtedly the farmers, as described above, will attempt to expand their land holding and their command over other productive resources, such as labour. This is part of development of the sector and spurious arguments about equity should not be permitted to interfere with this process. There are many persons on the land whose holdings and labour are more productive when under the direction of a professional farm manager. Policies should therefore encourage the fair and equitable consolidation of small holdings and/or application of the commodity approach to commercialisation of small holder farmers e.g. coffee in Uganda.

Kampala Principle 9: Develop and implement concrete actions to improve financial literacy, consumer protection and farmer business education, with a special focus on gender and youth issues.

Financial literacy and farmer business education are closely linked, both to each other and to consumer protection. At present, in 2011, it is probably fair to observe that financial literacy and consumer protection enjoy more attention from policy makers than farmer business education. This is a matter for some concern. But even more worrying is the fact that in many countries (admittedly with some exceptions) real actions in all three areas are still more noted for plans than for implementation with the target groups.

Another challenge relates to the monitoring of the effectiveness of the actions. Improvements in financial literacy and farm business education, in particular, are not readily measured. It is therefore difficult to maintain the ongoing flow of resources to meet the needs, due to the challenges of assembling hard data that demonstrate the value of the actions taken and therefore the worth of the required investments in human resources and associated costs.

Kampala Principle 10: Drive research, training and dissemination of knowledge to foster private sector investment in developing and marketing added-value agricultural products and services.

This needs no annotation.

Kampala Principle 11: Ensure a sustainable flow of information is available in areas such as, but not limited to: markets, output prices, costs of inputs and cost and conditions of financial products and services.

Information access for those earning a living in agricultural value chains is vital for the effectiveness of agricultural finance policies. This means a demand for knowledge management on the part of several entities in the economy.

The first need is at the farmer level, where inaccurate technical information can adversely affect the productivity and profitability of investments. When failed investments are credit-financed, then lenders too are impacted. Examples include: information on the suitability of tools and machines for the tasks for which they are being bought.
and for the competence of the users; purity and germination percentages of purchased seeds; correct fertilisers for soils/crops; agro-chemicals and veterinary products applicable for correctly identified disease and pest problems.

Also, at the farmer level, there is a need for information on markets and prices, so that enterprise selection and scale can be geared and timed at the production level to profitably meet the expected demand.

There is, of course an associated need for information by the staff of financial institutions offering products to the agricultural sector.

The information relates especially to the business of farming and value addition to agricultural products, and embraces both technical and economic aspects. The Ugandan Yearbook series, Agricultural Finance Yearbooks 2007, 2008, 2009 and 2010 respectively, is one of a number of tools that can be used to inform the agricultural and financial sectors of approaches being tried - both those rated as successful and those which demonstrated a significant degree of failure.

Section 4: Implications of the Kampala Principles for Uganda

The implications of the Kampala Principles for Uganda are summed up in the Uganda Day Statement (reproduced after the Foreword above). This document was drafted at a special “Uganda Day”, held in conjunction with the June 2011 Zipping Finance and Farming In Africa.

Unsurprisingly the Kampala Principles and the Uganda Day Statement share common themes. These address the gaps between and within the policies and plans of the sectors (agriculture, finance and cooperatives and trade) in order to facilitate coherence in the national approaches to fostering an enabling environment for agricultural finance.

References

02 The aBi Trust Support to Key Value Chains
2.1 Boosting Investment in the Maize Value Chain

Section 1: Market signals and their impact on the maize supply situation in 2011

During 2011 the maize market, in terms of demand and supply, was more robust than in 2010. In 2011 the regional demand for maize (by Kenya and South Sudan) continued to increase and this particularly influenced the trend of business amongst the actors within this commodity value chain. The market demand signal was not only by increase in volume but also by the steady increase in prices of maize grain and maize flour throughout the year across the entire value chain.

Comparably, 2011A season prices were higher than those for the same period in 2010 and this was expected to be the case for 2011B season as the trend in the global food commodity prices maintained an upward movement.

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1 Author: Asaph Besigye, Consultant under contract to aBi Trust
2 For example the Market Analysis Report 2011 published by FIT Uganda
Beyond volumes and price, signals on quality (another key characteristic of the market) were not remarkable as the scramble by primary traders for volumes was often in contra direction to the attention on quality.

Market signals to the actors in the value chain were conveyed by several entities, with attempts to make it regular and accurate. It included market information dissemination on prices, quantities, quality and the identity of major maize buyers in 2011. Farmgain Africa (http://www.farmgainafrica.org), one of aBi partners engaging in market information services, collected daily market information and disseminated it through both mobile telephone (SMS) and weekly market bulletins emailed to interested parties (producers, producer organisations, traders and other stakeholders engaged in agribusiness development support).

The access for instant market price updates by SMS is through requests to 8198 and both domestic and regional market information was available through this service in 2011. In addition, Farmgain Africa, with funding support from aBi, relayed market information via local FM radio stations through its Localized Radio-based MIS (LoRaMIS) community programme.

Other entities that were actively involved in market information collection and dissemination are FIT Uganda (via SMS requests to 8555 and e-mail messaging), Agrinet and RATIN (http://www.ratin.org), with the last named largely used on the higher level by large traders involved in the regional market. Although market information was readily accessible on the websites of all the entities providing the service, it is noteworthy that this access was fairly constrained at rural level, due to limited internet connectivity. Nonetheless, interested parties could still pick up the information through phone calls to their contacts with access to the internet.

With the high maize prices throughout the year, farmers' responses (in expectation of better returns on investment in maize) were equally positive. For example, there were visible increases in acreage under maize production (observed during aBi field visits in Iganga, Masindi and other major maize producing areas). Other indicators

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3 See also Article 3.3 in this Yearbook
of increased response, albeit subjectively reported to aBi Trust by partners and collaborators but also observed by aBi in the field, were increased sale and planting of improved seed in anticipation of high yields for higher returns. This was coupled with an increase in the number of farmers engaging in bulk marketing of maize for sale to bigger traders, WFP and other institutions, rather than to the usual village traders. With good access to reliable market information, farmers’ bargaining power with buyers for better prices was boosted and provided an additional incentive for bulk marketing.

Section 2: Investment signals and trends in the maize value chain

From the financial support requests received by aBi Trust, the increasing investment flows for the maize value chain continued to target boosting productivity through the use of improved inputs, improving quality at harvest and postharvest stages including drying, cleaning and storage, and enhancing value addition, including for final products diversification.

Collective marketing through producer groups necessitated increased investment in storage and quality ascertaining and enhancing facilities and transport. In addition, production expansion and increased use of mechanized operations at farm level that were highly visible clearly signaled increased farm level investment. At the inputs supply level, actors were equally keen to increase volumes of inputs stocked and increase outreach to the buyers and users of inputs.

The continuing positive trend in maize prices, the increased domestic and regional market opportunities and the impact of past and on-going support interventions will definitely help to maintain the growth trend of investments in the entire maize value chain in the foreseeable future. On-farm production will definitely be stepped up, thus warranting investment in procuring improved inputs, hiring labour and mechanized operations and improving harvest and postharvest handling facilities.

Similarly, actors (including farmers organizations) engaged at the marketing and processing levels of the value chain will need to invest in additional working capital to match the increased volume, higher procurement prices and increased procurement and marketing logistical costs; as well as medium term investment in items such as equipment for additional and better processing capacity, and increasing storage facilities. It is also highly possible that investment in better storage facilities such as silos^4 will be stepped up.

Furthermore, the vertical nature of produce bulking by farmer groups and the opportunity created by World Food Programme central marketing storage facilities under its Purchase for Progress initiative will stimulate investment in localized smaller and medium capacity storage and trucking facilities to feed into WFP’s bigger central stores.

In spite of the numerous opportunities for financing the maize value chain presented by the favourable factors enumerated above, there are still many issues of concern to aBi:

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^4 Though the government intends to build regional produce storage silos, these (if realized) will not be enough.
i) The highly informal but robust cross-border maize trade, mainly into Kenya and South Sudan with limited or no attempt for value addition and better quality, and lack of buyer contracts, is a disincentive for providing commercial financing. This is despite the lucrative nature of this trade. If buyer contracts for maize exports into regional markets were tenable, they would catalyze development of financing mechanisms especially by the financial institutions with operations in the countries of the maize export destination and Uganda. Examples could include: Stanbic, Standard Chartered, Equity and Kenya Commercial Bank.

ii) Related to the challenge of lack of export market contracts, the non-existence of production contracts from bigger domestic buyers like WFP further blocks financing opportunities for the maize value chain. If production were to be underpinned by pre-planting contracts that relay clear market and price signals, both farmers’ production planning (including investment and financing needs) and reduction in lending risk perception would be highly boosted and thus allow a reasonable flow of commercial finance to the value chain. The issue of lack of contracts in domestic commodity markets, ostensibly on the premise of lack of contract enforcement mechanisms to discourage side-selling and other non-performance vices, is not insurmountable as effective policy action can provide remedies – see Section 5 below.

iii) In addition, the critical lack of production and market risk mitigation insurance products has held down efforts to increase commercial financing for the maize value chain. The production risks associated with unfavourable weather and pest and diseases, among others, and price collapse risks for maize value chain are real and have bad past memories. Lenders, under such circumstances, have for justifiable reasons maintained a high level of risk aversion to lending to the value chain.

As will be explained later in this article some of the programmed aBi Trust interventions in the near term and also recommendations for policy initiatives should help to address these challenges.

Section 3: Interventions by aBi Trust to boost investments in the maize value chain

As for the other commodities which aBi Trust supports (oilseeds, coffee, pulses, and horticulture and vegetables), the Trust uses a holistic approach to support market-driven maize value chain actors to improve their efficiency and market competitiveness. The interventions focus on increasing productivity, product quality, access to finance, market linkages for inputs supply and produce trading, and greater gender integration in the entire value chain.

Working through implementing partners, including farmers’ organizations, SMEs engaging in trading and processing, women
and youth groups and inputs supply stakeholders associations, and also through collaboration with other development partners\(^6\) and public sector actors for greater synergy and impact, the Trust provides technical and financial support for the maize value chain activities. These activities focus on:

1) Enhancing farm level productivity through demonstration of best agronomic practices, plus improving quality at harvest to postharvest stages;
2) Increasing demand, availability and accessibility to improved inputs such as seed, fertilisers and crop protection chemicals in partnership with UNADA and other entities supporting inputs supply development;
3) Enhancing operational and value-addition efficiency, and quality at farm and firm levels;
4) Increasing market access through market information dissemination, market linkages facilitation and marketing mechanisms development;
5) Enhancing sanitary and phytosanitary standards and quality management systems;
6) Integrating gender awareness in production and marketing throughout the value chain.

**Other interventions**

**Increasing access to financial services**

Through partnerships with financial institutions, which is cross-cutting for all aBi supported value chains including maize, is another key intervention by the Trust. Emphasis in this respect is on activities that target improved agribusiness lending skills and developing appropriate financing mechanisms and products amongst partner financial institutions and supporting the demand side (value chain actors) to effectively engage with financial institutions. This is through BDS support for business plan development, management systems strengthening and financial intermediation.

In addition, aBi Trust collaborates on **development and piloting of risk mitigation mechanisms** such as weather index insurance and hedging financial products that aim to further steer the agenda for better access to finance.

Furthermore, aBi supports financial institutions' efforts to **increase rural outreach through new branches and branchless mechanisms**.

It also provides **lines of credit to qualifying financial institutions for on-lending to agribusinesses and operates an agribusiness credit risk sharing scheme to catalyze comfort of lending to agribusinesses within participant financial institutions**.

**Section 4: Support services for the maize value chain**

**Extension**

There are gaps in public extension provision in regard to accessibility, outreach broadness and quality and content of extension messages. This has been visibly exemplified by chronic low yields for maize\(^7\), high harvest and postharvest losses and generally low quality of maize grain on the market. This phenomenon translates into high unit cost of production and impacts the return on farm level investment.

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\(^6\) Under a delegated cooperation agreement with the Royal Danish Embassy, USAID is providing additional funding to aBi to support further interventions in maize, coffee and bean value chains.

\(^7\) Average yield of 1.5 mt per ha is less than one third of the expected yield under good agronomic practices.
Business Development Services (BDS)

BDS for enterprise skills development, financial services access and provision, and market development and market access, among others, is either lacking or inadequate. This is especially so in rural areas, where the majority of maize value chain actors operate. As a result of BDS gaps, actors are not fully realizing the benefit of their investments and efforts. Related to BDS is the relevance of inspection and collateral management. The number of providers for this service is extremely low, thus limiting their outreach capacity and impacting on the cost of service to the value chain actors.

Financial sector weaknesses

Though there has been reasonable improvement, the degree to which the value chain had been able to attract commercial finance in 2011 was still not adequate. Low liquidity in lower tier financial institutions did not help the situation.

Also the agribusiness lending skill gaps and lack of suitable products tailored for the value chain within financial institutions, and lack of insurance products to address production and market risks all constrained access to finance. Beyond financing, the issue of payment and remittance mechanisms for the maize value chain remained a challenge, as buyers and sellers continued to shoulder the risk of carrying big amounts of cash.

As explained in the third section of this article, aBi’s interventions are expected to tackle these gaps through the partners with whom it works in the maize value chain and in financial services provision.

Section 5: Policy environment and issues

Maize is regarded as a priority crop, due to its potential to contribute to national food security, increased household incomes and reduction of poverty, as well as being a key regional export commodity. As such it has received reasonable policy and legislative attention. The crop protection laws and policies, fiscal policies on agricultural inputs, implements and exports, and the East Africa maize grain standard (latest, still in draft, being the 3rd edition) should steer the expansion of maize production and quality standards, and enhance trade in the commodity. However, there are apparent gaps within the maize value chain that should warrant additional policy scrutiny and interventions where appropriate, as summarized below.

i. Quality standards

Cross-border trade in maize grain from Uganda to Kenya, South Sudan and other neighbouring countries is a robust economic activity throughout the year. However very little attention is put on quality standards for much of the maize exported, notwithstanding the existence of the grain standard mentioned above. The trade is mainly informal, without the production contracts which would encourage compliance to quality standards. Similarly, emphasis by domestic traders and millers on farm product quality is, in many instances, lacking; traders and millers do much of the quality improvement themselves.

These phenomena directly impact on value realized, especially at farm level. Compliance to quality is definitely an issue which ought to attract policy attention and action. In addition, there is need to intensify the implementation of government policy on export of value-
added maize products instead of grain. This would boost export value realized from the commodity. A move in this direction would also assist in the development of formal export contracts for cross-border maize trade.

ii. Soil fertility

Maize production yields are highly correlated to soil nutrient intensity. Thus fertiliser usage ought to be of high priority in enhancing maize production. However, fertiliser prices have in the recent years skyrocketed and are now out of reach of the majority of producers. This has led to lower yields with consequent high unit costs, which are a disincentive not only to producers but also to financiers that would be interested in lending for maize production. There is therefore need for a strategic policy intervention to increase availability and accessibility to fertiliser by maize producers. (See also Article 3.2 in this Yearbook.)

iii. Encouragement of contract farming

The maize value chain has high potential for contract-based and commodity exchange trading mechanisms. However, these have been little used, despite their relevance to underpinning effective commercial financing to the maize value chain. Thus policy enactment and implementation towards greater use of contracts and trading through the commodity exchange should enhance increased production and quality of maize. **Clear laws on contracts enforcement, particularly production contracts, should be a priority agenda.**

Other policy issues

Other areas for policy concern and attention include: eradication of counterfeit inputs from the market, crop pests and disease control (including for striga weed that is a big blow to maize production in several districts), resolving land conflicts in areas where people were internally displaced by war, primary producer groups strengthening, dissemination of appropriate productivity enhancement and market information, intensified research and supply of good quality maize varieties especially hybrid seed, support for production risk mitigation insurance products and putting in place mechanisms to increase access to credit by smallholder maize producers and small-scale traders.

References

1. Farmgain Africa *LoRaMIS Annual Report* 2011 submitted to its partners (including aBi)
2. East African Standard, EAS 768:2011
2. 2 Boosting Investment in the Coffee Value Chain

Section 1: Market signals and their impact on the coffee supply trends in 2011

Global coffee production in 2011 is estimated to have been 135m 60kg bags. The year 2011 was characterised by a steady rise in prices of both Robusta and Arabica coffees, above those realized in 2010 in Uganda. The average Kampala FoT prices for Robusta FAQ and Arabica ordinary parchment were UShs 4,600 and UShs 8,000 respectively, compared to UShs 3,600 and UShs 5,900 for the respective varieties in 2010. Throughout the year there was a high level of effectiveness in dissemination of market information for coffee. This helped to fairly distribute the margins between the value chain actors, with the farmers continuing to receive the highest share of these margins.

The Uganda Coffee Development Authority (UCDA) continued to monitor market trends and to post indicative daily coffee prices (for all varieties and grades) for both export and

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1 Author: Asaph Besigye, Consultant under contract to aBi Trust
2 Source: United States Dept. of Agriculture.
3 For example farmers engaging in Robusta coffee production received 70% of the Kampala FoT price with the balance shared between the other actors in the chain.
local transactions on its website. This service by the UCDA greatly boosted access to important market information.

Indeed, 2011 saw a tremendous improvement in the dissemination of market signals. This is attributed to the sustained high level of competition in the coffee sector, the continued shortening of the value chain with many farmers’ organisations directly selling to exporters, and increased market transparency by the leading coffee exporters including their regular direct dissemination of price information to producer organisations and traders, as was the case with Ibero Coffee. In addition, robust access to market information via mobile phone SMS, web mails and websites of several market information providers was maintained. Furthermore, actors providing grading services were a valuable channel for market information access as they had a constant data flow, through commercial linkages, on prices for the different coffee grades. Therefore, coffee value chain actors had rich sources of timely and reliable market information that informed their supply response decisions.

Because of the big boost in access to market information and the clear positive market signals, producer and trader confidence to engage in the market increased. This was reflected in the increased volume of coffee exports of 3.17 million 60 kg bags worth US$ 456 million in 2011 up from 2.8 million bags in 2010\(^4\), an indication of supply response by producers and traders in anticipation of higher returns and margins. From the available data, it was also ascertained that there was increased volume of farmer bulk-marketed coffee. For example the volume of bulk-marketed FAQ through Kaweri Coffee Farmers Alliance Support Project in Mityana/ Mubende increased by 45% from 701 mt in 2010 to 1,021 mt in 2011 and this has been attributed to the good margins realized by the farmers. These ranged between UShs 400 and UShs 800 per kg.

**Section 2: Investment trends within the coffee value chain**

The favourable trend in the market during the year countered, to some extent, the continued...
Beyond investment in quality seedlings, producers stepped up investments in other yield enhancing technologies such as manure, inorganic fertiliser, mulch materials and soil conservation. There were also increases in investments targeting quality improvement for premium prices as reflected by the steady increase in the demand for drying tarpaulins and increase in the number of farmers adopting better drying technologies such as raised platforms for washed Arabica coffee to minimize dust, moulds and other foreign matter.

At the processing level there was a noticeable increase in investments targeting higher and better value addition. This was indicated by the increase in the number of wet coffee washing stations, additional coffee grading operations, increased number of farmers and farmer groups acquiring and using hand pulpers and increased investment in quality hullers and hulling equipment refurbishment. The investment in rural-based coffee hulling facilities was also propelled by the rapid shift by the farmers from selling Kiboko coffee to selling FAQ which provided an increased demand for hulling hire services. In addition, there was a noticeable increase in domestic coffee roasting for both local consumption and export.

A further development in the domestic coffee roasting initiatives was the shift from roasting poor grade coffee to roasting good quality coffee for better cupping quality. In addition, there was a dramatic increase in the number of coffee bars, especially at shopping malls and supermarkets and at busy filling stations, with Ugandan coffee constituting the major raw material ingredient.

Besides investment in capital assets in the respective coffee value chain points triggered by the good market, investment in increased working capital, precipitated by the increase in prices during the year, was inevitable. Buyers had to dig deeper into their pockets for the same volume previously purchased. Also, the vibrant market ought to have had a direct ripple effect on investment in coffee trading infrastructure such as storage and haulage. This effect is difficult to accurately qualify for this article, especially due to the non-specific and multi-commodity usage of these assets.

Section 3: Interventions by the aBi Trust to boost investments in the coffee value chain

The aBi Trust adopted a holistic approach to support coffee value chain actors, aimed at improving their operational efficiency and market competitiveness - keys to stimulating investment in the sector. This was accomplished through targeted technical and financial support to implementing partners such as farmer organizations, SMEs engaging in processing and marketing, women and youth groups and input supply stakeholders’ associations, and also through collaboration with other development partners and public sector actors. Primarily, aBi interventions, as summarized in the next paragraphs, aimed...
at increasing productivity, quality, access to finance and markets, and greater gender integration in the entire value chain.

i. **Producer level productivity enhancement** support targeted technology transfer mechanisms through demonstration of best agronomic practices such as: use of improved inputs, water conservation, stumping, pruning and pest and disease control. Related support was provided for demonstration of quality management through better harvest and postharvest handling practices such as picking ripe coffee cherries, proper drying using appropriate facilities. The value chain. Partnering with UNADA and UCDA, input dealers have been trained in key aspects that enhance efficiency at this level of the value chain. Support was also provided for input supply linkages, especially with farmer organizations.

iii. Though aBi has not yet provided substantial support for the processing and marketing level of the coffee value chain, it has an enriched menu for it in the short and medium term. Indeed, aBi highly rates the role of **value addition through processing** to impact the coffee value chain through backward and forward linkages. Its strategy supports BDS for.... not yet provided substantial support for the processing and marketing level of the coffee value chain, it has an enriched menu ....

aBi Trust considers producers as anchors of the value chain and thus puts greater emphasis on interventions at the primary production level. Also aBi emphasized producer-led initiatives at this level of the value chain for maximum ownership and the eventual sustainability of the interventions. For standardization of technology dissemination messages, aBi worked with MAAIF and UCDA to produce standard coffee productivity and quality improvement dissemination manuals.

ii. At the **inputs supply level**, aBi support targeted increasing availability, accessibility and affordability of quality inputs through support for development of an efficiently functioning inputs procurement and distribution network, where the actors therein understand the relevance of quality inputs in the entire business plan development, processing technology identification and sourcing and management systems development. The aBi Trust also supported a number of exporters and NOGAMU to step up efforts to meet organic and other certification requirements for the conventional coffee market.

iv. On the **financial services development** side, aBi supported a number of financial institutions to improve their efficiencies in providing financial services to agribusinesses, including the coffee sector. Improving agribusiness lending skills and developing appropriate financing mechanisms and products amongst partner financial institutions, and supporting the value chain actors to effectively link with financial institutions underpinned aBi’s strategy in this dimension. aBi Trust also supported
efforts aiming at increasing outreach for financial services through branch network expansion and branchless mechanisms. Some of this support targeted coffee growing areas such as Kyenjojo with Opportunity Bank. Lines of credit from aBi and the aBi agribusiness credit risk sharing scheme for financial institutions also benefited the coffee value chain actors, as was reported by the partner financial institutions.

One example of aBi’s support for financial services that is impacting the coffee value chain is the support to Opportunity Bank. In June 2011 Opportunity accessed a line of credit from aBi for on-lending to agribusiness actors, especially smallholder farmers. Linking with the Uganda Coffee Farmers Alliance, Opportunity Bank applied part of the funds from aBi to lend to coffee farmers, through their farmer groups in Mityana and Mubende, for inputs such as herbicides, pesticides and tarpaulins. Lending was through a low risk and low cost structured trade mechanism under which disbursement of loans was directly to the input supplier and recovery was through the producer groups, from the proceeds of coffee delivered by the borrowers. Though still at pilot level, by the end of the year Opportunity had disbursed UShs 15.5 million to 27 coffee farmers belonging to one farmer group. Applications from other farmers were in the final stages of being appraised, with the expectation that a reasonable amount of credit will be disbursed during the first season of 2012. Opportunity intends to replicate this innovation in other

areas and with other commodities. It also leveraged from the USAID DCA guarantee, through the USAID/LEAD Project, for its agribusiness lending including to the coffee sector, and intends to enlist on the aBi risk sharing facility as its utilization of the DCA facility is about to be exhausted.

Though aBi’s interventions have emphasised innovation, this lies more in the new combinations of techniques, rather than new stand-alone systems of supporting investment. Thus aBi support draws heavily on existing researched and documented good practices, replicating successful cases, sharing knowledge and experiences and leveraging expertise resources as long as these are able to stimulate efficiency within the value chain. The

support puts greater emphasis on certainty of the market and existence of market linkages.

Section 4: Support services for the coffee value chain

Support services are of critical importance, given the nature of the coffee value chain. It is dominated by over one million smallholder producers, who face production-related problems such as coffee wilt and black twig borer diseases. Other pertinent characteristics include: a large number of small middleperson traders, a few major exporters and the high quality standards demanded by the terminal market. The effectiveness of overall support services for the coffee value chain during 2011 was mixed, with some cases being highly satisfactory and others critically inadequate.

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5 Please see Article 4.1 below in this Yearbook.
6 As detailed in Article 2.1 in this Yearbook, on the maize value chain.
The extension support for enhanced productivity and quality and for sensitization on how to combat pests and diseases, for the coffee sector, takes two dimensions. The public sector supported and supplied extension services (including NAADS and local government agricultural extension staff) has gaps in regard to outreach effectiveness, quick responsiveness and entire value chain coverage. The key constraint in this respect is the inadequate resources (human, physical and financial). For example, one extension staff in a sub-county for all crops is inevitably overwhelmed and cannot be effective. As a result most coffee exporters, in some cases collaborating with donor programs, continued to invest in own-managed private coffee-specific extension services. These have been very effective because they are based on a farmer-led approach.

Related to extension is the support for organic certification and traceability of origin in organic and fair-trade marketed coffee. This is twinned with quality inspection and certification at the exporter level. The service providers in these areas are efficient, though their costs are still high and largely out of reach for small actors. It is also foreseeable that as demand for these services increases in response to increased market opportunities, the supply will be overburdened as currently there are few service providers.
Similarly, private initiatives in market information provision and market linkages, and linkages to financial services providers (especially for farmer groups) registered a remarkable positive impact during 2011. However, though inspection at inputs supply level is vested in UCDA and MAAIF for both coffee nurseries and quality crop protection pesticides, the continued occurrence of counterfeit inputs and substandard seedlings are indicators of a service support gap. Thus, generally the private based support services continue to outperform the public sector based services, a clear indication of the benefit of the liberalized coffee sector.

During the year there was a noticeable increase in the provision of commercial finance to the coffee value chain, especially in cases where market linkages were positively functioning, thus enabling development of structured trade financing mechanisms such as those operating for the farmers and farmer groups supported by the Uganda Coffee Farmers Alliance in the Mityana/Mubende area.

As highlighted earlier in this article, aBi interventions in the coffee value chain are expected to tackle these gaps in the geographical areas where it operates and hopefully these initiatives can be replicated elsewhere by others.

In summary, aBi’s support to partners and its collaboration with other entities and stakeholders are of a nature that targets increasing production, productivity and quality, and increasing access to financial services. In addition, some of the interventions directly target addressing the constraints emanating from the support services gaps.

These include meeting the costs of certification, market information dissemination and direct linkages for financial services.

Section 5: The coffee sector policy environment and issues – Ten points for attention

... there was a noticeable increase in the provision of commercial finance to the coffee value chain, especially in cases where market linkages ....

As mentioned earlier, during 2011 Opportunity Bank’s involvement with the coffee value chain was stepped up; Centenary Bank also became more involved. However, lack of insurance products to mitigate production and market risk continued to constrain access to finance. Also, limited innovation in payments and remittance mechanisms for producers, producer groups and small traders remained an issue to be tackled, as buyers and sellers continued to shoulder the risk of carrying huge amounts of cash.

Given the historical and current importance the coffee sector commands in the national economy and national development strategies (a major traditional cash crop, major source of export earnings, significant role on increasing household incomes and in poverty reduction, important contributor to rural employment and carrying enormous potential for value addition) it has benefited from a good share of enabling policy and legislative attention. The sector’s policy environment continues to be anchored in UCDA and MAAIF.
However, there are identified gaps that ought to be of relevance for policy formulation and implementation, as summarized in the Ten Points below.

1) The slow pace of approval of the draft National Coffee Policy, that is expected to plug a number of gaps in the 1994 UCDA (Amendment) Statute, is of serious concern to many stakeholders in the sector. While the existing statute focuses on the upstream activities from the processing level, the draft policy is expected to address, and thus steer the efficient functioning of the entire coffee value chain.

2) The downgrading of the former Coffee Research Institute in Mukono to a Research Center is perceived as a blow to the much needed research initiatives. This is contrary to the direction in the sister East African states of Kenya and Tanzania where there has been upgrading of research institutes to research foundations, with the stakeholders (especially farmers) having a say in the research initiatives, with resulting highly visible impacts.

3) There is a need to step up research and release of research results on high yielding and disease-resistant varieties, increase disease surveillance through effective phytosanitary controls and, intensify interventions to combat the menacing coffee wilt and twig borer diseases.

4) On taxes, there should be a review of withholding tax on the sale of seedlings and other inputs, and review of taxes and licence fees for processors, which are currently considered to be very high.

5) There is also a need to provide standard guidelines and specifications for processors on milling out-turn, quality-enhancing equipment.

6) Urgent attention is needed to tighten control measures to eliminate counterfeit inputs, especially pesticides.

7) The structure of the roles and relationships between UCDA, COREC and NAADS needs to be reviewed to align them with the dynamics of the industry, and ensure that UCDA support services effectively trickle down to local government level, so as to deepen their impact.

8) Industry stakeholders strongly believe that they should be allowed to actively engage in determining the utilization of the Coffee Cess funds both to improve the relevance of this instrument and to positively underscore the need to step up the rate from the current 1% cess, once its benefit has been broadly internalized. This has been done in Kenya and Tanzania.

9) Furthermore, efforts and deliberate incentives to step up value addition and to increase domestic consumption need to be pursued.

10) The highly successful coffee value chain development model supported by the NKG Alliance Trust should be replicated in other locations, especially through public private partnerships. The aBi has been and is expected to continue supporting this replication.
2.3 Boosting Investment in the Oilseeds Value Chain

Section 1: Market situation and prospects for the oil seeds value chain in 2011

The oilseeds market situation, particularly for sunflower, was more dynamic in 2011 than in the previous year.

The high level of competition amongst buyers, including millers, helped to maintain a steady price increase, with the average being UShs 900 per kg as compared to UShs 800 realized by farmers in 2010. All the major millers of oilseeds in Northern Uganda, the leading oilseeds producing area, operated at levels much lower than their installed milling capacities (totaling over 150,000 MT per annum) due to inadequate supplies of oilseeds, implying that farmers never fully tapped the existing market opportunities through substantially increasing production.

Although there were visible efforts to increase production of sunflower in 2011 that were underpinned by good markets, favourable

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1 Author: Asaph Besigye, Consultant under contract to aBi Trust
weather in 2011B, highly increased civil stability and robust recovery initiatives, there were a number of constraints as reported by the several actors and stakeholders engaged in the value chain.

Constraints
i. The biggest constraint was unavailability of and accessibility to improved inputs especially hybrid seed. During 2011A there was a serious shortage of hybrid seed and also the weather was not very favourable, which affected production. Due to low demand in 2009 and 2010, the major importer of sunflower hybrid seed (Mukwano) had imported and stocked low volumes of seed (only 63 MT) in anticipation that the demand would be low. A similar situation obtained for fertiliser where access by the farmers, chiefly dominated by smallholders, was highly constrained due to inadequate volumes on the market.

ii. The situation of inputs supply is impacted by the procurement process where millers are playing a key role, although this is not their core business. They are prompted to do this to plug the supply gap, since they want the volumes of product to meet their operational requirements. Thus there were positive efforts by Mukwano in 2011B season to address the seed shortage. The company imported 144 MT of hybrid sunflower seed (more than double the volume it had stocked in 2011A). Victoria Seeds Ltd. also increased its supply of hybrid sunflower seed. As a result, timely accessibility to improved seed increased substantially.

iii. In terms of the buying arrangements for sunflower, Mukwano Industries Ltd. mainly bought through its agents, most of whom also doubled as its field site coordinators. It also directly bought from producers who delivered the crop at the mill. Both mill gate and agent store prices were pre-set and were well communicated through site coordinators, radio and posters put at agents’ stores. Agents received a commission of USh 30 per kg to cover their overheads and profit. Mt. Meru Millers Ltd. on the other hand bought from traders and farmers who delivered at the mill. It has not put in place a buying agent structure like Mukwano and as a result many middlemen engaged with it.

Though the existing buying arrangement is fair enough as it is encouraging a reasonable level of competition, it can still be improved upon, especially to catalyze the increased flow of commercial financing to the oilseeds sector.

Section 2: Opportunities for financing production of oilseeds

Table 1 summarizes the average per acre cost of production for sunflower in Lira District in 2011A season for both high and low inputs applications and the resultant gross margins. An extrapolation beyond the gross margin has also been made to analyze the return on investment both in terms of crop cycle tenure and annualized basis to indicate the likely bankability of investments in oilseed production.

From the analysis, it is clear that sunflower production can viably support commercial financing as the annualized return on investment (ROI) favourably compares with commercial interest rates. The analysis should help to inform lenders as to possible financing opportunities at the production segment of this value chain. The key question here is, ‘Which activities do farmers find difficult to
efficiently handle with their own resources of labour, capital and linkages to the market?’ The crop is still largely grown on a smallholder basis with big portion of labour being family labour. Broadly, the critical activities that merit commercial financing are those related to land opening, buying improved inputs and marketing.

Although the farm level profitability and ROI are sound, it is imperative that the other actors in the sunflower value chain equally realize meaningful returns in order for the entire value chain to be efficient and thus attract financing. With much of the oilseed crop being directly purchased by the processors, and with continued substantial investment in plant by the two big players, one can infer that profits further along the value chain are satisfactory. Indeed, in the recent past, there has been an upward trend in the volumes marketed and processed, prices have steadily risen and millers have continued to diversify their operations. The only doubtful sunflower

<table>
<thead>
<tr>
<th>Table 1: Per acre cost of production for sunflower in Lira for 2011A Season</th>
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<tr>
<td>Item</td>
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<tr>
<td>Yield per acre (kg)</td>
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<td>Price per kg (at local trader stores)</td>
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<td>Total revenue</td>
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<tr>
<td>Costs - Inputs:</td>
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<tr>
<td>Herbicides – roundup</td>
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<td>Seed - hybrid Pan 7361</td>
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<td>DAP</td>
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<td>Urea</td>
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<td>Planting rope</td>
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<td>Sub Total</td>
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<td>Labor and Mechanical Costs:</td>
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<tr>
<td>Land clearing</td>
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<tr>
<td>Ox-ploughing (1st &amp; 2nd)</td>
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<td>Planting (without &amp; with fertilizer)</td>
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<td>Top dressing fertilizer application</td>
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<td>Weeding 2</td>
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<td>Harvesting</td>
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<tr>
<td>Packing bags @ UShs1,200 each</td>
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<tr>
<td>Transport field to store/home</td>
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<td>Sub Total</td>
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<td>Other Costs</td>
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<tr>
<td>Tarpaulin (use for 2 seasons)</td>
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<td>Transport to bulking centre</td>
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<td>Sub Total</td>
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<td>Total Costs</td>
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<td>Gross Margin</td>
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<tr>
<td>Planting to harvest period (Months)</td>
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<tr>
<td>Season return on investment</td>
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<td>Annualized return on investment</td>
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Source: Data provided by the former field coordinator for USAID/LEAD project in Lira and Dokoro
value chain segment, in terms of efficiency, has been inputs supply. The chronic shortages of key inputs as mentioned earlier continue to haunt the value chain. Clearly some policy interventions could help here – a point taken up in Sections 3 and 6 of this article.

Section 3: Potential options to finance sunflower and other oilseeds value chains

This section addresses the key issue as to how the financing of the value chain should be tailored. Some options are proposed below.

Financing input dealers

As earlier observed, access to improved inputs, especially hybrid seed and fertiliser for sunflower production, is highly constrained and this presents an opportunity for financing. The provision of inputs by millers is not part of their core business and is not likely to gain their priority attention. On the other hand, this is the core business of input dealers. These should be in a position to meet the demand for inputs from growers, with the potential to arrange financing accordingly. Such financing, to be effective, should be on a structured trade basis, with the lender gaining maximum control of the cash flow for the financed inputs including direct remittances to suppliers of the inputs, with mechanisms to allow the buyers (farmers) of the inputs to pay for them through the lender.

Structured inputs saving product

Some farmers fail to access inputs because of financial constraints even when the required inputs are available in the market, notwithstanding the substantial cash they realize when they sell their crop. A structured inputs savings financial product would be ideal to salvage this situation. Such a financial product may be designed so that farmers would save a portion of their sales proceeds at the time of marketing, an amount sufficient to meet all or part of the cost of inputs for the next season.

Other financing options

These include financing animal traction for land opening and marketing finance for crop procurement. Also helpful would be off-season finance for income smoothing to enable the farmers to meet their off-farm expenditure such as school fees, medical bills, etc., thus enabling them to concentrate on their farm activities, without disruption to look for alternative sources of funds. This would reduce the temptation to sell off the crop before harvest to middlemen/moneylenders, a phenomenon that is highly entrenched in several agricultural value chains and that is very detrimental to both farm profitability and product quality.

Pre-planting contracts

Given the current situation in the oilseeds value chain, i.e. millers operating below their installed capacities and also the relevance of the quality of oilseeds on the milling out-turn, provision of producer and trader contracts is not only highly feasible but would also catalyze commercial lending. If millers and traders can provide pre-planting contracts to producers, specifying volumes to be procured and a minimum price for the crop, farmers would be able to determine whether or not external financing would be worthwhile. This would not only benefit farmers, but also buyers and millers, as these would have reasonable certainty of realizing the required volume and quality of product and thus be able to efficiently plan their operations.
However, though theoretically straightforward, managing production contracts to ensure high levels of contract performance necessitates putting in place adequate control mechanisms. This is particularly so for a crop grown on a smallholder basis, where much of the contracting would not be with individual growers but rather with a growers’ association or cooperative. In such a case the signal to the individual producer to supply the commodity to meet the contract would not be strong enough - thus the necessity for other appropriate enforcement mechanisms involving the association or cooperative.

**Payments systems**

Beyond savings and credit financial products, payments and cash transfer mechanisms for the oilseed sub-sector are very important because there are so many small scale producers of oil seed. In some areas there have been successful efforts to cluster the growers for purposes of extension delivery and this clustering could be used for providing other services by the millers and donor programs.

The challenge though is to develop a mechanism by which growers are paid at the time of marketing, with safeguards that reduce the risks, for both growers and buyers, involved in handling cash money. Producers need to access their proceeds conveniently and at low risk while buyers also need to be relieved of the burden and risk of carrying huge amounts of money in rural areas to pay farmers. Enhanced and cost-effective electronic funds transfer and access mechanisms would help to address this situation.

**Section 4: Interventions by aBi Trust in the oilseeds value chain**

The Agribusiness Initiative Trust (aBi), using a holistic approach, supports market-driven oilseeds value chain actors to be efficient, effective and competitive. Through value chain analysis, the constraints in the entire value chain are identified and an appropriate action plan for technical and financial support through identified partners is developed to address the constraints. The support extended by aBi Trust is on a demand-driven basis and has a strong emphasis on cost-sharing for the necessary sustainability of the intervention.

In 2011 aBi Trust supported farmer organizations to increase production of soybeans and sunflower in Apac, Mayuge, Lira and Oyam through demonstration of best agronomic practices, including the use of improved seed, fertiliser and crop protection chemicals, in addition to best postharvest handling practices and quality management. The Trust also supported Mukwano Industries and Mount Meru Millers to provide similar support for sunflower and soybean production in Northern Uganda, an initiative that is targeting to reach 60,000 smallholder farmers (over the next two years), with the two partner processing firms providing extension services and a market for the crops.

Beyond focusing on production and quality enhancement, cross-cutting support was provided for strengthening market access through appropriate market linkages and provision of market information. Efforts also addressed creation of broader awareness of the importance of sanitary and phytosanitary standards and quality management practices, and strengthening the inputs supply network to increase availability, accessibility and affordability of improved inputs, in
partnership with UNADA. The Trust’s major cross-cutting support in all value chains, not only oilseeds, is integrating gender in the value chain to increase the participation of women and youths. These disadvantaged groups are important for achieving enhanced production and market operations by aBi partners.3

Though the extent of aBi support to the oilseeds sector is not yet very broad, due to the Trust’s nascent tenure, its medium term strategy for oilseeds is comprehensive. The strategy envisages further and accelerated support for productivity enhancement in terms of wider geographic coverage, farmer organisation strengthening, organic certification especially for sesame, increased value addition for sunflower and soybean cake, and supporting the initiatives of the Oilseeds Sub-sector Platform. The financial services support for the oilseeds sector has involved three financial institutions, to date. These have been supported to increase their outreach in Northern Uganda. Discussions are also in advanced stages with several financial institutions to support their capacity building, aimed at increasing the supply of financial services to the oilseeds sector.

There is reasonable impact so far being realized from aBi support. Interest in increasing production and productivity in sunflower and soybean commodities is high and growing. More women than in the past are engaged in commercial production and marketing of the two commodities and several financial institutions are keen to identify opportunities for financing in the oilseeds sector.

Section 5: Availability of support services for the oilseeds value chain

Much of what is required to strengthen oilseeds value chains has been described above. There are other support services that are needed – as noted below.

Field extension services for the oilseeds sector, particularly for sunflower, are being provided by several entities including NAADS (in areas where farmers prioritize particular oilseeds for NAADS support), donor projects, private sector enterprises engaging in oil seeds milling such as Mukwano and UOSPPA.4 The biggest challenge in this support remains the harmonization of agronomic extension messages. For example, there have been conflicting messages by different actors regarding the use of OPVs (e.g. Sunfora) and hybrid seed for sunflower productivity enhancement. Also while private sector and donor supported extension has been reasonably effective (for example Mukwano’s extension is reaching 50,000 farmers), there are critical gaps in extension provided by other entities, especially in regard to regularity and outreach.

Another critical service provision is in respect of increasing yield-enhancing seed varieties through research, breeding and multiplication. Though it has been evident that hybrid sunflower seeds have high productivity potential there are no tangible efforts to increase its production and multiplication locally. A similar situation exists for sesame oilseeds.

More attention is needed to foster Business Development Services (BDS) for business planning, financial services intermediation, production contract management, market

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3 See Article 5.2 in this Yearbook for more detail on the mainstreaming of Gender Issues into development initiatives.
4 UOSPPA = Uganda Oilseeds Producers and Processors Association
linkages and market information provision, and inputs supply network development.

**Mechanized service providers** are in short supply to provide land opening for farmers. Despite the drudgery involved, the hand hoe has continued to remain a major tool for producers.

The other areas requiring attention in service provision include **quality certification services** the costs of which are still prohibitive for the smallholder.

**Section 6: Policy environment and issues**

Generally the policy environment for agribusiness, and in particular for oilseeds, is conducive.

Nonetheless, there are some key gaps that should warrant further policy interventions, through a process of continuous review and fine-tuning, as summarized below.

**Effective extension services** are critical for the efficient functioning of the oilseeds value chain. There is need to close the gaps in the extension messages, broaden the outreach of extension and increase research that should lead to greater availability and accessibility of the products demonstrated in extension. These improvements may not necessarily be achieved by government only. They may also be pursued through public / private partnerships with commercial oilseeds stakeholders in order to leverage financial and expertise resources so as to accelerate, deepen and broaden the attainment of the desired impact.

**The availability of improved inputs**, beyond those provided through national research, needs additional policy consideration. Inadequacy of supplies of hybrid seed and fertiliser has been mentioned earlier. Strengthening inputs supply through smart subsidies, targeted financing mechanisms such as establishing an inputs credit fund and accelerating the efforts to increase local production of fertiliser and multiplication of hybrid sunflower seed should assist here.

**Strict enforcement of commercial contracts** is required. Indeed, the judicial system should function so as to inject greater respect for contracts and thereby enhance the efficiency of operations of the respective contracting parties, through facilitating the flow of commercial financing underpinned by contracts.

In addition, policies focusing on **land tenure** issues are highly desirable for the oilseeds sector, as access to and utilization of land is a pivotal dimension in agricultural production. Major oilseed producing areas are in eastern and northern Uganda, areas afflicted by post war land conflicts. Thus an **effective mechanism to resolve land conflicts** has to be a top policy priority for steady and enhanced production and productivity of oilseeds as well as for other farm products.
The Issues with Inputs/Market Information
3.1 Seed Supply: The Role of Financial Services in Ensuring that the Required Varieties, Quality and Volume are Produced for Sale in the Ugandan Market

Section 1: Overall situation

The development of a robust seed system provides the foundation for Uganda’s food security since only such a seed system can ensure efficient delivery of good quality seed to farmers and sustained supply of superior varieties with better yield potential and tolerance to biotic and abiotic stresses. A seed system comprises:

a) Research, variety development and registration;
b) Seed production/multiplication system to produce commercial volumes from breeder seed to certified seed including processing;
c) Distribution and marketing to retail level;
d) Finance for the seed supply chain;
e) Policy and legal framework.

1 Author: Josephine Okot, MD, Victoria Seeds Ltd

Seed beds.
This article outlines the role providers of financial services could play in improving the current weak seed supply chain, but it also highlights the actions needed by the public sector in order to provide a suitable environment for investment in the seed industry.

There are several factors presently hampering seed market development. These include:

a) Weak enforcement of regulations,
b) Limited access to trade finance because of stringent demand for collateral,
c) Lack of capacity in the seed companies to undertake field inspection and laboratory certification,
d) Absence of reliable seed market information,
e) Inadequate supply of breeder seed by the public sector,
f) Very poor crop marketing infrastructure for food security crops.

Seeds are the single most important input in crop agriculture as they are the carriers of genetic potential determining the upper limit on yield and frequently the only 'improved' input that small holder farmers in Uganda can afford. Other 'purchased' inputs, such as fertilisers and crop protection chemicals, require greater levels of seasonal investment, but also enable good quality seeds to yield to their genetic potential, when other favourable growing conditions, including absence of water stress and weed competition are present.

The sustained production of and timely access to seed of appropriate genetic, physiological and phytosanitary quality by farmers are the basic features of a well functioning seed system. However production and timely dissemination of good quality seed by private companies cannot be realized without a reliable database providing domestic demand projections. Timely market information on domestic seed market potential is a prerequisite for production planning and subsequent seed market development, since it takes a minimum of two years to bulk breeder seed to commercialization stage for cereal crops and up to four years for legume crops with a lower multiplication factor.

At present, there is no reliable and regular source of information on seed production and sales volumes, import volume, crop area under cultivation, adoption rate of improved seed, potential demand from government (based on budgets for inputs available to local government and NAADS), expansion of distribution outlets, export volume to the regional market etc. The absence of reliable market information has led to serious gaps in Uganda’s seed market, leading to under-supply of some seed varieties because seed companies have no basis for planning production of some seed crops while on the other hand there have been instances of over-stocking some seed varieties when demand is low, which has resulted in losses and a disincentive to invest in seed trade.

In the existing structure at MAAIF, there is no mechanism for disseminating seed market information to the private sector. The National Seed Certification Service, as the regulator of the seed industry, has the primary responsibility to set up such a database. The private sector recommendation is for the Ministry of Trade, Industry and Cooperatives to establish databases for both the agric-input and output markets and disseminate market information as a public good. Timely market information will promote the development of a robust value chain which in turn promotes seed market growth. The existing information channel is neither meeting private sector requirements for planning seed production nor government requirements for planning seed security.

Section 2: The seed industry in Uganda

Seeds are biological living entities needed for existence of plants and are of no value for planting when they lose the capacity to live. The use of improved seed supplied by the industry would give the farmer the following benefits:

i. High germination and therefore optimal plant population and density,
ii. Less infestation from seed borne diseases,
iii. Better tolerance to abiotic stress,
iv. Genetic purity demonstrated in uniform plant stands,
v. Higher quality produce,
vi. Increase in total yield,
vii. Higher net income.

The very high inflation that characterised our macroeconomic environment in 2011 was driven, in part, by food shortages. This experience once more highlighted the critical importance of a robust seed system as central to food security. The development and dissemination of high yielding seed varieties remains the technological force that can drive up crop productivity.

There has been remarkable progress in our seed market, with demand for improved quality seed increasing steadily since the first private seed
companies emerged about ten years ago. From an annual average of only 2,500 metric tonnes marketed by the public sector some 10,000 metric tonnes were marketed in 2010 by the private sector. Nevertheless, despite the notable increase in demand, adoption rates remain very low. The 2007 Human Development Report shows that improved seeds are applied on only 6.3% of arable land, making Uganda’s seed market comparatively small in the continent, only 0.7% of the total.

Overall crop yields in farmers’ fields in Uganda are well below their potential, averaging only 1/3rd of what should be achieved. This underperformance is due in significant part to the limited availability of certified seed or improved quality seed. Another factor contributing to low productivity is the rate of soil fertility depletion in Uganda, which is amongst the highest in Sub-Saharan Africa, with an average annual rate of total depletion of 70kgs of nitrogen, phosphorus and potassium per hectare (National Development Report 2010 -2015).

Fertilisers are applied on only 1.0% of arable land which makes Uganda amongst the countries in Africa with the lowest fertiliser usage rate of less than 1kg per acre (2008 Human Development Report). These facts become evident in the decline in agriculture output real growth rate recorded at 2.6% in 2008/9, which is below the annual growth target of 5.6% (NDP 2010 – 2015).

Section 3: The seed industry and financial services

One of the key limitations to seed industry growth has been the poor financial service delivery to the sector. Data provided by the National Seed Certification Service in 2011 confirms that

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Source: http://www.grain.org/seedling
24 seed companies have been licensed by the Ministry of Agriculture, Animal Industry and Fisheries but despite the number, the formal seed sector is meeting only 30% or less of Uganda’s seed market potential. The main reason for this under-performance is the absence of financial services structured for seed industry growth.

Access to finance: First and foremost, throughout Africa with Uganda being no exception, commercial banks consider agricultural investments to be high risk and are usually reluctant to lend to this sector. The existing services have no provision for rain-fed agricultural risks such as drought and flooding, leaving the entrepreneur burdened with all weather risks and given little option for renegotiating repayment in the event of adverse weather. Hence the entire seed delivery chain from seed producers to distributors and finally rural stockists find difficulties in accessing adequate trade finance for production or to put up agri-input shops and stock seed volumes matching market demand. The critical constraint limiting seed market development and growth is not the lack of funds to lend from financial institutions but rather limited access to available funds plus the weather risk burden passed to entrepreneurs.

Specific to Uganda, this challenge is exacerbated by limited knowledge of seed industry operations in commercial banks. In most cases, managers responsible for approving credit lack knowledge of the seed industry and its key components, they have little understanding of the seed production process from breeder to certified seed to the point of sale and also limited understanding of Uganda’s agro-ecological zones and crop seasons. This lack of seed industry knowledge makes them respond negatively to risks that are perceived and not real.

Stringent collateral requirements demanded by commercial banks remain a critical constraint limiting capacity of seed companies to access the trade finance they need to enable them to increase seed volumes for dissemination to small holder farmers. This failure to meet market demand trends has disastrous consequences. The vacuum left by the shortfall has encouraged unscrupulous
individuals to disseminate counterfeit seed into the market place. The rampant supply of counterfeit seed which persists in Uganda’s seed market not only undermines farmer confidence and brings loss of market share to seed industry investors, but also to the country at large since it directly results in low productivity and food insecurity.

The high cost of finance. The seed sector is a capital intensive industry requiring huge start up capital for establishing plant, machinery and production infrastructure. Existing debt financing products available from commercial banks are not attractive for both long term capital investment and trade finance. High interest rates, coupled with the unwillingness of banks or micro finance houses to lend to agriculture for working capital and the issue of stringent collateral requirements limits the seed volume that the industry can produce. Moreover the payback period of 8 years for long term borrowing is very short for the seed industry because it takes a minimum of 3 years to develop parental seeds to commercialization stage. As a result, the lower cost financing offered through the government’s Agricultural Credit Facility (see Article 1.2 in this Yearbook), that has a maximum tenor of 8 years, failed to have significant impact on the seed sector because this sector requires longer repayment periods of 10 – 15 years for financing capital investments with weather risk embedded in such instruments.

The seed trade is seasonal, characterised by weather risks and other market uncertainties. In Uganda, the seed sector suffers from low demand when commodity prices collapse, a recurrent problem emanating from the lack of marketing infrastructure and policy to handle surplus crop output.

In conclusion, developing a strong and resilient seed system requires financial services that can take key factors into account. These include: seasonality of seed trade, the long seed production cycle, research and development costs, weather risks and the impact of climate change on the seed industry.

Section 4: Role of contract seed growers

Seed companies all over the world outsource seed production. The contract seed growers are an important component of the seed supply chain. The production of certified seed involves variety development, maintenance of breeder or pre-basic seed, initial multiplication of seed released varieties from breeder to basic seed followed by bulk multiplication from basic to certified seed, processing, marketing and distribution to agro-dealers and farmers.

The contract growers are in isolated production areas and require rural financing to enable them meet standards for quality seed production. The following are some of the factors considered when recruiting growers:

i. Adequate land for isolation and crop rotation,
ii. Willingness to be trained,
iii. Farming field should be accessible,
iv. Access to enough start-up capital,
v. Should have post-harvest equipment and storage, or be able to borrow the capital to obtain these assets.
Seed contract growers, like other small holders, need a diverse range of financial services which would assist them to become efficient seed producers, build assets and become income secure. To deliver quality seed to the companies, they need more than credit for production. They need a range of convenient financial services which are flexible and can be adapted to their seasonal needs. Cash is required for:

a) Inputs (foundation seed /fertiliser and crop protection products);
b) Hiring production equipment/labour saving machinery, particularly tractors;
c) Labour for good crop management and harvesting;
d) Construction of on-farm seed storage.

However, some of the challenges faced by contract growers who opt for credit from SACCO’S can be listed as follows:

- The demand for repayment every fortnight cannot be met because crop production has a long gestation period of 7 – 8 months during which repayments cannot be made. On the other hand such demand can easily be met by retail traders making them more attractive borrowers for SACCOs.

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**Figure 4: Seed Production Chain: Research – Farmer**

![Diagram of seed production chain](source: Victoria Seeds Ltd)
Farmers are dependent on rain-fed agriculture and exposed to a high risk of default. There is often no room for restructuring loans in the event of crop failure due to adverse weather resulting in drought or flooding.

Crop insurance offered by some banks at 5% premium means the average cost of loan reaching the rural borrower through the micro finance institution is 40% or more. This high cost makes the product unattractive.

Some contract farmers have limited access to microfinance institutions that in any case prefer to serve clients in urban and peri-urban areas.

Section 5: Regulatory role in improving the seed business

The private seed sector through its umbrella organisation USTA (Uganda Seed Trade Association) needs business development services that will enable the industry address constraints to seed market growth and develop into a strong and resilient private-led industry. Business development services that are seed industry specific are non-existent, leaving the sector dogged with inadequate human capital in seed technology.

Some of the constraints in the private sector include: Lack of capacity in the seed companies to undertake field inspection, lack of capacity to establish an in-house laboratory, lack of capacity to train out-growers in propagation of certified seed; further down the delivery chain, agro-dealers also lack knowledge in proper seed storage, and information on good agronomic practices to enable them effectively provide extension support to end user farmers. Other business skills that are seed sector specific in areas such as financial management, new treatment technologies and advocacy are equally important. Strengthening the industry association will provide a foundation for the private seed sector to build capacity in field inspection and laboratory certification, and reduce dependence on the public sector, enabling seed companies get accredited to undertake certification. Accreditation of the private sector will in turn lead to a self-regulating industry.

According to the Seeds and Plant Act, 2006, the NSCS of the Department of Crop Protection in MAAIF is mandated to regulate the seed industry and is therefore the main institution responsible for certification. It is responsible for the design and enforcement of certification standards, methods and procedures. The Administration of the NSCS is based at the Department of Crop Protection at the MAAIF Head Office. This is where the NSCS technical senior staff is housed. The staff includes the Head of Seed Certification Service, the Head of Seed Testing Laboratory, the officer responsible for variety testing (NPT and DUS) and variety release and the officer in charge of Crop Inspections. Certification activities are carried out according to OECD and ISTA guidelines and methods (Uganda seed sector profile).

However, the NSCS does not issue ISTA certificates because the National Seed Testing Laboratory is not yet accredited to ISTA, despite the efforts to have it accredited having begun in 2005. This has been very detrimental to the private sector because seed companies desiring to export seeds from Uganda into Kenya are obliged to bring inspectors from Kenya during active growth of the seed crop in order to meet the ISTA standards of the Kenyan National Seed Testing Laboratory.

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2 NPT = National Performance Trials; DUS = Distinctness, Uniformity and Stability
Nevertheless some progress has been made by one private laboratory, M/S Chemiphar that became accredited to ISTA in 2010, although its activities are limited to laboratory certification and not field certification.

Section 6: Overall policy challenges

Overall an enabling policy environment is essential for promoting the development of well functioning agric-input markets. All links in the industry from research to farmer need supportive policy. Still lacking in the Ugandan legal framework is a National Seed Policy, legislation for the protection of plant varieties (PVP Bill) and regulations for implementing the Seeds and Plant Act 2006. The seed industry in Uganda is basically governed by the Agricultural Seed and Plant Statute (152) that came into force on the 23rd September 1994 and was later revised as the Seeds and Plant Act, 2006, which came into force in June 2007. The Seeds and Plant Act, 2006, provides for the promotion, regulation and control of plant breeding and variety release, multiplication, conditioning, marketing, importing and quality assurance of seed and other planting material.

The Plant Protection & Health Bill and the Plant Variety Protection Bill are still with Parliament. On the other hand the Seed Regulations are only in draft form at Cabinet level. The absence of seed regulations for implementing the Seeds and Plant Act 2006 has permitted the supply of counterfeit seed in the market place, unabated, since the perpetrators when apprehended get released from police custody in the absence of any
legal framework to effect punitive measures. This problem is exacerbated by the limited financial resources at MAAIF to inspect seed lots and effectively regulate the entire country.

The Seed Board responsible for overseeing the National Seed Certification Service is not yet inaugurated. This as well should be fast tracked to improve service delivery from the National Seed Certification Service, beginning with the elimination of counterfeit seed and crop protection products from the market and implementation of stringent measures for licensing seed companies and de-registering those without infrastructure for quality seed production. In the medium – long term the National Seed Certification Service as recommended by the private sector should be transformed into an autonomous agency for inspection and certification of agricultural inputs. This will strengthen the seed industry and enhance its capacity to capitalize on emerging regional export market opportunities.

The Plant Variety Protection Bill should be fast tracked, enacted and operationalized to promote and protect private investment in research. The absence of any legal framework remains a disincentive for the private sector to engage in research because breeding intellectual property cannot be protected. Absence of a Seed Policy has led to gaps in seed production since there are no reliable database, market information or national plans provided to guide the private sector in developing their production plans and investment decisions. Hence USTA leadership should be assisted to develop capacities to lobby government at the highest level for policies conducive to seed market development and for integration into the regional seed market.

The Ugandan Government cannot realize its plan to improve agricultural production and productivity through the transformation of subsistence based small holder farmers into commercial producers without a strong national seed sector.
3.2 The 1 kg Challenge: Can Financial Services Help Increase the Use of Fertiliser in Ugandan Farming?

Section 1: Low levels of fertiliser usage in Uganda

Average fertiliser application rate in Uganda is 1 kg per ha. In comparison, mean application rates (kg/ha) are 2 in Burundi, 4 in Sudan, 5 in Burkina Faso, 5 in Tanzania, 8 in Rwanda, 15 in Ghana, 26 in Kenya, 34 in Zimbabwe, 35 in Malawi, and 44 in South Africa. The data clearly show that fertiliser use in many sub-Saharan African (SSA) countries is still far below the target of 50 kg of nutrients per ha set during the Abuja declaration of 2006. Uganda is among the countries with the most severe soil nutrient depletion in Africa. The estimated average depletion rates for nitrogen (N), phosphorus (P) and potassium (K) in SSA are -22, -2.5 and -15 kg per ha per year, respectively, and the equivalent rates in Uganda are -21, -8 and -43 kg per ha per year. This calls for urgent interventions from different stakeholders to reverse the current trend of declining per capita food production and crop yield per unit area of production, due to declining soil fertility and land degradation.

1 Author: Dr. C. Kayuki Kaizzi, Senior Research Officer - Soil Scientist, NARO
The cost of fertiliser and the “relatively good” inherent soil fertility in the agricultural areas of Uganda have been cited as reasons for the low consumption of fertiliser in this country. These points are now explored.

The C:P ratios are generally high for cereals, and relatively lower for upland rice and legumes because of the higher farm gate price of the latter. The EOR for maize decreased from 47 to 25 kg N ha as C:P increased from 10 to 30; for upland rice 89 to 65 kg N ha as C:P increased from 4 to 10; for beans 27 to 42 kg ha N as C:P increased from 4 to 8; for soybean 25 to 18 kg ha P as C:P increased from 6 to 15; and for groundnut 29 to 23 kg ha P as C:P increased from 4 to 8. The C:P is high compared to USA.

The reconnaissance soil surveys of the late 1950’s and early 60’s that covered the whole of Uganda revealed that over one half of the land surface has soils rated as medium. That is, “soils which will only yield good crops under good management that is with application of manure, inorganic fertilisers, practising crop rotation and three year fallow.”

High cost of fertiliser affects the amount of fertilisers applied because of the low farm gate price of produce, and the high opportunity cost of the money for resource-poor farmers. The cost of fertiliser is well expressed as the cost of nutrient to farm gate price of produce ratio (C:P) or the amount of produce which a farmer has to sell to buy 1 kg of nutrient. Since fertiliser prices are high and the farm gate prices of produce are generally low, farmers have to sell much produce to buy the required amount of nutrients needed to maximize net returns per area of land, or to apply fertiliser at the Economically Optimum Rates (EOR).

![Figure 1: Fertilizer Use In Africa by Country](image)

Source: 2011 IFDC Report

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Therefore most soils in the country are of low to medium productivity, mainly due to nitrogen and phosphorus deficiencies\textsuperscript{12}. Crops will respond to application of nitrogen and phosphorus fertilisers with increased crop yield resulting in food, nutrition and income security for farmers and consumers. Application of mineral fertilisers is an effective means to reverse soil nutrient depletion, supply nutrients to plants and improve land productivity and has been credited as essential for the sustained increases in per capita food production in Asia and Latin America\textsuperscript{13}.

Globally, 46% of the N input for crop production is from inorganic fertilisers with biological N fixation, atmospheric deposition, animal manure and crop residues being other important sources\textsuperscript{14}. In addition to high C:P ratios, fertiliser use is low in Uganda because: low fertiliser supply is related to low demand; the false belief of many that Ugandan soils are sufficiently fertile; little emphasis on fertiliser use promotion; inadequate credit availability; and NGOs and ‘organic and environmental groups’ which advocate that “fertilisers spoil soils”. Compounding this problem is the lack of experience and knowledge by farmers, extension workers, other service providers and agro-input dealers on proper fertiliser use. Consequently, many farmers lack the knowledge and skills needed to use fertilisers efficiently.

Section 2: Addressing the high price of fertiliser

Interventions to reduce the fertiliser cost to grain price ratio include: improved fertiliser supply and marketing efficiency; improved technical advice on crop-nutrient-application rate combinations that maximize returns on investment; voucher type subsidies on fertiliser use, improved credit availability; and greater marketing efficiency.

a. **Availability of the right fertilisers, of reliable quality, has to be timely** but fertilisers are not readily available to most Ugandan farmers. The procurement process is long and the time between ordering, to importing, distribution, and eventual purchase by farmers is often a full year with substantial transport, storage, and handling costs. Little fertiliser is supplied to small holders by stockists in rural communities and prices are high. Furthermore inorganic fertilisers have a seasonal demand. If not sold in one season, agro-input dealers have to wait for about six months before they can sell the stock, which ties up operating funds and storage space, and calls for an increase in the amount of capital required to conduct business. Financial support to agro-input dealers may be required to overcome this challenge initially although the problem is expected to diminish with increased fertiliser use and demand, improved economies of scale, more frequent re-supply, and a better understanding of the demand.

b. **Very important is good technical advice** on fertiliser use as the optimal choice of combinations of crop-nutrient-application rate can greatly increase net returns on fertiliser use. NARO conducted research for six crops and developed a decision tool for optimizing net returns on fertiliser use. This needs to be accompanied by support of enhanced awareness of the potential for increased profitability and productivity through fertiliser use as a component of integrated soil fertility management. Such awareness can be created through various means including demonstrations and field days, farmer field schools, various media activities, agricultural programmes at schools and colleges. This will result in increased demand for fertilisers which will drive increased efficiency in supply.

c. **Subsidization of fertiliser** use may be considered, at least as an interim measure, to enhance capacity for fertiliser use. The aim of a fertiliser subsidy would be to strengthen the private fertiliser supply chain by creating more demand for fertiliser and enabling supply to become more efficient. Therefore, a voucher system that helps farmers buy fertiliser at the market price is preferred to offering a separate subsidised fertiliser supply system.


d. **Inadequate financial capacity** is a major obstacle to fertiliser procurement by smallholders who have little purchasing capacity and little access to finance except maybe at high interest rates (above 26%). Banks are still reluctant to lend to smallholder farmers due to perceived risks associated with agriculture. Improved credit might be linked to increased storage capacity and community marketing. Commodity prices fluctuate greatly, being low at harvest and during seasons with bumper harvests. Unfortunately there is currently little buffering of prices due to lack of storage infrastructure and supportive policies.

Consequently farmers usually sell much of their produce immediately after harvest when prices are generally low in order to meet immediate financial need. Profitability can be considerably increased by storage and delaying marketing until prices improve, and by group marketing. Credit can be provided, with the stored produce as collateral, to enable farmers to meet immediate expenses and to have money for fertiliser purchase. This may be most successful if done on a community basis. Support to farmer groups for construction of storage facilities, group marketing, and access to credit is needed.

e. **Improved storage** is one part of increased efficiency marketing but good roads, current market information and projections, linking of farmer groups to traders and processors are also important.

**Section 3: The fertiliser supply chain operating in Uganda**

The fertiliser supply chain consists of importers/wholesalers, stockists/dealers and agro-input dealers. Smallholder farmers procure fertilisers mainly from three sources: importers/wholesalers, distributors and institutions that support out-grower schemes (Figure 2).

There are 12-15 importers of fertilisers to Uganda, eight own user importers, mainly for plantation/cash crops and, 1269\(^{15}\) retailers. Smallholder farmers use less than 1% of the total imported fertiliser (Figure 2 on next page), which is indeed a small market.

**Importers/Wholesalers**

These are mainly based in Kampala and Mbale with only 2 or 3 in Masaka. An important feature of the fertiliser marketing system in Uganda is that importers function primarily as brokers importing fertilisers only after tendering for and being awarded a contract by the commercial/estate crop growers. Due to market risk and high cost of credit, importers do not maintain significant inventories of fertiliser for resale. The vast bulk of what these importers sell is moved on directly to the large commercial estates and out-grower schemes. The importers do not intentionally target the smallholder market; it is the excess that trickles down to the smallholders. As noted above, fertiliser wholesaling is mainly concentrated in Kampala; virtually all fertiliser sold outside Kampala is sold on retail basis. The absence of a geographically dispersed wholesaling backbone is thus a debilitating feature in Uganda’s fertiliser market.

**Own user importers**

These are mainly commercial tea, sugar, tobacco, flower and rice growers. They typically procure fertilisers directly, either from Europe or South Africa, where they have established trading houses, or from large suppliers in Kenya. Occasionally, they put out tenders for supply by domestic firms. Part of the fertiliser is given, on credit, to farmers participating in their outgrowers schemes, deducting the money when smallholder farmers sell their produce to the respective companies. Their estimated market share is about 30%.

**Retailers**

There are only about 1269 input retailers in the country who sell fertilisers. Most retail shops are one-person enterprises sited in small stalls, and may include sales of fertilisers and other agricultural inputs (e.g. seeds, pesticides and

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garden tools), as well as non-agricultural trade items. Retailers are a potential link between fertiliser importers, dealers and users, but only very small quantities (less than 1%) pass through this channel.

**Section 4: Financial services and the fertiliser industry**

Improved financial services to the different players along the fertiliser supply chain will enable them to increase fertiliser stocks year round. The common feature of the fertiliser market as discussed earlier is for importers to wait for guaranteed markets before they can place an order, which usually includes a slight surplus amount that ends up on the open market to be purchased by smallholder farmers. The main reason given by the different players is lack of sufficient capital, high interest rates and low fertiliser demand in the country.

The wholesalers and retailers are poorly financed, and because of the significant fluctuation of fertiliser prices and low profit margins, importers/wholesalers have been unwilling to extend credit to retailers for small purchases of fertiliser. This compounds the problem of fertiliser availability for the smallholder sector. Therefore with improved

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16 Adapted from Uganda Fertiliser Strategy, 2006. MAAIF
financial services through credit guarantees and improved access to credit at favorable terms, the importers and dealers will procure more fertilisers both in terms of quantity and types year round, which will result in better efficiency in the fertiliser supply chain.

The types of investments required include:

a) Capital investments and working capital are required by importers and dealers/wholesalers to construct warehouses to enable them to import and maintain sufficient fertiliser stocks and types year round. Currently in-country stocks are not sufficient to meet the demand due to the uncertainty in the market and lack of storage, which has discouraged adopters because there are times when they need fertilisers but the fertiliser is not available. The types of financial products required include credit guarantees and Letters of Credit. It is important that the importers have at least over 200 metric tons of fertilisers at any time and more as use increases.

b) For agro-dealers, stockists and retailers, access to season-long loans at affordable rates or Credit Guarantee Schemes between them and the national importers will enable them to stock enough fertilisers. It is important that this group should stock at least 50 metric tons of fertilisers.

c) Special loan arrangements, calling for careful loan product design are required to enable farmers to purchase fertilisers. Such resulting loan products could involve collaboration between farmers, farmer groups and dealers.
It could also mean that NGOs, Government agencies, NAADS, and Cooperatives could organize and link farmers to the agro-dealers in order to help ensure efficient access to fertilisers.

d) Investment in fertiliser re-packaging facilities to 2, 5, 10, and 25 kg bags is needed because some farmers cannot afford the 50 kg bag common on the market. This will also require policy interventions because currently repackaging of agro-inputs is not allowed by law, yet legislation and regulations are supposed to be for the benefit of consumers – in this case, farmers.

e) Investment by the Government in Quality Control facilities is urgently required to ensure that farmers get value for their money.

Section 5: Is soil testing essential before investment in fertiliser is made?

NARO fertiliser research shows a high probability of response to fertiliser usage, even without soil testing and that soil test results are not highly predictive of response to fertiliser. With the current state of soil degradation in Uganda due to nutrient mining, poor soil management and non-use of external inputs, soil analysis is not necessary for highly profitable fertiliser use, especially for nitrogen and phosphorus which are the two most limiting nutrients in Ugandan soils. It is well established that crops respond to application of the two nutrients across Uganda. Optimum rates for these nutrients are available. However soil analysis is necessary to determine if application of other nutrients such as potassium, magnesium, calcium and trace elements is likely to be profitable.

Furthermore, the cost of analyzing one soil sample for texture, pH, organic matter, available phosphorus, exchangeable potassium and magnesium at National Agricultural Research Organisation’s (NARO) National Agricultural Research Laboratories – Kawanda is currently Uganda shillings 20,500 and several samples may be needed per farm due to variability in soil type, land use history, past management and topographic history. This becomes very costly for small holder farmers.

In short, yields and net returns can be greatly improved with nitrogen and phosphorus use based on official research results and without soil testing on individual farms17. Eventually a detailed soil survey is needed for Uganda to enable farmers, planners and investors to have more detailed soil information.

Section 6: Policy issues

Liberalization Policy

Uganda’s liberalization policy has created room for the private sector to trade in fertiliser with minimum interference from government. Traded volumes are increasing and the potential for economies of scale is being realized. The Uganda government is committed to support private sector-led development in the fertiliser markets through non-distortion policies to promote smallholder demand and facilitate efficient supply by removing taxes on fertilisers except 6% withholding tax. The draft National Fertiliser Strategy recommends going further, by waiving the withholding tax on fertilisers completely.

Regulatory Framework

The regulatory framework for fertilisers in Uganda is currently embedded in the Control of Agricultural Chemicals Statute, 1989. However the existing Agricultural Chemicals Regulations (1993) do not specifically address the fertiliser issues, boiling down to:

i. Import fertiliser dealers having to undergo unnecessary certification training on safe use and handling of a wide array of agrochemicals, in order to acquire an import permit and license.

ii. Delays in issuing licenses; there is only one licensing officer in the country, based at

17 National Agricultural Research Laboratories (NARL) - Kawanda, National Agricultural Research Organisation (NARO)
the office of the Commissioner for Crop Protection in Entebbe.

iii. Lack of an appropriate regulatory body for overseeing the fertiliser business, and advising on appropriate import requirements, and quality control at import wholesale and distribution levels.

Therefore there is a need to address the above constraints within the existing policies.
3.3 What is the Role of Market Information Services in Improving the Returns to Investments in Agricultural Value Chains1?

Section 1: Background

Market information forms a pivot for business development and is a cornerstone in the understanding and the development of strategic models for successful business in agricultural value chains.

In past years in Uganda the government has been the provider of Market Information Services (MIS), but this role has now been taken up by the private sector. The former public sector system used existing structures to collect, analyse and disseminate the Market Information (MI) to the general public. The information was mainly centred on price data and information relating to production, which was delivered via the extension service programme.

Now a number of private MIS providers have joined the sector with the aim of improving the sourcing and flow of information to those who operate in agricultural value chains. As more organisations venture into agri business development, the need for MIS is increasingly

1 Authors: M.J. Robert Kintu, Enoch D. Mbeine, and Racheal Tukamubona, FIT Uganda Ltd,
becoming evident. MIS have shown to be of significant benefit for farmers, traders, financial institutions, NGOs, international donors, agribusiness support agencies and government, but it has to be pointed out that to develop an efficient, relevant and sustainable MIS is challenging.

While the benefits of such services are immense, the failure of many countries to operate reliable, accurate and lasting services underlines the difficulties involved. Detailed attention needs to be paid to the capacity of the organisations and the counterparts to operate a service, both in terms of technical capacity and in terms of ability to meet recurrent costs. Institutional arrangements need to be closely examined and the potential for private-sector involvement should be investigated. It is critical to consider joint initiatives, e.g. public/private partnerships in delivery and promotion of the service. There is a need to invest in research in the initial stages of MIS establishment so as to ensure proper usage for its target users. End users of the services need to learn how to optimise their use of the information. Therefore information sensitization and public education in the use and interpretation of MI for business is critical. It is also important to note that adapting the size and scope of the MIS to the available budgetary resources is likely to result in greater sustainability.

What is Market Information?

Market Information can be defined in several ways. Market Information has been described as a business resource that increases the chances for agricultural chain actors to manage prevailing situations and plan for future market opportunities. In business, Market Information influences two basic functions, production and marketing. All chain actors operate their businesses using these two business functions.

MIS have the function of collecting and processing market data systematically and continuously, and of making it available to market participants in a form relevant to their decision making. Market information that meets the needs of small scale farmers and other chain actors may include:

Information on:

- Product planning. This is information on what crops and varieties to grow at a given season, responding to the question of marketability of the crop at a given time.
- Price details of seeds, fertilisers, pesticides and their availabilities (e.g. stockists within a 10 km radius)

<table>
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<tr>
<th>Types of Agricultural Market Information</th>
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<td><strong>Agricultural Technologies</strong></td>
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<td>Farming technologies per commodity</td>
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<td>Suppliers lists</td>
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<tr>
<td>Harvest methodologies, standards, packaging</td>
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<td>Weather patterns</td>
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</tbody>
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Livestock market information

In Uganda livestock marketing information is a sub-project of the Livestock Marketing Component under the National Livestock Productivity Improvement Project (NLPIP) in the Ministry of Agriculture Animal Industry and Fisheries.

Collection of livestock data

Livestock prices and volumes are collected through interviews with traders (usually buyers, for reasons of accuracy) during the peak of a market day. A trained livestock market monitor collects data on five cases of each of the dominant animal breeds, class and grade combination on that market day. Average prices by animal kind, breed, class and grade are then calculated, along with the total volumes of livestock by animal kind. The data are coded and sent into the database system using SMS, email or posted directly on the web into the database system.

Commercial and food crops

Data collection for commercial crop products and food crops do not differ greatly. The collection of data normally includes retail and wholesale, farm gate, and off-lorry prices. A few market information providers have added quality standards, where these are reliable.

Tips for data collection

- Get data entry tools ready
- Note book and pen
- Record the time of collecting
- Indicate your name
- Write down the Location or name of market
- Indicate the date
- Use effective communication skills while in the market and with the farmers i.e. observation, listening and giving feedback
- Use and record averages in the markets
- Double check figures
- Record down the reasons for the changes in price trends
- Send the data on a specified date to the receiver
- Always build rapport with information providers so that you can go back for information

Time of collection: Information should be collected at the peak of the trading period at the same time. Prices go through stages in different times of the day depending on how busy the market is. Early morning (6:00 - 8:00am) is the
time when wholesalers are busiest and the market is very active. At this time prices might be high, as compared to the very early hours of the morning (3:00 - 5:00am) as some wholesalers begin to make supplies. The price of a commodity at 5:00am will not be the same at 7:00am, 10:00am and 2:00pm.

Day of collection: Just like the above aspect of time of collection, prices change during the week depending on a number of factors. Beneficiaries of market information need to know, for instance, that prices tend to be lower at the beginning of the week and rise towards the end; i.e. prices for Monday will be lower than Thursday’s. The timeliness of reporting this information is the basis for relevance and usefulness of the market information service.

Data Verification: This process involves checking data collection records received to verify that the data are accurate. Issues to look out for include:
- Typing errors
- Data errors – e.g. retail price appearing lower than wholesale
- Ensuring that the origin of the data is clearly filled out – collector name and market.
- Verifying that the narration explanations are reflected in the data
- Compare with previous data for any changes and ensure that the narration clearly explains the reason(s) behind change(s).

Data Entry: The data entry clerk enters data into the front end of a database; the back end is stored on the server to which only the data analyst has administrative rights.

Data analysis is expected to incorporate all the needs of stakeholders. Below are some of the major aspects to consider when making an analysis report:
- Historical: Prices make sense to users only when they show changes in time. Market information needs to be packaged in such a way that the users can use it with confidence as a base on which to make an agricultural business decision.
- Regularity: Dissemination of information is expected to follow a regular time frame to reach the planning needs of all players.
- Relevance: MI becomes useful when someone uses it to generate income.
- Farmers’ needs: We need to focus not on the information we think farmers need but on what farmers really need. Farmer needs include weather forecasts, where to find the right fertilisers and at the right price and other aspects regarding planting.
- Other needs: The targets for market information are not only farmers but also traders, researchers, government institutions, NGOs, relief agencies and donor agencies. An ongoing check should be carried out to find out the information needs of these varied groups. Sometimes customized information is warranted.

Analysis: Data can be analyzed in different ways depending on the need and projected use of the information. For example, the weekly bulletin for FIT Uganda/Infotrade gives an indication of commodity consumer prices in key trading markets and possible shifts in the market. Further analyses can be undertaken to make forecasts, estimate price elasticities and check on scarcity indicators. For instance in the Market Analysis Report published by FIT Uganda, the booklets...
focus on trends of prices over a period of 12 months, enabling year on year comparisons.

Relevance of MIS to the provision of financial services

With the growth of the Financial Sector, a number of financing institutions are looking for reliable market data, together with production and transaction information on different sectors and enterprise groups. Market Information plays a leading role in the provision of information indicators that lead to appropriate product development for financial packages. Within the agricultural value chains, financial institutions are interested in a variety of information indicators such as:
- Prices of agricultural commodities at different stages of the market chain;
- Price forecasts and the seasonal demand of the commodities on the market;
- Reliable historical data as an indication of future price movements and demand;
- Weather forecasts and indication of agribusiness profit (before disbursing a loan);
- Times of harvest, optimal sales times and predicted market prices at the time of sales, in order to plan repayment options;
- Input cost information so as to develop a cost benefit analysis for the commodities financed.

It is clear that market information is an input to the design and regular monitoring of performance of loan products or other financial packages. It will influence decisions on: financing agricultural production, machinery financing, design and implementation of post-harvest financing – including storage and transport.

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2 See Article 2.1 in this Yearbook for a graph indicating Kampala maize prices over years 2009, 2010 and 2011.
Section 2: Investments in establishing Market Information Systems

Establishing a MIS requires a good understanding of the types of investment components that need to be considered. The investment involves five critical resources: physical infrastructure, human resources, knowledge information, financial resources, and networks and associations.

Physical Infrastructure: The set-up of a MIS will require the investor to consider location of the services, which should be in a secure and sizeable space to accommodate both the equipment and the people. The organisation needs to obtain necessary operational licenses to host the service. In the case of Uganda, this service was previously a government function as a specific responsibility of the Ministry of Agriculture, Animal Industry and Fisheries through its extension arm for its dissemination, coupled with responsibility of the Ministry of Trade and Industry for the collection of market data from the various districts, using district officers.

Turning to private sector provision of MIS, certain basic requirements must again be met. For example FIT Uganda Ltd. had to obtain a regulated licence for the use of communication short code 8555 to allow the firm to send and receive messages using mobile phone based solutions. In addition to the licence the company had to invest in short messaging software, internet servers, developing a backup service, negotiate with the telecom service providers to allow the short code 8555 to integrate with their subscribed users. The negotiations included Warid Telecom, Airtel, Uganda Telecom, MTN Uganda, and Orange Telecom. For each of these organizations, FIT Uganda obtained a working agreement and revenue sharing agreement. These negotiations were lengthy and sometimes took over eight months before an agreement was reached. Infrastructure investment includes outright purchases of capital items, leasing of services and obtaining third party rights to use other services.

Human Resources: The development of the MIS requires professional staff ranging from Information System experts, economists, marketing specialists and statisticians who can interpret the data and also package it for different users. In case of FIT Uganda Ltd, some of the services are hired only when needed, to reduce the overhead costs. Due to market dynamics, staff need to undergo continuous training in various aspects of MIS process management to increase service efficiencies and effectiveness. Training is also extended to the data collectors. FIT developed a network of 22 data collectors who are referred to as Agricultural Market Information Advisors (AMIA). These are normally on a service contract with FIT Uganda Ltd and are drawn from the local community to take on this assignment as a secondary, part-time activity.

Knowledge and information: As a provider of MI, the organisation should have the potential to provide and also accumulate content that is relevant to its target audience. FIT Uganda Ltd for example works in partnership with other regional MIS and international bodies to share experience and data. Knowledge in the sector is a cost for MIS, as there is continuous need for updating the data collected or subscribing to other service providers.

Networks and Associations: It is completely impossible to be an island of information. Networks and collaboration are critical to the successful establishment of sustainable MIS. Strategic alliances for information sourcing, data sharing or dissemination are important for marketing, market penetration, content development and accumulation. FIT Uganda Ltd in the past couple of years has established partnerships to assist its growth and effective service delivery. It is currently working with NOGAMU for the collection and dissemination of prices of organic commodities, IFPRI for the analysis, research and dissemination of data of relevance to policy makers, EAGC for the regional data exchange, AMITSA (Regional Agricultural Input Market Information and Transparency System) for regional input data exchange and dissemination.
Financial Resources: There is a large set up cost for the service, especially with capital items and initial expertise. In addition to the capital items, the firm has to lease or hire some of the services on a monthly basis from other third party service providers. This forms part of the recurrent cost of the company. Tables 1 and 2 are estimates of the establishment and the annual running cost of an MIS for Uganda.

Managing a MIS offers the possibility of generating an income stream from the sale of raw data as well as the packaging of information to sell in report or booklet form for specific sectors.

It is worth noting that income generation is not easy. It may take several years before the service can realize significant revenue.
Section 3: Lessons from history

Provision of market information in the country was provided from the early 1980s until the late 1990s by two Government ministries – MAAIF and MTTI. However, the government privatised Radio Uganda, so the free broadcast of prices ceased. At that time information on prices continued to be collected by MAAIF, but was used only for policy purposes.

Later, in 1999, with the support from USAID through ACDI-VOCA under the Foodnet project, market prices collected by the project were disseminated using private and community radios. This product was later moved to CIAT with the support of ABDC/ASPS.

Currently, there are about eight MIS providers in Uganda i.e. AgriNet, Uganda Bureau of Statistics (UBOS), SNV RIS Uganda, Uganda Commodity Exchange (UCE), Grameen Foundation, Farmers Information Communication Management (FICOM), Farmgrain Africa and Infotrade supported by FIT Uganda Ltd. More details of these providers follow below.

**Agri-Net:** This is a provider of trading or transaction market information for buyers of grain commodities. It operates and supports a network of traders and farmers in selected regions of the country.

**Grameen Foundation (AppLab):** Application Laboratory (AppLab), an initiative of the Grameen Foundation, promotes the use of mobile phones to improve the lives and livelihoods of millions of poor people around the world. In Uganda, AppLab promotes the use of the mobile phone for a range of agricultural operations, including getting to know the prices of crops at various markets, receiving instantaneous information regarding seed-variety, fertiliser, and pesticide availability/application, and communicating with distant livestock/agriculture specialists for technical advice.

**Infotrade/FIT:** Infotrade (Information for Trade) is a business name owned by FIT Uganda Limited that was registered with the sole purpose of promoting business and agricultural marketing information in the country. Infotrade’s work involves collecting, analysing, tabulating and disseminating MI. It is currently the leading agricultural commodity data provider (both wholesale and retail) with the largest collection and dissemination network in the country. It provides market data via 8555 short code, email, and website and through partner radio stations. It is also piloting production data collection using a Farmer Record Management system.

**Farmgain Africa:** This is a consultancy firm that specializes in agri-business, market information, and agro-enterprise development. It provides small and large scale farmers with professional services and consultation, specializing in marketing and market information (collection, analysis and dissemination) and facilitating rural agro-enterprise development and market linkages.

**Farmers Information Communication project:** The Farmers Information Communication (FICOM) pilot project started 2005 with the aim of improving the livelihoods of the members of the Uganda National Farmers Federation (UNFFE) and Kayunga District Farmers Association (KDFA) by strengthening communication between farmers and their markets and between farmers and their trade organizations. The programme is now self-sustaining and is administered by the Kayunga District Farmers Association.

**Uganda Bureau of Statistics (UBOS):** UBOS produces monthly consumer price indices on the basis of data collected from eight urban centres: Kampala High Income, Kampala Low and Middle Income, Jinja, Mbale, Masaka, Mbarara, Gulu and Arua. These indices reflect prices of: food, beverages, clothing and footwear, rent, fuel and utilities, household and personal goods, transport and communication, education, health, entertainment and others.

**Uganda Commodity Exchange:** The Rural Information System (RIS) project started in 2003.
Together with the Uganda Commodity Exchange (UCE), the objective of RIS is to enable rural farmers to increase their incomes. The project is about enabling subsistence farmers to adapt to a more commercial production and trading approach.

**SNV Uganda:** Works with UCE on the rural information centre projects, supporting 19 rural information centres that access web-based market information from websites. They also upload their own information collected by member farmers of a particular group. Centres are in West Nile, Mbale, Soroti, Kumi, Luwero, Kitgum, Kasese and Kamwenge.

**Volunteer Effort for Development Concerns (VEDCO):** VEDCO is an organisation that supports enterprise development and commercial advocacy. VEDCO has a component of market information tailor made for its enterprises, mainly located in north and central Uganda. VEDCO collects information on prices of various commodities that are specific to different parts of the country. Information includes location and contacts of buyers. Data are collected twice a month and a report is compiled showing market trends and analysis of prices. This is later distributed with the help of Agricultural Project Officers to all enterprises, where members buy the bulletin for UShs100 per copy.

**The Uganda Rural Development and Training Programme (URDT):** This is a non-profit organisation that provides education and training for rural development in the very poor Kibale District of Uganda by teaching people to address the interconnectedness of health, education, financial self-sufficiency, civic participation and human/gender rights within their lives.

**Uganda Coffee Development Authority (UCDA):** The Uganda Coffee Development Authority (UCDA) promotes the development of the coffee sub-sector through production of clean planting materials, support to research and nursery development, quality assurance and dissemination of timely market information.

**The Eastern Africa Grain Council (EAGC):** EAGC operates as a non-profit, non-political, non-denominational organisation, which prepares, disseminates, and promotes the exchange of information on matters affecting the regional grain industry through its market information service called the Regional Agriculture Trade Intelligence Network (RATIN).

### Challenges

A number of challenges have been cited by the providers in the MIS sector despite the fact that the sector has been around for over three decades. The recent development in mobile and internet technologies have necessitated the need for remodelling the collection, analysis and dissemination systems of the information to the public. The costs of remodelling and packaging the MIS are high. The investment produces a very low direct return on capital, since the benefits accrue to farmers, with poorly-developed systems of payment from this group of beneficiaries.

- Despite the duplication of providers, little has been done by the central government or regulating ministries to harmonise the data collection, analysis and dissemination. Different methods and approaches are being promoted by the providers. This diversity creates difficulties in comparing the data collected.
- A few of the providers have opened up exchange forums and are willing to exchange the systems, knowledge and information to other users. Others see the service as businesses/projects and are hesitant to share their lessons and findings.
- Most of the MIS providers have started and been operated as a project, and this hampers efforts aimed at continuity and sustainability of the service.
- Despite the advent of modern technologies of communication, public dissemination of Market Information is very expensive and has very low returns for MIS that have opted for provision in a private sector manner.
Section 4: Dissemination of MIS

Dissemination

Dissemination of market information can take different forms ranging from people-based approaches to electronic and print media channels. Whichever channel is selected MIS dissemination has to be: Regular, Timely and Accurate.

Market information dissemination can be done using different media:

- **People Base**
  - Development field staff
  - Contact Farmers
  - School Teachers
  - Private Sector Agribusiness
  - Extension Workers

- **Electronic Media**
  - FM Radios
  - Television
  - Internet
  - SMS-Mobile
  - Emails
  - Info Village Booths
  - Web Business Tools

- **Print Media**
  - Newsletter
  - Public Notice Board
  - Newspapers
  - Posters
  - Pamphlets

In order to ensure that MIS is sustainable, information providers should build good relationships with radio stations. This is because radio has a wide coverage in terms of listeners, resulting in successful dissemination. Secondly, the costs of dissemination will be lowered as the information will be used as value added content to the radio programs as opposed to advertising, making the service cost effective and efficient.

Farmers are often confused about the prices they hear on the radio. There is frequently an insufficient understanding of the difference between retail prices and wholesale prices or, indeed, between wholesale and producer (‘farm-gate’) prices. When a market information service begins radio broadcasting, the first programme of market information should be preceded by one or two programmes which describe the service and provide farmers with the information necessary for them to interpret the prices broadcast.

Use of Information Communications Technology (ICT) in MIS dissemination

Second generation MIS providers have promoted the use of Short Messaging Service (SMS). In the past this has been a link to traders, but now it is extending to farmers. SMS are considered to be cheaper and easy to update, but have high costs of learning, especially for farmers with limited education backgrounds. The longer term preference for SMS phone systems is that they can be deployed to provide additional services like extension, provision of farmer tips and also acting as a business directory. The SMS platform also offers the provider a simpler means of revenue capture for particular benefit at the farmer association level, as the mobile phone

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technology also offers the opportunity for two-way communications, which is vital for building effective and long-term business relations and for negotiating sales at distance.

The use of ICTs such as mobile phones, fixed telephone lines and internet connections, has increased dramatically over the last 10 years. In the year 2000, just 5 people in every 1000 had a mobile phone subscription. At the end of 2006 that figure had risen to 95 people per 1000\(^3\). Over the same period the number of fixed line subscribers just doubled. Given that most of the population live in rural areas, it is not surprising to discover that the ratio of mobile to fixed line phones is 20:1.

A limitation to using SMS in disseminating agricultural market information is that farmers and traders are not willing to pay for the service. There is also a challenge of the high costs involved in setting up an SMS platform. Infotrade’s SMS platform using the 8555 code has been operational for the last three years, but there is still a lot of publicity required to scale up its use by all chain actors.

Use of the SMS now requires use of the local languages to enable more people to enjoy access to the information on their mobile phones. There is a high cost of translating the content into the different local and regional languages.

Section 5: Policy environment for MIS

The Uganda Government policy to liberalise the economy in the recent past, and the overall objective of reducing poverty, provide the essential framework to support MIS. There are currently many agribusiness support agencies, both public and private, (NGOs, donors and Government) that have recognised that an improvement in the population’s welfare and the economy as a whole can only come about by improving the performance and efficiency of agriculture. This sector, which mainly consists of small-holder farmers, agro-input suppliers, processors, traders, transporters etc., meets several challenges in day-to-day activities. Among the common challenges are lack of access for their products, and lack of credit, poor infrastructure and also lack of information. The need for market information to mitigate some of these challenges cannot be ignored.

There has however, not been any deliberate efforts on the part of Government to initiate a conducive policy framework to foster both public and private investments in the area of MIS for agriculture. The obligations of the public-private partnerships that have been put in place are not followed, especially on the part of Government.

Agricultural policies aimed at developing effective and efficient co-operation between farmers should be formulated. With organised farmers in the country, MIS will go a long way in serving their interests in a more cost effective way.

Government should also take advantage of the advent of new mobile telephone technology networks and FM radios, and encourage their inclusion in services aimed at the agriculture sector, thereby improving the ability to gather and disseminate MIS efficiently.

References


\(^3\) Editors’ Note: By mid-June 2011 this figure is believed to have risen to more than 400 cell phones per 1,000 people with a corresponding shift also in the ratio of mobile to fixed line phones.
3.4 The Effects of Favourable International Prices on Investment along the Coffee Value Chain in Uganda

Section 1: Introduction

Globally, coffee is the second highest traded commodity after oil. It is a source of livelihood to about 25 million people worldwide and currently generates an estimated global income of close to US$ 200 billion, a tenth of which is received by producing countries (US$ 23.5 billion). Coffee therefore plays a very important role as a source of income and employment in a number of countries, Uganda included.

It is appropriate that the Government of Uganda has prioritized coffee in the National Development Plan (NDP) 2010/11-2014/15, the Agriculture sector Development Strategy and Investment Plan (DSIP) and the National Export Strategy (2008-2012). The Agricultural Finance Yearbook 2009 and other literature aptly describe the structure of the coffee value chain, as well as the achievements and challenges of the coffee sub-sector in Uganda.

There is also substantial evidence that commodity price booms (coffee included) have a positive impact on poverty reduction in Uganda (e.g. Bussolo et. al).
The Uganda National Household Survey (UNHS) of 2002/03 shows that immediately after the 2001 global coffee crisis, when prices reached their lowest levels, the percentage of Ugandans living below the poverty line increased from 35 percent to 39 percent before reducing to 31 percent in 2005/06 and further to 23.4 percent in 2009/10 at a time when coffee prices were at their highest since 1977. Some studies though assert that farmers tend to increase consumption rather than investing the additional resources arising from price booms. This article provides an insight into the outcomes of these big movements in international prices during 2010 and 2011 in terms of investments in the coffee commodity value chain in Uganda – both on-farm and off-farm.

Section 2: Trends in international and local prices: Production response

Local prices
In 2009, export prices were low mainly due to the secondary effects of the global financial and economic crisis. In 2010, farm gate prices, especially for Arabica went up in tandem with relatively higher international prices compared to the previous year. The positive trend in global Arabica prices can be attributed mostly to reduced supply of high quality Colombian milds from Colombia and other milds from Central America.

Graph 1 shows the movement of farm gate prices from October 2009 to November 2011. Robusta unprocessed (Kiboko), Fair Average Quality (FAQ or clean coffee) and Arabica dry parchment prices all depicted a positive trend during the period. Graph 4 also illustrates a similar trend with the monthly average unit export value of coffee. This indicates that there is a high positive correlation between the export price and farm gate prices. This may be attributed to price discovery, where price transmission of the world market is quite transparent and possibly faster than what Fafchamps et al (2003) reported earlier. They argued that movement in international prices is not reflected fully in the farm gate prices received by farmers. The current situation is different and farmers seem to be receiving information on the direction of the international market possibly due to increased connectivity, even in rural areas. A considerable proportion of farmers are now able to access market information using their mobile phones.

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Graph 2 shows farmers’ share of the export price since liberalization of the coffee industry in 1991. It also depicts a similar trend rising from 45 percent immediately after liberalization to over 70 percent which also supports the above argument except in coffee years 2001/02, 2008/09 and 2009/10 when the farmers’ share dropped to less than 70 percent.

Graph 3 shows the average monthly nominal Bank of Uganda exchange rate and indicates a depreciation of the Uganda Shilling against the dollar from just less than UShs. 2,000 per dollar in October 2009 to slightly under UShs 2,500 per dollar in November 2011 having reached a record high of UShs 2,800 in August-September 2011. The depreciation of the Uganda shilling against the dollar also contributed to the high farm gate as exporters were receiving more local currency for a given dollar return.

Graphs 4 and 5 illustrate the positive trend of the average monthly unit export revenue and revenue during the period with a monthly unit average.
export value ranging from a weighted average value of a low of US$ 1.5 per kilo in October 2009 to above US$ 2 per kilo in November 2011. Average monthly revenue also ranged from about US$ 20 million in October 2009 to close to US$ 50 million in June 2011 before settling at around US$ 25 million in November 2011.

**International prices**

Graph 6 clearly illustrates the price spread of the different types of coffee on the global market. The widening differential between the other types of coffee\(^7\) and Robusta depict relatively high supply

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\(^7\) These are Colombian Milds, Other Milds and Brazilian Naturals and Other Arabicas
of Robusta coffee on the market and scarcity of the other types most importantly, Colombian Milds and other Milds. The price differentials of the three types of coffee excluding Robusta were becoming narrower especially in October and November 2011\(^8\).

Data from UCDA, in Graph 7, show the coffee export performance in the last two years (2010 and 2011). There is evidence that volumes increased in 2011 as a positive response of the favourable prices in 2010. Export volumes in 2011 were marginally lower than in 2010, but only in November and December of this year. The reason is that the lower export prices forced exporters to withhold their stocks in anticipation of higher prices later on.

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\(^8\) UCDA Monthly reports: September 2010, September 2011 and November 2011
Section 3: Effect of favourable prices on investment at processor, exporter and farm levels

Investments at Primary Processing Level

Investment at primary processing level has not been encouraging. The main constraints are the high cost of new machinery and excess capacity attributed mostly to saturation of these facilities in some areas, thereby leading to lower throughput. The Agricultural Finance Yearbook 2009 reported that a wet processing machine of 3.5 MT/hour capacity costs about UShs 100m while a machine of 1MT/hour would cost about UShs 40 million. High power tariffs have also affected processors on top of load shedding. A recent study indicates that 70 percent of the processors are milling for others while 30 percent do provide pre-financing to the middlemen to mobilize coffee from the countryside. This has led to some defaults by middlemen as well as quality deterioration as they scramble for coffee from farmers. The situation becomes worse if the prices are high (as was the case in the last two years). Currently, there are close to 300 operating primary factories with close to 90 percent having just one huller.

To assess the effect of high farm gate prices on the profitability at the primary processing level and whether favourable farm gate prices had led to investment, a sample of processors were interviewed. They responded that favourable weather in some areas especially south of the equator and good prices led to a significant increase.

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Editors' Note: One major opportunity for investment could be in equipment and machinery for the processing of soluble coffee. Some soluble coffee, manufactured outside of Uganda but from Ugandan beans, is of first class quality.
in the throughput. The factory owners indicated that the milling charges had also increased from an average of UShs 70 per kilo milled to UShs 100 due to high electricity tariffs and strong demand from those who needed their services.

**Investment at Secondary Processing/Grading Level**

Currently, Uganda has 20 grading plants with a total processing capacity of 192 MT/hour, ranging from 2 to 20 MT/hour. Two new grading plants have been established. A number of exporters have also invested heavily in wet mills to ensure high quality. They have engaged and mobilized farmers in the form of outgrower schemes. These growers sell ripe cherries to them at competitive prices.

The quality resulting from improved harvest and post-harvest practices has enabled exporters to attract buyers abroad who are willing to pay a premium for the high quality coffee. This investment at exporter level may not necessarily have been made in 2010 or 2011 only, but exporters have a deliberate strategy to increase productivity and production in order to enhance profits while also recouping their investments. For instance, Kyagalanyi Coffee Ltd. has invested US $0.710 million in Mt Elgon area alone on washing stations and other plant and equipment including hand pulpers, drying tables and tractors on top of providing training to farmers on good agricultural practices.

**Investment at Farm Level**

Investment options at farm level in response to high prices include those aimed at raising yields and/or reducing costs of production. Asked whether farmers who are members of NUCAFE benefitted from the relatively high farm gate prices in the previous two years (2010 and 2011), Mr. David Muwonge, the Production and Marketing Manager responded that indeed they have done so to some extent. They had re-invested in the coffee* shambas* by buying agro-inputs such as fertilisers to boost their productivity.

“Others have been demanding high yielding planting material, expanded their acreage and we expect increased production after 2-3 years since, on average, coffee takes that long to mature. Some farmers have purchased assets such as motorcycles and other household items”, he said.

Asked which intervention areas NUCAFE will focus on, Mr. Muwonge said that emphasis will be placed on re-investment and gender equity within the farm household. Re-investment will be in form of tarpaulins, fertilisers and pesticides and will involve linking farmer associations to the agro-inputs dealers. On gender equity the thrust will be on decision making at the household level and sharing gender roles and benefits within a farm household. Access to finance will also be given due attention to enable farmer associations to write bankable business plans which they can present to banks and other financial institutions to acquire the needed production credit. A Netherlands Trust Fund / International Trade Centre (ITC) intervention with 120 farmer associations has ‘access to finance’ as a major component.

The Executive Director NUCAFE, Mr. Joseph Nkandu insists that sustainability of coffee production will be enhanced if the farmers own their coffee in what he termed as ‘Farmer Ownership Model’. This model emphasizes the need for farmers to integrate upwards and add value to their coffee. The price boom benefits those who have ability to negotiate for higher prices when they are aware of the direction of the market. The key investments at farm level include:

(a) Training farmers in good agricultural practices: weed control, disease and pests control, water and soil conservation and intercropping to increase nitrogen in the soil;

(b) Training and business counseling of farmer associations to be in position to write bankable business plans that can be presented to banks for funding;

(c) Provision of agro-inputs through linkage with agro-inputs suppliers;

(d) Strengthening the lease system for farmers to acquire productivity-enhancing tools and

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10 As mentioned by Mr. David Barry, Managing Director, Kyagalanyi Coffee Ltd.
11 NUCAFE-National Union of Coffee Agribusinesses and Farm Enterprises
12 The Production and Marketing Manager estimated that about 40 percent of NUCAFE members had re-invested in their shambas reflecting a positive supply response to high prices.
equipment such as tarpaulins, spray pumps, moisture meters and weighing scales;

e) Provision of timely global and domestic market information to all farmer associations, to assist them to be in position to negotiate for high prices while selling the coffee (price discovery);

(f) Establishing nurseries where farmers would purchase high yielding and disease resistant varieties to increase productivity and production;

g) Engaging in sustainable (certified) coffees, the global demand for which is increasing steadily;

(h) Establishment of wet mills, not only in Arabica growing areas but also in Robusta coffee areas.

Mr. Tony Mugoya, Executive Director of Uganda Coffee Farmers Alliance (UCFA) emphasizes that increased productivity can be achieved if farmers organize themselves in groups and are linked to financial institutions to access credit to buy the needed agricultural inputs. Group guarantee schemes are used where farmers from a Producer Organisation (PO) guarantee each other to access credit (input financing) by providing collateral such as livestock14. UCFA has partnered with Centenary Bank to implement this.

Section 4: Agricultural financing

It has been proven that production credit contributes significantly to increased coffee farm productivity. It is in this respect that one of the strategies to address the DSIP objective of increasing agricultural production and productivity is to assist farmers and farmer groups to increase their access to agricultural finance. This is also supported by Ugandan coffee stakeholders. In 2006, when Uganda’s coffee exports had slid to only 2 million bags, these identified inputs and credit as one of the 4 thematic areas15 of the coffee production campaign to increase coffee production and exports. This campaign (2006-2015) targets an annual production of 4.5 million bags by year 2015.

Asked whether Centenary Bank has noticed a significant increase in agricultural credit in the last 2 years (2010 and 2011) when coffee prices have been relatively high, Mr. Abdul Kyanika, the Agricultural Credit Manager, responded that indeed significant growth in agricultural loan portfolios has been registered in Centenary Bank branches in areas where coffee is predominantly grown. These include: Mityana, Mubende and Wobulenzi. He however indicated that obtaining data on agricultural credit extended to coffee specifically was not readily available. He attributes the growth to favourable coffee prices, among other factors.

He emphasized the need for the coffee industry to access credit and Centenary Bank has been and is still very willing to continue partnering with the coffee industry to increase competitiveness of the industry. He was optimistic that once the staff of Centenary Bank become fully aware of the coffee calendar and its dynamics, they would be in position to develop unique products suitable for the different actors within the coffee value chain.

He urged UCDA to ensure that the following are in place: infrastructure, policies and a conducive environment for private investment in the coffee value chain. He proposed that an Agricultural Credit Fund or a Coffee Fund which Centenary Bank could be mandated to manage, could be set up, where farmers and other actors along the coffee value chain can access funds at concessional interest rates. “The Fund could even be accessed more effectively if the Warehouse Receipt System (WRS) is embraced fully by the actors”, he stressed.

A system of linking up with agro-inputs dealers, he said, would be another intervention Centenary Bank was willing to undertake, if demand for this were to be proven.

Mr. Kyanika stressed that once Farmer Organizations have developed their entrepreneurial skills, there is likely to be a higher rate of return on investment as they will be able to access financial services. This will be possible if they have clear management structures, financial management systems and bankable business plans.

15 The other three are: Research, Extension and Farmer Organizations
In this regard, UCDA has partnered with Uganda Export Promotion Board (UEPB), National Union of Coffee Agribusinesses and Farm Enterprises (NUCAFE) and the International Trade Centre (ITC) to build capacity of NUCAFE’s Farmer Associations (FAs) to access affordable finance. This will be done through training in financial management; writing bankable business plans and providing counseling and mentoring services. These interventions are likely to lead to increased production and improved quality of coffee and hence higher returns not only of FAs but also other actors who provide services such as WRS managers, bankers, agro-inputs dealers, exporters and buyers abroad.

Section 5: Policy implications

The government of Uganda has formulated macroeconomic and sectoral policies and programmes and also set up an institutional framework to stimulate private sector growth – including for the coffee industry. They include the National Development Plan, the National Export Strategy, the National Trade Policy, the draft National Agriculture Policy, the DSIP, the draft National Coffee Policy, the Agricultural Technology and Agribusiness Advisory Services (ATAAS) project and the Warehouse Receipts System, among others. All these programmes address timely market information flow to farmers as one of the key competitive factors to increased productivity and profitability.

Market Information Systems

Uganda Export Promotion Board has established 4 national trade information and export development centres in Gulu, Bushenyi, Mbale and Arua to disseminate market related information to potential and actual exporters. The centres are supplemented by radio and print media campaigns and also give information on market trends and opportunities.

For the coffee sector, UCDA is obligated to analyze both the domestic and international coffee markets and disseminate the information to all stakeholders on a daily basis. This is done through the UCDA website, e-mails and the SMS facility in partnership with True African. This, as mentioned earlier, has led to price discovery on part of farmers. Some private companies like FIT Uganda, Farmgain and Uganda Coffee Trade Federation (UCTF) also disseminate market information on coffee to their clients.

The policy implications centre on identification of responsibility for management of information – including monitoring the accuracy of information disseminated by the private sector.

Other questions include:

- Is there divergence among the different service providers or could there be duplication of duties which may possibly have been avoided?
- Has UCDA and government invested adequately in the agricultural market information as reflected in the NDP, DSIP, and NES?
- Do we see a strong link between UCDA and the media in disseminating information and which media should be given due priority - radio or print media or both?
- Which one has better and shorter return on investment?
- How does UCDA link with NAADS in disseminating information, agricultural extension and new technologies?
- Generally, to what extent is the public private partnership framework for a National Agricultural Market Information Service being utilized by farmers to reduce information asymmetry?
- Should development partners like aBi Trust, Danida, USAID, DFID and others continue to finance agricultural market information systems or should the key public institutions like UCDA\(^{16}\) and NAADS increase on their budget allocation towards market information dissemination?

All these are policy questions which need to be addressed.

\(^{16}\) UCDA which allocates about 4 percent of its annual budget and DSIP budgeted UGX 56.4 billion (or 1.6 percent of total) over five years (2010/11-2014/15)
Extension

Agricultural extension services enable farmers and other value chain actors to achieve higher returns and improved livelihoods. Coffee farmers in Uganda receive extension services from traditional extension workers, NAADS, UCDA Regional Coffee Extension and Technical Officers, NUCAFE, UCFA and some NGOs. The Issues Paper for the formulation of the National Coffee Policy highlights the inadequacy of coffee extension partly because of unclear institutional set up. Neither NAADS nor UCDA nor MAAIF nor local authorities are handling extension sufficiently.

The UCDA Statute, 1991 is also not clear on how coffee extension shall be done and the Coffee Regulations, 1994 are silent on the issue. How best should UCDA provide technical advice to farmers since it has regional managers and coffee extension and technical officers who are the subject matter specialists in their areas? How should UCDA link with NAADS, NUCAFE, UCFA and other service providers to provide extension services more cost-effectively? How should MAAIF be strengthened to intensify its supervisory role on local governments so that coffee growing and extension are done in accordance with policy objectives?

The improvements in coffee production in recent years in the Mubende and Mityana areas under the NKG Coffee Alliance - see Munyambonera, Ezra (2010) - have demonstrated that when extension is carried out well, then the results can be very worthwhile.

References


4.1 Opportunity Bank and its Involvement in Financing the Coffee Value Chain

Section 1: The benefit to farmers

With core support from the Gates and MasterCard Foundations, Opportunity International (OI) is currently rolling out Rural MicroFinance in five African countries: Ghana, Uganda, Rwanda, Malawi and Mozambique.

In each of these OI is targeting strategic food and cash crops with a view to providing maximum impact on household wellbeing and income. The intervention can be at any level of the value chain, but targeting production is likely to have the greatest impact on household income. In Uganda, the focus has been on coffee, cotton, sugar and oil seed production. The OI strategy also involves engaging with farmers through farmers’ groups, producer organizations and cooperatives, and working with an extension service provider, input supplier and an output buyer, to strengthen the relationship and track the flow of produce and finance.

In the coffee sector, OI, through its Ugandan arm, Opportunity Bank Uganda, has been working...
with the Uganda Coffee Alliance, itself an initiative that has grown from the NKG Coffee Alliance, that started working with coffee farmers in the Mityana, Kasanda & Mubende areas in 2005. The 14,000 farmers (11,000 registered) have been organized into 245 producer organizations (POs), with POs forming initially 24 Depot Committees (DC), later established as Coffee Companies (CCs) for marketing purposes. In 2011 the 24 Coffee Companies also established the umbrella organisation – Uganda Coffee Alliance.

### Section 2: Procedures and conditions for lending

Key to Opportunity’s strategy for financing coffee farmers is close liaison with the NKG Coffee Alliance Project, which has been organizing farmers into the POs and CCs, and providing support for their training. Their long term knowledge of the farmers and groups and the database of information on farmers, coffee trees and production are important in identifying the clients with whom to engage for the pilot programme.

During the initial phase, farmers were taught Good Agricultural Practices (GAPs) for coffee, including pruning, mulching, fertiliser application, disease control and post-harvest handling, using lead farmers and demonstration plots with farmer field training days. There has also been a significant focus on replanting new coffee varieties and expanding the acreage. In general farmers’ production has improved from 1kg/tree of dry coffee beans, but most farmers are not achieving the 5-8 kg/tree exhibited on the demonstration plots, possibly due to lack of attention to detail and lack of finance for inputs.

Early on OI recognised that despite farmers achieving higher prices (up to 35 percent) for quality coffee that was marketed through the POs and CCs direct to the exporters, only about 30 percent of their production was being marketed through this channel. The reasons are multiple and complex, but a key factor was the competition with the traditional coffee traders who are able to pay cash to farmers, an important issue for cash-starved farmers relying on seasonal income. With this level of informal selling, OI’s initial engagement was to provide marketing finance to the CCs, to encourage farmers to market through the CCs, and to provide a point for recovery of any production finance extended to the PO members. This marketing finance also came with a provision that OI would be prepared to finance production
for members of a PO under the following conditions:

a) Loans are considered as group loans, with individual loans to all members of PO, so that members of the POs cross guarantee one another.

b) Other fixed collateral such as the coffee “shamba”, land and building are taken as collateral where the loan amounts are significantly high.

c) Each member has to deposit an amount of money, locked in a savings component in their OI account, which can be used by the member at the end of the loan term.

i. With the majority of NKG Alliance members, Opportunity Bank offers primarily production loans for input acquisition (seedlings, fertilisers, herbicides, pesticides) and for farm production activities (weeding, picking, land tilling). To these borrowers Opportunity Bank extends agricultural finance loans.

ii. However there are other large scale farmers who need financing for bulking from different producer organizations. These borrowers are provided with working capital loans.

iii. Others require money for the purchase of farm implements and equipment (e.g. dryers, coffee hullers, weighing scales). In these cases asset-based loans are extended.

These borrowers are provided with working capital loans. Others require money for purchase of farm implements and tools, and these are given ...

d) Size of the loans is based upon number of trees and the production estimate based upon the quantity and value of coffee sold in the two previous harvest seasons.

e) Supply of fertilisers is only for coffee in 1st Loan Cycle.

f) OI finances the Coffee Companies to buy coffee from PO members.

g) The POs must sell to the Coffee Company of which they are a member.

**Loan processing procedures**

Individual farmers from POs or members of NKG Alliance project approach Opportunity Bank for funding for their activities. The Bank, through its Relationship Officers (R/Os) arranges for a visit to the groups and carries out loan orientation where the group members are taken through a seminar on loan management and processes. After completion of the orientation, members open saving accounts with Opportunity Bank, and the R/O does individual assessment of clients’ fields.

Each farmer is helped to make a budget which is scrutinized against the production (acreage and expected yield). The PO members apply through the groups and these applications are endorsed by the group executives. However the discretion on the amount to disburse to each applicant is left to

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3 The main difference identified between the demonstration plots achieving 5-8 kg/tree/year and the average farmer yield of 1-2kg/ tree/year is due to the adoption and use of fertiliser. We have very little data on total crop produced due to the large percentage of the crop not being sold through the formal channel. Therefore, until Opportunity International (OI) sees the performance of groups during the 1st loan cycle (and proves that the use of fertiliser has been the key factor) we limit the lending to cover the critical item fertiliser. In subsequent loan cycles the financing can be expanded to even cover other inputs and possibly other crops.

4 Editors’ Note: This part of the procedure amounts to financial literacy training, clearly an important factor in commercializing the farming of coffee and of other agricultural commodities.
the R/O and the branch to assess after carrying out the necessary financial ratio analyses. Once the loans are approved, disbursement can be made, either for the whole loan amount approved by the loan committees within Opportunity Bank, or in phases as and when the needs arise (e.g. planting time, weeding, bulking, marketing etc.).

**Performance**

Repayment rates for the coffee marketing loans have been averaging over 98 percent, by both the CCs and PO’s. This is mainly because payments are made through the respective bank accounts held with Opportunity Bank. This means that loan repayments are made at source. Furthermore, the bank’s loan training programmes (conducted by bank officials prior to loan assessment) for would-be borrowers offer insights into the advantages of building up good repayment records.

**Linkages with local SACCOs**

Currently, the delivery channels for loans are through the POs as groups or individual members within the POs. There are also some borrowers outside of the groups, e.g. bulkers and processors. However there are a number of members from some existing SACCOs who borrow as individuals using their personal properties as collateral. Here OI takes a flexible microfinance view on security to support the farmers. The SACCOs in a way act as a pool from which some of the individual members can get financing; the SACCO also constitutes a useful contact point that enables Opportunity Bank staff to readily access clients. One advantage that these SACCO members have is that despite getting loans individually, they can purchase inputs collectively, thus gaining the advantages of collective bargaining and shared transport costs.

**These borrowers are provided with working capital loans. Others require money for purchase of farm implements and tools, and these are given ...**

The Bill and Melinda Gates Foundation and the MasterCard Foundation support has undoubtedly facilitated the outreach drive of Opportunity Bank. Having made this point, lending opportunities to the coffee sector (as well as to sugar cane growers and to the cotton sector) have long been recognised by top management and approved for implementation. This view contrasts with that of many traditional banks, which have always viewed lending to the agricultural sector as being very risky.

Opportunity sees the aforementioned sectors as having high market potential and the ability to resist market price shocks - as has been proved over time.

**Section 3: Typical loan amounts and loan tenors**

Typical loan amounts that Opportunity Bank advances are between UShs 300,000 – 5,000,000, with loan tenors ranging from 6 months to 24 months. These loans are mostly for purchase of inputs (fertilisers, herbicides, seedlings etc.), preparation of land for expansion, labour for picking, purchase of polythene sheets and wire meshes for drying, and packaging materials. The loan tenors are determined by the individual farmer’s cash flow. Some who have other regular sources of income such as salary, a taxi business, restaurants, milk sales and other businesses pay on a monthly basis, while those whose income
is only from sales of coffee pay after selling their crop. This may be either in one lump sum or in equal installments during the buying season.

Farmers wanting to borrow must have coffee growing experience of at least two seasons. New coffee farmers must have other regular income sources that can meet loan commitments before the new coffee trees start yielding. For group clients, members must be registered under the NKG Coffee Alliance project.

Coffee traders (working capital loans) must have had one year’s experience in coffee trade.

**Section 4: Challenges**

i. The major challenge facing financing to the coffee farmers is the weak structure of the farmer groups. Many groups are poorly organized with leaders who are not sufficiently active. Recommendation of group members for credit is biased in some cases, for example for group members who in reality have lost interest in coffee production.

ii. Side selling by farmers to middlemen who offer higher prices prevents the NKG Coffee Alliance from realizing the targeted volume of coffee. To address this, the NKG Coffee Alliance invests in training and mobilisation of these farmers, as well as providing extension services at their own cost.

iii. The emergence of Coffee Wilt Disease (CWD) that has sometimes wiped out entire plantations, aged coffee trees, poor agronomic practices and lack of adequate input use leads to low product volumes and low incomes, leaving farmers with meagre margins after loan repayments.

iv. Geographical dispersion of the farmer groups stretches manpower utilization by Opportunity Bank and increases operational costs. The farmer groups are located 50-60 km apart, significantly straining the Bank’s personnel resources, thus inhibiting outreach.

v. Lack of a good saving culture among the farmers is another challenge. Most farmers get excited after a good harvest and sale, and do not plan for the next season. The majority of them go on lavish spending sprees after being paid. Given that the bank can only recover the loan plus interest, whatever remains on the client’s account is at his/her own disposal.

vi. Multiple borrowing by clients is yet another challenge. The high appetite for cash, without correspondingly well-planned needs assessment, has compelled some farmers to get money from multiple lenders. Much of this finance is for consumption (school fees, food, social expenses) without going into production; as such the little earnings they get from coffee sales do not meet their obligations and they remain chronically indebted.

vii. There are difficulties with respect to inputs, starting with the limited number of reliable input suppliers across the country. Expired inputs, low quality seeds and chemicals enter the market. Moreover, there is lack of proper guidance to farmers in the use of inputs.

Despite the challenges noted above, Opportunity Bank believes that the coffee sector has a bright future. It will be important to continue efforts to improve agronomic practices, through better extension, coupled with enhancement of farmers’ business skills through financial literacy training.
References


4.2 Housing Finance Bank Financing of Grain Storage using Warehouse Receipts as Collateral

Section 1: Background

During the colonial period Ugandan farmers were organised on a geographical basis into groupings such as primary societies (based on individual parishes), district societies and regional societies. This was done in concert with the colonial administration partly for administrative purposes and also as a means of distributing extension services and other inputs as well as marketing agricultural produce. These structures remained in place until the early 1990s and were supported by a government ministry for cooperatives.

Over time, however, the government instituted a programme of market liberalisation and many farmers’ societies have ceased to exist or became dormant, often through mismanagement and dishonesty.

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1 Author: Paul Nuwagaba, Housing Finance Bank
As a general characteristic, Ugandan farmers work independently of each other. Individually they produce only small quantities and have little or no access to credit. The problem is attributed in part to the perception of high risk associated with lending to agriculture but also the failure of many formal financial institutions and banks, in particular, to develop and deliver the right products to most of those operating in rural areas.

The Uganda commodity exchange and the warehouse receipt system

The Uganda Commodity Exchange is the body mandated by Government to regulate the Warehouse Receipts System under its Act of 2006. The Warehouse Receipts System (WRS) is a system where licensed warehouses offer cleaning, drying and storage services to various stakeholders that include cooperatives, farmers, farmer groups, plus small and medium scale traders. The grains and pulses (maize, rice, beans, millet and sorghum) that are delivered at the warehouse are cleaned, dried, weighed, graded and packaged in standardized bags in accordance with East African Grade Standards 1 and 2. The graded commodity is then stored in a secure area and a warehouse receipt issued by the warehouse operator showing the quantity and quality of the commodity.

Under the Warehouse Receipt Systems Act 2006, the warehouse receipt is a recognizable document of title and is transferable from one owner to another. It can also be utilised as a document of collateral by a financial institution that would thereby use the deposited commodity to secure a loan to the owner.

Warehouse receipt financing

Warehouse receipt financing generally refers to the utilisation of these inventories presented in the form of a receipt as collateral for loans. By creating collateral out of a commodity in a predominantly low-income, agricultural country such as Uganda, warehouse receipt financing provides an alternative to the traditional forms of collateral such as landed property which are largely out of reach for the average farmer or even where they are available, challenges exist in terms of acceptability of locations, processing of titles and even land tenure systems.

In addition to the aspect of alternative collateral, warehouse receipt financing helps specific value-chain stakeholders, particularly farmers and smaller traders, better manage crop marketing by utilising a transparent marketing system to access more remunerative pricing. This both enhances their livelihoods and their capacity to service loans. In turn, these developments make farming communities more attractive to formal financial institutions.

To enable these activities, the Uganda Commodity Exchange, working with various partners and private entities, has in recent years licensed warehouses for public use in various locations around the country to receive commodities for cleaning, drying, storage and eventual marketing. Some of these are described in the next section.

Section 2: Licensed warehouse facilities: set-up and status

A warehouse in Layibi Gulu was constructed by the Government of Uganda under the then Produce Marketing Board. This facility was licensed in October 2010 to receive maize and beans and is currently leased to the UN World
Food Programme (WFP) which operates it under the “Purchase for Progress” program. The facility was licensed in October 2010 and is equipped with a cleaning and drying plant procured through a USAID grant to WFP.

WFP operates a similar facility in Tororo that was accessed on lease from Government and was previously constructed for the Produce Marketing Board. It was also licensed in October 2010 to receive maize and beans and is equipped under the same USAID support arrangement with the World Food Programme. In both cases, the tenure of the land carrying these warehouse operations is on leasehold for varying periods. The Gulu and Tororo warehouses have capacities of 6,000 and 12,000 metric tonnes respectively.

In Jinja, Agroways Limited, a private trading firm, obtained licensing in April 2008 for a 2,000 metric tonne facility to receive maize, beans and rice. This warehouse was equipped with support from the Agricultural Sector Programme Support II (ASPS II) Danida. At present, Agroways is expanding its storage capacity to 5,400 metric tonnes by mid-year 2012.

Masindi Seed Grain Growers Association, a producer organisation, owns and operates a 1,000 metric tonne warehouse facility in Masindi town which was licensed in January 2009 to receive maize, beans and rice. Similarly this facility was equipped with the support of Agricultural Sector Programme Support II (ASPS II) Danida.

In Kasese, two licensed facilities are currently operated by Nyakatonzi Cooperative Union, a local producer organisation that brings together more than 15,000 farmers and a trading firm known as Elshaday General Trading Limited. The 1,000 metric tonne Nyakatonzi facility was built by Government under the Uganda Seed Corporation and then privatized to the Union during the period of divestiture. It was licensed in March 2009 to hold maize and beans after renovations supported by UCE under the European Union Commodity Trading and Warehouse Receipt Systems Project. The cleaning and drying plant for Nyakatonzi was procured by WFP through a USAID grant.

The Elshaday warehouse, a 6,000 metric tonne facility in Kasese, was constructed by the Government of Uganda under the Produce Marketing Board and was divested into private hands prior to licensing. As part of preparations for licensing, UCE funded renovations under the EU Commodity Trading and Warehouse Receipt Systems Project to achieve acceptable storage standards. It was licensed in November 2009 to hold maize, beans and rice and it retains its original plant.

In Mbarara, Banyankole Kweterana Cooperative Union, another producer organisation that groups coffee farmers and suppliers in the Ankole area, operates a 1,000 tonne warehouse and factory building that was revived in 1999 after years of neglect. This facility was licensed to receive coffee in March 2010. UCE also commissioned renovations to bring it up to standard, under the
EU Commodity Trading and Warehouse Receipt Systems Project. The Government of Uganda provided a grant that funded procurement of some equipment.

Another facility of note is a 2,000 tonne warehouse in Kapchorwa which was only commissioned in December 2011 and is due for licensing to handle maize, barley and sorghum. Its construction and equipping have been supported by USAID through a grant to WFP. It is owned and operated by the Kapchorwa Commercial Farmers Association, a 5,000 member association that brings together over 25 producer groups drawn from an area of at least 5 districts, and benefits more than 3,000 farmers.

In all cases where the plant has been provided under grant schemes, these schemes have a concession basis of 70:30 whereby the warehouse owners/operators are required to pay 30% of the value of the plant within a period of 3 years and retain the 70% as a grant. In addition, warehouse operators commit to operating their warehouses as public warehouses under WRS for a period of 5 years.

With regard to the grading and fumigation equipment that are made available to these licensed warehouses, these were purchased by the Uganda Commodity Exchange under the Commodity Trading and Warehouse Receipts System Project funded by the European Union and the Government of Uganda.

Section 3: Warehouse receipt finance client characteristics

Over the years and with the prevalence of a private warehousing model that is utilized largely by larger and more formal traders, smaller grain producers, farmers, village traders and producer organisations have sought storage and financing alternatives that seek to lower access barriers for them. This alternative financing model forms the basis for financing farmers and farmer groups, using negotiable warehouse receipts issued electronically at warehouses licensed by the Uganda Commodity Exchange (UCE).

The expectation among these different stakeholders is that such a system would lower transaction costs, especially as the scale associated with multiple depositors using a designated storage facility would spread the cost among the many actors, but also because the possible attraction of financing partners to such a structure would engender a financing process that entails fewer delays.

Against this background, in March 2010, Housing Finance Bank Limited formally launched a warehouse receipt financing product to the banking public. This facility provides loans and advances to regulated/licensed warehouse depositors of grain, paddy rice, coffee and other related commodities as may be determined by the Uganda Commodity Exchange, from time to time.

With this product, the Bank sought to create greater choice and relevance in its product mix by introducing a product to facilitate its farmer and produce-trader clients and help them meet their business and personal obligations, while utilizing a secure storage mechanism to hold their commodities until prices increase.

Over the 22-months period since the product was launched, the bank has served a variety of clients, with a representative spread of locations, including Kasese, Gulu, Masindi and Jinja.

Of the clients served so far, the key characteristics and demographics are as follows:
Section 4: The housing finance bank experience

Housing Finance Bank was the first formal financial institution to sign a Memorandum of Understanding with the Uganda Commodity Exchange to finance warehouse receipts. This was in June 2009. The key features of the product include:

- Financing is made available to licensed warehouse depositors of maize, paddy rice, beans, coffee and cotton with a minimum tonnage of 3 metric tonnes.
- Advances made are equivalent to 60% of the value of the commodity held at prevailing prices.
- Maximum facility tenors of 120 days (4 months).
- A farmer/trader is required to sell through the UCE trading floor.
- Repayment and settlement done through a formal arrangement between UCE and the bank.

Since the product was launched, the bank has made loans of approximately UShs 1 billion.

A key consideration for access to public storage and the facilities therein is the requirement to raise at least 3 metric tonnes. This requirement lends itself to the need to process viable quantities through the cleaning and drying plants and also enable the consignee to meet the associated processing, grading and storage costs. To this end, individual farmers and village traders either utilize existing groups within their respective areas or constitute such groups to bulk their produce and process marketable quantities.

The immediate benefits of Housing Finance Bank’s warehouse receipt financing to our producer and farmer-clients have been threefold:

First, it has enabled access to credit for a number of farmers and small traders in Kasese, Jinja and Masindi who ordinarily would not be eligible for funding to support their activities. In the case of trader clients, the loans obtained allowed the borrowers to procure more commodity and subsequently increase the potential income available to them at the end of the transactions.

Second, the Housing Finance Bank loans coincided with an off-taker arrangement between WFP and UCE to purchase graded commodity from the licensed warehouses under the “Purchase for Progress” programme, thereby providing an opportunity for the small farmers and traders to benefit from a key market.

Third, and indirectly, the participation of farmers and traders in the Warehouse Receipt System and the expected benefits from lowering overall transaction costs associated with cleaning, drying storage and financing have engendered better post-harvest handling techniques among some of the borrowers.

<table>
<thead>
<tr>
<th>Borrowers</th>
<th>Average Loan Sizes (UShs)</th>
<th>Percentage Composition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Individual farmers</td>
<td>5,250,000</td>
<td>27</td>
</tr>
<tr>
<td>Area Cooperative Enterprises</td>
<td>20,000,000</td>
<td>41</td>
</tr>
<tr>
<td>Traders</td>
<td>8,750,000</td>
<td>32</td>
</tr>
</tbody>
</table>

Table 1: Borrowers of WRS Loans
However, despite these successes, some challenges remain:

At year-end 2011, Housing Finance Bank had a 15-branch network that straddles some of the major urban centres within the country. Of the areas currently hosting licensed public warehouses, the bank is still not represented in Kasese, Jinja, Tororo and Masindi. In addition, the very nature of the borrowers under the Warehouse Receipt System is such that most are based in rural rather than in urban areas. Under these circumstances, both the bank and potential borrowers incur significant costs of travel and sustenance either to deliver the product conveniently to the borrower or to the nearest branch locations to process loans, in case of the borrower.

Trading floor activity at the Uganda Commodity Exchange is infrequent. This has affected the sustained operationalisation of the Warehouse Receipt System and the ability to conclude transactions. As an alternative, the bank utilized an option of direct repayment to the bank without utilizing the designated “trading floor”.

Despite the best efforts of the Uganda Commodity Exchange, there are not enough licensed warehouse locations around the country and at present there is inadequate provision in place for alternative transit storage points. To put this in context, this has affected the transaction costs, considering that grain must transit over long distances to licensed warehouses before it can qualify to be receipted and obtain eligibility for borrowing.

**Looking ahead**

Greater interaction is needed between the financiers, the Exchange, transit agencies and potential borrowers on the concept of the Warehouse Receipt System and its accruing benefits.

The continued absence of strategic storage infrastructure, coupled with the slow growth in licensed public warehousing capacity throughout the grain-producing corridors in the country continues to impact throughput and the ability of financial institutions to extend warehouse receipt financing to more areas.

A liberal grain trade regime in Uganda provides an attractive alternative market to farmers and small traders both within the country and those from neighbouring countries such as South Sudan, Kenya, the DR Congo and Rwanda. This is compounded by the absence or non-enforcement of graded commodity standards across the country and within the region.

Farmers/Produce traders were meant to deposit their stocks in the warehouses to enable utilization of the facility. The interactions with farmers, produce traders and the Bank in the course of sourcing and originating business were met with excitement towards the features of the product. However, a general lack of awareness of the licensed warehouse sites and the likely benefits in terms of more remunerative pricing persists.

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4 See also Article 2.1 “The Maize Value Chain” in this Yearbook.
All stakeholders must join hands to explore appropriate infrastructure in form of simplified technologies available to grain-producing areas to increase convenience to farmers and village traders while lowering transaction costs. One example is harnessing mobile telephones for the dissemination of information and for some financial transactions.

The low-levels of internet penetration and usage curtail the ability of the Electronic Warehouse Receipt System to take firm hold, especially when such issues as literacy, accessibility and reliability are considered.

Section 5: Partnerships in warehouse receipt finance and their importance

Different Partners have contributed to the achievements so far registered with the Warehouse Receipt System and financing in Uganda. The Uganda Commodity Exchange has signed various Memoranda of Understanding with all these partners to operationalise the WRS and to enable it to run smoothly.

The first partnerships signed were with the warehouse keepers. It was important to avail facilities where commodities would be received, processed, graded, receipted and stored.

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5 See Article 3.3 in this Yearbook (market information) and Article 6.1 in the Yearbook for 2010 (financial transactions).
Partnerships were then signed with the UN WFP, as a key off-taker to purchase the graded commodities from the warehouses. The UN WFP is the largest buyer of quality-oriented food in Uganda. Indeed, the purchasing power of WFP was the key to kick-starting the system.

Partnerships were also signed with farmer groups around the hinterland of the warehouses. On the whole, the medium and large trading communities are averse to using the system on account of its transparency and its subsequent effect on their margins, so the focus in the interim has been on farming communities, producer organizations and small traders.

At least four financial institutions including Housing Finance Bank have signed partnerships with UCE to enable agricultural commodity depositors to access finance using their deposited commodities as collateral, with the depositors pledging their receipts to the financial institutions, using the electronic warehouse receipts system.

UCE is also in the process of signing a new partnership with the Government of Uganda to construct and equip additional warehousing facilities, as well as subsidize private sector warehouse keepers who are willing to get licensed under the WRS Act 2006.

Section 6: Policy and legislative environment

The overall policy and legislative environment is in place but still needs some additional work to improve its efficiency, so that various stakeholders in the value chain can become comfortable in using this system and thus accessing credit. Two pressing items for policy attention are:

1) Trade in grains in Uganda is largely informal. The majority of the grain and pulses traded both within and to countries surrounding Uganda are traded in an unclean and ungraded state. Policy needs to be put in place and enforced to control the quality of grain that is traded within and beyond the country’s borders. This would engender a reliance on the existing Warehouse Receipt System and its assurance of standards in quality and quantity. It would also bring the wider trading community into the realm of WRS and its financing benefits.

2) With regard to the legislative environment, in order to formalize trading both domestically and regionally, legislation specific to storage must be put in place so that the mandated regulator of the WRS 2006 Act has access to monitor the quality of commodities stored in both private and public warehouses, with penalties put in place for those who do not comply with quality specifications as prescribed by the law.

References

Section 1: Background

Centenary Bank has been at the forefront of efforts to extend finance into the rural areas of Uganda for the best part of two decades. Agriculture plays a much more prominent role in the business strategy of Centenary Bank than it does for most other banks in the country. Centenary Bank allocates almost 20 percent of its loan book to the agricultural sector, compared to just 7 percent for the commercial banking system as a whole in Uganda. Centenary Bank's agricultural portfolio by the end of last year was standing at UShs89 billion, which is 17 percent of its total portfolio.

Despite these impressive figures, greater investment is needed to exploit the potential of Uganda’s agricultural sector. In turn this calls for more efforts to boost agricultural financing. The agricultural sector is key to the development of the country because 75 percent of the population stay in rural areas, where agriculture is the main occupation. The sector employs 70 percent of the entire working force, contributes 25 percent and 50 percent to the country’s GDP and exports respectively.

1 Author: Abdul Kyanika Nsibambi, Manager Agricultural Lending, Centenary Bank.
Centenary Bank financial performance and strategy

Despite serving lower end customers, and the tough economic environment of the year 2011, which was characterised by high inflation, the Bank’s financial performance was outstanding. The Bank registered a 63 percent jump in profit after tax to UShs 47.9 billion (US $20 million) on the back of strong growth in its net interest income. This profit figure compares very favourably with other commercial banks doing business in Uganda. The Bank has continued to expand as part of its forward strategy, with its clientele now numbering 1,133,612, an increase of 13.3 percent. By the end of 2011 it had 39 branches, 8 Service Centres, 1 Mobile Bank Unit and 96 ATMs at 73 locations.

According to the Managing Director of Centenary Bank, the Bank’s impressive performance is attributed to good underwriting standards, increase in loan portfolio (including agricultural lending), and cost optimisation.

Centenary Bank strategy

The main objective of the Bank is to promote and enhance development through microfinance to the entire agricultural value chain, especially farmers and other agribusinesses and MSMEs in rural areas. The Bank intends to achieve this through innovations to increase rural outreach, through product development and through other best practices in rural lending.

However the challenges to extending services to small holder farmers are still substantial. These include: high cost of transactions because clients are located in remote areas and are widely dispersed, poor infrastructure, lack of collateral, poor entrepreneurship skills, climate change and many other factors.
These obstacles affect Centenary Bank in its efforts to extend its services to all its target clientele, as per its vision and mission, and calls for support from its business partners who include government and non-government organizations, as well as international partners.

Section 2: Centenary Bank - World Bank partnership

The Agriculture Finance Support Facility (AgriFin) is a Global Partnership Program managed by the World Bank. The program was established with the support of a US $20 million grant from the Bill and Melinda Gates Foundation. The facility co-finances innovative capacity building proposals from financial institutions in Africa and Asia to develop their agricultural finance business lines.

In addition to the direct results in terms of an increase in agriculture finance by these financial institutions, these projects are expected to provide practical learning experience to other financial institutions, so as to create a base to replicate successful models in both continents. It also facilitates peer – peer learning, and production and sharing of acquired knowledge in agricultural finance for a wide range of stakeholders. The vision of AgriFin is to increase access to financial services for smallholder farmers and other enterprises in rural areas.

Centenary Bank's AgriFin project was launched in Kampala on July 12, 2011. Centenary is contributing US $1.1 million to the project, AgriFin is contributing an additional US $1 million to support the program.

Objectives of the Centenary Bank - World Bank AgriFin Project

Centenary Bank's Agricultural Finance Initiative key objectives are to:

i.) Build and reinforce Centenary Bank's capacities to lend to smallholder agriculture in a more efficient and cost effective manner;

ii.) Reduce Centenary’s agricultural finance portfolio risk through better risk management, diversification of lending along the value chain and expanding key partnerships (linkage banking and structured finance);

iii.) Increase rural outreach to small holder farmers and rural entrepreneurs by small lending branches (Service Centers) and enhancement of the bank's e-platform.

Expected outcomes

The project is expected to improve Centenary Bank's agricultural finance portfolio, including all aspects of value chain finance. Over the next four years the agricultural portfolio is expected to double, translating into a growth of US $34 million, while the number of agricultural finance clients is projected to increase by approximately 30,000. The mix of products and services to clients will also be improved, and transactions costs and loan losses reduced.

Achievements to date

The Bank's board has approved the establishment of a fully fledged Agricultural Lending Department, and the recruitment of staff to manage the department is in progress. The Bank has boosted its Research & Development Department by recruiting an Agricultural Value Chain Specialist to develop agricultural loan products tailored to specific financial needs of stakeholders in entire chains.

The procurement process for strategic technical assistance and that specifically aimed at new product development has also been started.
The Bank has so far opened three service centers – low-cost branches - in rural areas. These are in Koboko, Kumi and Isingiro, and the Bank is planning to open more this financial year. The service centre concept has also been replicated in urban centers, and this move, in combination with the offsite ATMs, is expected to substantially reduce congestion in banking halls.

In addition to the progress made under the project, Centenary Bank along with the World Bank’s country office, co-hosted AgriFin’s first Annual Meeting, Financing Agriculture Forum, in Kampala, Uganda on March 28-30, 2012. The event focused on market segmentation and product development, and was attended by banks, non-government organizations, associations and donors supporting agriculture finance.

Benefits

The project is within Centenary Bank’s mission to support the investment activity of people in rural areas, since it focuses on improving the Bank’s capacity to extend microfinance services to the target market.

The Bank is also getting international exposure from sharing its experience with other similar institutions, in Africa and beyond, while also benefiting in turn from the valuable knowledge base on rural development built up by international organizations, including the World Bank.

The components of Centenary’s AgriFin programme are set out, in summary form, in the text box below.

Components of Centenary Bank’s AgriFin Programme

These were, firstly, creation of a fully-fledged Agricultural Lending Department within the Bank, with strong management capacity and improved linkages to branches. This department, in turn, aims to deliver expectations through the following initiatives:

1. Strategic technical assistance, both short and medium term;

2. Development of new agricultural financial products, tailor made to meet the needs of enterprises along agricultural commodity value chains, with the aim of enhancing the viability and efficiency of inter-dependent businesses in value chains;

3. Capacity building of staff working in other departments of Centenary Bank, to help create a more conducive environment for the lending and loan management operations of the Agricultural Department;

4. Increasing outreach through innovative approaches like smaller branches, enhancement of the e-banking platform, including the creation of an e-banking call center to provide advice and troubleshooting to clients and rollout of innovative e-banking products in rural areas.
05 Sacco and MFIs
5.1 Mateete - an Agricultural SACCO Achieving Solid Performance

Section 1: What is Mateete SACCO?

Mateete Microfinance Cooperative Trust Ltd (MAMCOT) was registered on 29th October 2002 under the Cooperative Societies Statute (1991) and started operations in January 2003. The institution is located in Mateete Trading Center, Ssembabule district, with branches in Lwebitakuli Trading Center in Lwebitakuli district and in Buyaga trading centre in Lyantonde district.

Market demand

The SACCO currently has 5,202 group, individual and institutional members. According to the General Manager of Mateete SACCO, Mr. Busuulwa Lawrence, membership growth is projected at 9000 members by December 2015. This is based on the fact that the operational area of the SACCO is expanding to the neighbouring districts of Masaka and Bukomansimbi served by Mateete branch, Lyantonde and Lwengo served by Lwebitakuli and Buyaga branches.

1 Author: Justine Kasoma, BoU/GIZ FSD Programme
2 "Institutional members" include schools
Competition

The strategic location of MAMCOT branches in the busy trading centers of Mateete, Lwebitakuli and Buyaga gives the SACCO its competitive edge over other institutions in the region. However, competition from informal financial institutions is noticeable. Although there is inadequate information about the informal financial services providers in Sembabule and other neighbouring districts, it’s evident that money lenders have a niche among the business community primarily because they provide fast access to credit to desperate borrowers.

On the formal/semi-formal side, MAMCOT is faced with competition from Taala ya Mawogola SACCO which was initially closed but later reopened in December 2011 in Mateete trading center, Lwebitakuli SACCO at Lwebitakuli (Lwebitakuli branch location), Sembabule SACCO at Sembabule, and Mpumudde Elderly SACCO at Mpumudde.

The nearest formal financial institutions, Stanbic Bank and FINCA Uganda are located approximately 20km away in Sembabule town. This distance coupled with the poor road network makes MAMCOT the convenient choice for the community.

The Board members and management of MAMCOT are aware of these market dynamics, and therefore make efforts to consolidate the already good operational and financial performance to deepen and expand outreach in order to stay ahead of competition.

Economic activity

The major economic activity in the area of coverage is agriculture and this is reflected by the percentage of agricultural loans at 53.7%. Crop growing and animal husbandry are predominant. Perennial crops grown include coffee and matooke. On average, each recognised agri-business SACCO member (there are 446 of these) holds 10 acres of coffee and 4-5 acres of matooke. Seasonal crops, including maize, beans, millet, sorghum, peas, onions and pineapples are grown basically for home consumption and the surplus is sold. On average each member in this trade has 3-4 acres in these crops.

Market

Coffee produce is sold in the local market which is characterised by middlemen. However, some members have formed cooperatives, for example, Kibinge Coffee Farmers Cooperative at Kyabakaga and Misanvu Coffee Farmers Cooperative, both under NUCAFE.

Maize is directly supplied to maize millers in Kisenyi, Kampala while matooke is mainly bought direct from the farms by traders who supply it to markets in Kampala. One of the large scale matooke farmers, Mr. Kafeero Thadeus, also supplies his matooke produce to Uganda Martyrs University, Nkozi.

Animal husbandry is mainly practised in Lyantonde district which is in the cattle corridor. Lyantonde district formed Buyaga Cooperative Farmers Group and set up a collection centre for milk. It is transported to Lyantonde town, which is one of the major collection centres in the region. From here it is transported to the Sameer Group factory in Kampala for processing.

Products

The agricultural loans offered by MAMCOT are very flexible, affordable and customer-tailored, the terms and conditions are considerate, with grace periods that vary with the type of crops grown.
Table 1: Agricultural Loan Grace Periods and Tenors

<table>
<thead>
<tr>
<th>Purpose</th>
<th>Grace period</th>
<th>Loan Term - Tenor</th>
</tr>
</thead>
<tbody>
<tr>
<td>Maize and Beans</td>
<td>5 months</td>
<td>6 months</td>
</tr>
<tr>
<td>Coffee</td>
<td>10 months</td>
<td>11 months</td>
</tr>
<tr>
<td>Cattle</td>
<td>4 months</td>
<td>6 months</td>
</tr>
</tbody>
</table>

NB: All these are working capital loans, disbursed in favourable seasons/periods as agreed upon with the clients and outlined in the lending policy.

The interest rate charged on agricultural loans is lower than that for other loan products; agricultural loans 2.5% per month, other loans 3%, both types calculated on a declining balance.

The group/community banking methodology used in MAMCOT is a favorable option for women and youth who have no valuable assets to offer as collateral for small loans to boost their businesses.

Table 2: Current MAMCOT Loan Products

<table>
<thead>
<tr>
<th>Purpose</th>
<th>Beans and maize working capital</th>
<th>Coffee working capital</th>
<th>Cattle loan</th>
<th>School fees loan</th>
<th>Trade and commerce</th>
<th>Transport</th>
<th>Solar</th>
<th>Housing</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loan period</td>
<td>6 mths</td>
<td>11 mths</td>
<td>6 mths</td>
<td>4-6 mths</td>
<td>12 mths</td>
<td>15 mths</td>
<td>12 mths</td>
<td>15 mths</td>
</tr>
<tr>
<td>Grace period</td>
<td>5 mths</td>
<td>10 mths</td>
<td>4 mths</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Interest rate</td>
<td>2.5% p.m declining</td>
<td>2.5% p.m declining</td>
<td>2.5% p.m</td>
<td>3% p.m declining</td>
<td>3% p.m declining</td>
<td>3% p.m declining</td>
<td>3% p.m declining</td>
<td></td>
</tr>
<tr>
<td>Minimum amount UShs</td>
<td>1M</td>
<td>1M</td>
<td>1M</td>
<td>0.1M</td>
<td>0.1M</td>
<td>-</td>
<td>0.1M</td>
<td>-</td>
</tr>
<tr>
<td>Maximum amount UShs</td>
<td>3M</td>
<td>3M</td>
<td>15M</td>
<td>3M</td>
<td>10M</td>
<td>*</td>
<td>8M</td>
<td>10M</td>
</tr>
<tr>
<td>Repayment frequency</td>
<td>End of period</td>
<td>End of period</td>
<td>End of period</td>
<td>Monthly</td>
<td>Monthly</td>
<td>Monthly</td>
<td>Monthly</td>
<td>Monthly</td>
</tr>
</tbody>
</table>

Notes

* For motorcycle loans, MAMCOT funds up to 90% of the cost of the motorcycle and for motor vehicle loans, MAMCOT funds up to 60% of the cost of the motor vehicle.

Section 2: Growth in recent years

As indicated in the MAMCOT management and account reports, the institution has experienced progressive growth over the past 4 years. Mr. Ssonko Fred, a loan officer at Mateete branch attributes this growth to the quality of their products and services that are customer- tailored to suit the needs and requirements of the community and activities in which they are engaged.

Other enterprises financed include: small scale retail and wholesale shops, milk collection centers, poultry farming, piggery, goat and sheep farms, mobile money kiosks, metal workshops, wood workshops, lumbering among others.
### Table 3: Distribution and performance of the SACCO loan portfolio

<table>
<thead>
<tr>
<th></th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Number of accounts</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Agriculture (production, processing and Marketing)</td>
<td>194</td>
<td>268</td>
<td>389</td>
<td>446</td>
</tr>
<tr>
<td>Trade and commerce</td>
<td>81</td>
<td>93</td>
<td>149</td>
<td>140</td>
</tr>
<tr>
<td>Education</td>
<td>23</td>
<td>26</td>
<td>36</td>
<td>23</td>
</tr>
<tr>
<td>Housing/property</td>
<td>26</td>
<td>41</td>
<td>45</td>
<td>101</td>
</tr>
<tr>
<td>Health</td>
<td>7</td>
<td>7</td>
<td>5</td>
<td>4</td>
</tr>
<tr>
<td>Others (transport, energy)</td>
<td>19</td>
<td>64</td>
<td>122</td>
<td>177</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>350</td>
<td>499</td>
<td>747</td>
<td>891</td>
</tr>
<tr>
<td><strong>Portfolio yield</strong></td>
<td>41.6%</td>
<td>34.7%</td>
<td>48.2%</td>
<td>38.2%</td>
</tr>
</tbody>
</table>

(Source: MAMCOT management and accounts reports as at 31st December 2011)

Other factors that give MAMCOT a competitive edge include:

- Cultivation of a good public image due to quality services and outstanding customer care;
- Providing attractive interest rates on member’s savings, for example:
  - MAMCOT pays 4% per annum on voluntary savings, while other institutions in the area do not provide this benefit;
  - Attractive rates on fixed deposits;
- Limited competition for MAMCOT branches in Buyaga and Lwebitakuli;
- Has a strong affiliation with Uganda Cooperative Alliance (UCA), The German International Cooperation (GIZ), Centre for Private Sector Development Ltd (CPSDL), The Microfinance Support Centre Ltd (MSCL) and Stromme Microfinance East Africa;
- UCA offers routine supervision and monitoring of the MAMCOT’s services, capacity building to staff through workshops, trainings and seminars as well as training members. It has always supported MAMCOT in mobilising members and training them through mobilisation meetings and pre-annual general meetings;
- GIZ provided MAMCOT equipment like motorcycles that have greatly improved the movements of the field staff given the poor road network in its operational area. It has also donated computers and the MBWin system to MAMCOT’s three branches. Finally through technical assistance it has supported MAMCOT and other partner SACCOs in staff development through seminars, workshops and training by experienced trainers and practitioners;
- MSCL has always been the major source of external funds, with loans extended at subsidized interest rates. (See Table 4 below.)

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4 Customer care at Mateete SACCO includes: a. attention to building confidence (at each AGM staff are obliged to stand alongside their parents), b. practical assistance (help with completing forms), c. general courtesy in receiving and dealing with members inside and outside the SACCO premises and; d. AGM reports are written and distributed in the local language, Luganda, to help members understand the contents more readily.
Section 3: Governance and management

Organisation structure

The institution is managed through a strong and democratically elected Board, with special emphasis put on women, the youth and farmers; it’s currently composed of 7 members. The number was increased to 7 members in 2011 from 5 members for better representation, having expanded to neighbouring districts of Masaka, Bukomansimbi, Lyantonde and Lwengo.

MAMCOT has highly skilled, qualified and committed staff in all departments. It values capacity building and has supported the training of staff on the basis of needs related to their specific jobs within the SACCO.

The staff members are highly motivated by MAMCOT’s personnel policy which is dedicated to equal opportunity to all, high staff welfare standards which include performance-based pay.

The staff performance scheme is based on parameters with equal share amongst staff members - rewarding performance, delivery and outreach, growth and quality. These have boosted staff efforts and morale towards achieving set targets as a team. The results include growing membership, share capital, savings and a good quality loan portfolio. In addition the performance incentives scheme is seen by all the staff as being equitable and fair, emphasising team work especially when it comes to loan recovery in MAMCOT which is regarded and handled as BoD/staff member’s business. This explains the low staff turn-over since 2007 (only 2 staff have left MAMCOT since 2007). This has built a formidable bond of strong team spirit among the staff.

<table>
<thead>
<tr>
<th>Date</th>
<th>Type Of Loan</th>
<th>Amount UShs.M</th>
<th>Interest Rate %</th>
<th>Source of loan</th>
<th>Outstanding at Dec 2011 UShs.M</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mar. 2009</td>
<td>Agricultural</td>
<td>120</td>
<td>9</td>
<td>MSCL</td>
<td>15</td>
</tr>
<tr>
<td>Dec. 2009</td>
<td>Commercial</td>
<td>50</td>
<td>13</td>
<td>MSCL</td>
<td>0</td>
</tr>
<tr>
<td>Dec. 2010</td>
<td>Commercial</td>
<td>50</td>
<td>13</td>
<td>MSCL</td>
<td>37,069</td>
</tr>
<tr>
<td>Nov. 2011</td>
<td>Commercial</td>
<td>100</td>
<td>13</td>
<td>UCCFS</td>
<td>100</td>
</tr>
<tr>
<td>Dec. 2011</td>
<td>Agricultural</td>
<td>200</td>
<td>9</td>
<td>MSCL</td>
<td>200</td>
</tr>
<tr>
<td>TOTALS</td>
<td></td>
<td>520</td>
<td></td>
<td></td>
<td>352,069</td>
</tr>
</tbody>
</table>

Source: MAMCOT management and accounts reports as at 31st December 2011

Table 4: Mateete SACCO Loans from MSCL and from UCCFS

The staff members are highly motivated by MAMCOT’s personnel policy which is dedicated to equal opportunity to all, high staff welfare standards which include performance-based pay.

The staff performance scheme is based on parameters with equal share amongst staff members - rewarding performance, delivery and outreach, growth and quality. These have boosted staff efforts and morale towards achieving set targets as a team. The results include growing membership, share capital, savings and a good quality loan portfolio. In addition the performance incentives scheme is seen by all the staff as being equitable and fair, emphasising team work especially when it comes to loan recovery in MAMCOT which is regarded and handled as BoD/staff member’s business. This explains the low staff turn-over since 2007 (only 2 staff have left MAMCOT since 2007). This has built a formidable bond of strong team spirit among the staff.

<table>
<thead>
<tr>
<th>Year</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>No. of Staff</td>
<td>8</td>
<td>9</td>
<td>9</td>
<td>14</td>
<td>16</td>
</tr>
</tbody>
</table>

5 UCCFS is the Uganda Central Cooperative Financial Service, that operates the Central Finance Facility – see Article 6.2 in this Yearbook
Section 4: SACCO performance

Table 5: Financial highlights - Monetary values in UShs

<table>
<thead>
<tr>
<th>Item</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Membership</td>
<td>2260</td>
<td>2871</td>
<td>3697</td>
<td>4944</td>
</tr>
<tr>
<td>Saver</td>
<td>1590</td>
<td>2137</td>
<td>2946</td>
<td>4122</td>
</tr>
<tr>
<td>Savings</td>
<td>134,411,305</td>
<td>171,386,983</td>
<td>340,927,452</td>
<td>480,906,161</td>
</tr>
<tr>
<td>Share capital</td>
<td>174,127,700</td>
<td>238,007,700</td>
<td>311,682,700</td>
<td>400,740,000</td>
</tr>
<tr>
<td>Loan portfolio</td>
<td>305,846,569</td>
<td>536,373,230</td>
<td>738,030,473</td>
<td>1,025,494,657</td>
</tr>
<tr>
<td>Profits</td>
<td>46,069,756</td>
<td>47,755,296</td>
<td>72,524,359</td>
<td>120,828,440</td>
</tr>
<tr>
<td>Total Assets</td>
<td>439,369,604</td>
<td>769,756,079</td>
<td>1,045,718,469</td>
<td>1,580,428,529</td>
</tr>
<tr>
<td>Disbursements</td>
<td>866,450,000</td>
<td>1,223,750,000</td>
<td>1,495,915,000</td>
<td>2,245,930,000</td>
</tr>
</tbody>
</table>

Source: MAMCOT SACCO Accounting Records

Table 6: Loan Ageing as at 31st December 2011

<table>
<thead>
<tr>
<th>Ageing analysis</th>
<th>No.</th>
<th>Outstanding balance (UShs)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current loans (not yet due)</td>
<td>820</td>
<td>972,136,709</td>
</tr>
<tr>
<td>1-30 Days</td>
<td>60</td>
<td>42,071,668</td>
</tr>
<tr>
<td>31-60 Days</td>
<td>10</td>
<td>10,906,211</td>
</tr>
<tr>
<td>61-90 Days</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>91-180 Days</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>&gt;180 Days</td>
<td>1</td>
<td>380,069</td>
</tr>
<tr>
<td>TOTAL</td>
<td>1,260</td>
<td>1,025,494,657</td>
</tr>
</tbody>
</table>

Source: MAMCOT SACCO Accounting Records

Table 7: Loan portfolio performance

<table>
<thead>
<tr>
<th>Item</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>PAR&gt;1 day</td>
<td>34.8%</td>
<td>14%</td>
<td>8%</td>
<td>5.2%</td>
</tr>
<tr>
<td>PAR&gt;30 days</td>
<td>18.2%</td>
<td>7.8%</td>
<td>2.1%</td>
<td>1.1%</td>
</tr>
<tr>
<td>On time repayment rate</td>
<td>65.2%</td>
<td>73%</td>
<td>88%</td>
<td>93.5%</td>
</tr>
</tbody>
</table>

Source: MAMCOT SACCO Accounting Records

Section 5: Management Information Software

The good performance of MAMCOT as shown in the tables above can partly be attributed to the reliable MBWin software currently in use at the SACCO. MAMCOT acquired the MBWin software as a donation from GIZ – FSD Programme in November 2007 for the Mateete branch (head office) and in August 2009 for the Lwebitakuli branch. Initially, MAMCOT ran both the computerised system and the manual system concurrently until 2010 (for Mateete branch) when all the suspense accounts created during “take-on” were cleared and currently the branch is fully dependent on the computerised system (MBWin). It is envisaged that Lwebitakuli branch will hopefully have cleared their suspense accounts by December 2012. The third branch in Buyaga has also been computerised.

Mr. Kibuye George Wilson, the accountant of MAMCOT believes that computerization was a major turning point in the success story of MAMCOT, since then the PAR > 30Days has continued to fall from 18.2% in 2008 to 1.1% in 2011, loan repayment has also steadily improved from 65.2% in 2008 to 93.5% in 2011. However,
to further ease the work of the accountant, the MBWin software should be enhanced with the newly introduced branch consolidation module.

The loan tracking reports in the MBWin system have been of great help to the credit department as confirmed by Mr. Kainamura Elias, the senior loans officer at the head office, “This report helps me to identify loan installments falling due in a specified period of time, say one week, which reminds me to visit those clients or give them a call before their installments fall due reminding them of their forth-coming obligations”.

The computerised records provide quick access to clients’ information which greatly reduces the time spent by a client in carrying out a single transaction. This is highly appreciated by the staff and the members served; the records are easily accessible and accurate thus reducing the time spent on any given transaction.

The MBWin software makes it easy to identify mistakes/errors or intended fraud because once a transaction is entered into the system it cannot be erased and can easily be traced to the source. This reduces fraud tendencies.

The Staff of MAMCOT have confirmed that the MBWin system is user friendly as most of the transactions are guided, which reduces unnecessary errors. The reports (trial balances, balance sheet, income statements, general ledger, loan status, loan ageing, loan tracking, installment forecast report etc) are easily retrievable from the system. Additionally, daily cash balancing at close of day is far easier and takes less time compared to the manual system.

The MBWin system also keeps a record of loan clients’ previous repayment records which helps the loan officers to make an informed judgment when appraising such clients for subsequent loans.

**Challenges:**

However, MAMCOT still faces numerous challenges that affect its operations.

1. According to Ms. Naluwo Gorreth the credit supervisor, MAMCOT faces competition from credit giving NGOs for example, Sembabule District Farmers Association, Lutheran World Federation, informal money lenders and other microfinance institutions. However, most of these entities charge high interest rates. Therefore, MAMCOT has a challenge to offer a big range of products so as to retain the current members as well as attract new ones.

2. Diversion of loan funds is another challenge. Some borrowers tend to use loans for purposes not meant for the loan, resulting sometimes in delinquency. This is mitigated by offering training to prospective borrowers before disbursement of loans.

3. Poor microfinance practices among competitors have also posed a risk to the operations of MAMCOT, for example recently Taala ya Mawogola SACCO which is approximately 200 metres from MAMCOT head office in Mateete Town Council was temporarily closed due to mismanagement of member funds, Victoria Basin Savings and Microfinance Cooperative Trust closed the Lyantonde branch, to mention but a few. This has created fear and mistrust regarding SACCOs among members of the public, thus negatively affecting MAMCOT.

4. Unsatisfactory repayment rate (given that the industrial benchmark is 95% compared to MAMCOT’s 93%) as a result of changes in weather since MAMCOT’s biggest percentage of the loan portfolio lies in agriculture (53.7%).
Based on the fact that Sembabule district falls in the dry Ankole corridor, farmers in most cases are faced with prolonged drought and sometimes extremely heavy rains which lead to flooding.

5. Additionally, farmers may fail to get ready market for their produce coupled with price fluctuations leading to default. Despite this difficulty, MAMCOT is successfully instilling the culture of zero tolerance to default in its staff and members. During pre-loan disbursement trainings, members are advised to start up or have other businesses that can finance the loan, other than the business to be financed by the loan, to mitigate default.

6. Multiple borrowing and forgery have also affected the SACCO to some extent. Sometimes borrowers forge signatures of guarantors and this requires a lot of effort from the loans officers to ensure that this does not happen as it would affect the performance of the SACCO.

7. Insufficient loanable funds are another challenge. MAMCOT receives many applications that cannot be handled within the time frame of members’ needs.

8. The inclusion rate for female clients still leaves scope for improvement. There is need to implement a loan product that is specifically for women, as developed by MSCL. This is a purely women loans product and involves women in groups of 10 – 20. The loan is designed to be flexible, but is designed with tight risk control features.6

External borrowing

1. Due to the high and ever increasing demand for credit, MAMCOT continues to dedicate considerable efforts to build a dependable share capital base. The fruits of these efforts are tangible having attained a 400M share capital mark as at 31st December 2011. However the demand for loanable funds has exceeded the available capital, leading to acquisition of loans from both Microfinance Centre Limited (MSCL) and Uganda Central Cooperative Financial Services Limited (UCCFS) to bridge the gap.

2. The abrupt temporary closure of Taala ya Mawogola SACCO created a lot of fear in the community affecting the liquidity position of MAMCOT SACCO as some members withdrew their savings. MAMCOT SACCO had no option but to seek significant external funds from MSCL in December 2011, as shown in Table 4 above.

3. The loan facilities acquired have greatly helped MAMCOT meet their members’ credit needs. This has been eased by dedicated and experienced Board members and management, good book keeping by the SACCO, and an outstanding loan portfolio performance which has enabled them to access loanable funds whenever the need arises.

4. However the SACCO still faces a problem of high interest rates on the borrowed funds which in turn means high interest rates charged to borrowing members.

In conclusion, through Board and staff commitment, SACCOs, if well governed and managed on the basis of the core cooperative principles, can stand the test of time and contribute to the growth of the financial sector in Uganda.

6 Editors’ Note: A number of other support agencies also design and promote loans specifically targeted to women borrowers. Among these are: UCA, GIZ/FSD Programme, Mountains of the Moon University etc.
5.2 SACCOs and MFIs: How a Focus on Gender Can Improve SACCOs’ Services to their Members

Ugandan SACCOs are generally in poor shape. Required remedies are varied. This article describes one basic but often over-looked approach to improving both SACCOs and the communities they are intended to serve.

Section 1: Gender (in)equality in SACCOs and in Ugandan society

SACCOs are usually created in order to ease the access to affordable financial services for people in rural communities and thereby to contribute to the improvement of their lives. By definition, a “community” consists of men, women and children. However, when looking at the representation of men and women on membership, governance and management levels of Ugandan SACCOs, one can hardly ever find more than 30 percent of women on any of the three levels. This is usually due to a combination of reasons - some of them inherent to the institution (such as SACCO products, policies and procedures which exclude women or make SACCOs unattractive to them), some of them anchored in the communities (such as

Author: Lisa Peterlechner, GIZ FSD Programme, Bank of Uganda
gender division of roles at family level that assigns financial management to men).

This imbalance is not unique to SACCOs and is reflected in other areas of Ugandan society. Despite the fact that Uganda is doing well on gender equality in a worldwide comparison, Ugandan women are still underrepresented on executive, judiciary and legislative levels and are thus less involved in decision making processes. For instance, of all Ugandan ministerial positions, 27 percent are held by women, 73 percent are held by men; of all Ugandan judges, 17 percent are women, 83 percent are men; of all Ugandan legislators, 34 percent are women, 66 percent are men. Women in Uganda moreover own and access fewer resources. For instance, they hold only 7 percent of registered land in Uganda while men hold 93 percent. Despite the fact that they work between 12 and 18 hours a day, compared to 8 to 10 hours for men, they earn around 31 percent less than men. Finally, 70 percent of agricultural labour is being done by Ugandan women, while 70 percent of decisions concerning marketing crops are done by Ugandan men.

Section 2: Gender equality and its relevance to society

Neglecting women in the access to and control over resources has generally been recognised to have a negative impact not only on the condition and advancement of women but on society as a whole. Focus has thus been put on gender equality, the equality between men and women. This entails the concept that “all human beings, both men and women, are free to develop their personal abilities and make choices without the limitations set by stereotypes, rigid gender roles and prejudices. Gender equality means that the different behaviour, aspirations and needs of women and men are considered, valued and favoured equally. It does not mean that women and men have to become the same, but that their rights, responsibilities and opportunities will not depend on whether they are born male or female.”

Different rationales support the idea of gender equality. Firstly, gender equality can be considered as a Human Right. All human beings, i.e. men and women, are entitled to equal rights and protections, and to a live in dignity, free from discrimination. Secondly, it has been found that gender equality contributes to economic development. Worldwide, countries with greater gender equality tend to have lower poverty and mortality rates. In the case of Uganda, it is suggested that if gender inequalities were removed, the GDP growth rate would increase by an estimated 2 percent.

The most widely spread strategy to reach gender equality is gender mainstreaming. “Gender mainstreaming is the process of assessing the implications for women and men for any planned action. It is a strategy for taking into account women’s and men’s concerns and experiences in the design, implementation, monitoring and evaluation of policies and programs so that women and men benefit equally. The ultimate goal is to achieve gender equality.”

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2 On the Global Gender Gap Index 2010, Uganda figures on rank 33 out of 134, before countries like Kenya (rank 96) or even France (rank 46).
3 Parliament of Uganda website: www.parliament.go.ug
4 Judiciary of Uganda website: www.judicature.go.ug
5 Parliament of Uganda website: www.parliament.go.ug
8 To put this in context, the estimated economic growth rate for Uganda in 2010 was 5.2%, so a 2% increase in growth rate in reality is a very substantial improvement. (Source CIA World Factbook, Jan 2012)
9 Gender and Growth Assessment for Uganda; A Gender Perspective on Legal and Administrative Barriers to Investment, International Finance Corporation and the World Bank, 2005
10 Agreed Conclusions on Gender Mainstreaming, ECOSOC, 1997.
Gender, gender equality and gender mainstreaming is thus, contrary to common perception, not about women only. If it is true that women have, in many areas, been the disadvantaged sex, and special focus thus needs to be placed on their needs, it would be counterproductive to thereby neglect the needs of men. For instance, women-only targeted microfinance programmes may be justified as a positive measure to bridge a major gender gap. However, one must keep in mind the possible perverse effect if men are excluded from such programmes, such as hijacking loans by men, household violence, and/or delegation of income responsibilities from men to women. Gender based interventions thus ideally target men and women,11 keeping in mind their different needs and priorities.

Section 3: Gender equality and its relevance to SACCOs

Benefits to SACCOs

If gender mainstreaming is important for society in general, it is equally important for SACCOs. Gender mainstreaming benefits SACCOs on different levels:

- Opening up for women at Board level allows for a better representation of the membership.
- Opening up for women on management and staff level allows SACCOs to tap into a bigger pool of qualified human resources.
- Having both men and women in management and staff allows better taking into account the needs of men and women in SACCO products, procedures and policies.
- Developing financial products which correspond to the needs of both men and women will be used by more people, increasing the turnover of the SACCO.
- Adapting procedures that are equally favourable for both men and women eases access to SACCO services and tends to increase membership.
- Targeting men and women effectively in mobilisation campaigns will attract more members and lead to growth of the SACCO.
- SACCOs which target men and women and offer services which respond more closely to their needs and contribute more effectively to local economic development (which is the mission of many SACCOs).

Moreover, some SACCOs report an improvement in their financial results when increasing their female participation as women are said to be more reliable in paying back loans and also demonstrate better saving performance (which decreases the cost for loanable funds).

Gender gaps in SACCOs and their reasons

In order for a SACCO to “Gender mainstream” its operations, it first needs to identify its gender gaps and think about how to best address them. A study carried out by the GIZ FSD Programme in 2009 and 2010 within its then 8 partner SACCOs tried to identify gender gaps within these SACCOs,
identify possible reasons for these imbalances and suggest possible solutions for them.

The findings indicated that at the membership level, females accounted for less than 30 percent of the individual members except in two of the examined SACCOs. Individual females accounted for less than 30 percent of the savings portfolio in almost all the SACCOs. All SACCOs, except for one, had less than 25 percent of their borrowers being females with individual accounts. In all SACCOs, the outstanding loan portfolio by females was less than 23 percent.

Barriers for female participation at the membership level included:

- gender division of roles at family level that assigns financial management to men;
- male domination and over-control of women, denying them freedom to make income choices or open accounts;
- spousal interference of men in women's income generating activities that drives women to hide their financial dealings by avoiding the use of SACCOs;
- women's lack of property rights hindering them from borrowing due to lack of collateral;
- inadequate understanding of SACCOs by women;
- products, policies and procedures that exclude women or make SACCOs unattractive to them;
- fear and mistrust of SACCOs by women due to illiteracy and low self esteem;
- lack of business skills among women.

At the governance level, only one SACCO had a female board chairperson, and only two had female treasurers. No more than three out of the eight examined SACCOs met the minimum requirement of at least one third female board members stated in the bylaws. Barriers for female participation and influence on the board included:

- women being a minority at membership level;
- negative stereotypes about women's ability to lead;
- low self esteem due to poor level of education;
- lack of leadership skills.

At the management level, only one SACCO had a female overall manager, and none had female credit officers. Women mostly held the lowest positions like SACCO assistants, cashiers, and support staff. Barriers to their participation in management and credit officer positions included:

- low levels of education;
- lack of relevant skills;
- negative stereotypes about women's ability to effectively hold management and credit officer positions.

Recommendations towards increased gender equality in SACCOs

The study provides a set of recommendations, addressing gender mainstreaming in SACCOs in line with the Uganda Gender Policy (2007) and targeted measures for women's empowerment. Four areas of intervention were recommended:

Firstly, SACCOs need to gender mainstream their operations, which includes the integration of
of gender issues into their strategic and business plans, the generation of gender-disaggregated data, as well as the development of gender-sensitive indicators, gender responsive budgets and monitoring and evaluation frameworks. In order to do so successfully, political will needs to be created through the provision of gender trainings to SACCO staff, management and board.

Secondly, in order to increase women’s participation at membership level, SACCOs could intervene in a number of ways. To overcome obstacles arising out of patriarchy, men should be engaged, for example through a media campaign where men talk about the benefits of living with financially empowered women. To attract more women to SACCOs, women-friendly financial products can be developed, female board members can be deployed to mobilize and sensitize fellow women, and staff can be trained in customer services to make the SACCO environment friendly for women. Moreover, it should be ensured that financial literacy programmes are gender sensitive and reach rural women as well as men.

Thirdly, for increasing women’s participation at governance level, awareness and confidence building of women, leadership trainings for women, and exposure visits to other SACCOs with strong female board members were recommended. Also, board operational procedures such as frequency, timing and venue of board meetings could be changed in order to make them suitable for women in line with their reproductive roles.

Lastly, women’s participation at the operational level, especially in management and as credit officers, could be increased through advanced trainings for promising female staff and through better linking of female microfinance students to microfinance institutions.

Section 4: Gender mainstreaming in SACCOs – a pilot experience

Based on the recommendations of the study, the GIZ FSD programme, together with its partners\(^{12}\), developed a strategy with the objective to increase gender equality among SACCOs. In order to test the recommendations first, the programme identified a limited number of partners and activities for a pilot project. Taking into account budget- and time limitations, as well as strengths and weaknesses of partner organisations, it was decided to focus on the institutionalisation of gender within the SACCOs and on activities which aim at increasing the female membership of the SACCOs as two first essential steps towards increased gender equality within SACCOs. The following activities were carried out:

1) **Gender training (expected short term outcome: SACCO board and management are sensitized towards gender issues):** UCA carried out gender trainings for board and staff members in the three pilot SACCOs. The trainings were preceded by a training needs analysis. The objective of the trainings was to equip SACCO officials and members with knowledge and skills to enhance their understanding of the role of gender in SACCO activities; to establish a common understanding of key gender concepts and issues in the development context, and to equip SACCO officials with knowledge on how to mainstream gender within their institutions.

2) **Gender audits and policy (expected short term outcome: SACCOs have a gender policy which is used and applied):** Gender gaps within the institutional framework of the SACCOs were identified through discussions with the board members, management and selected members as well as a review of...
relevant documents. Based on this analysis, elements for a policy were proposed to the SACCOs for their review, approval by the board and dissemination. The policy includes statements on the following key areas: Gender mainstreaming, women empowerment, leadership and management gender expertise, sex disaggregated data, decision making and power, information and knowledge on gender, sexual harassment, education and training and networking with gender related institutions.

3) Gender sensitive communications and mobilisation strategy (expected short term outcome: women are consciously targeted in mobilisation campaigns): AMFIU facilitated one day workshops for the three pilot SACCOs in order to improve their communication and mobilisation strategy so as to more effectively target men and women. Different channels and messages which target men and women were identified and discussed. Channels identified included radio programmes and spots, sensitization of organized groups in the community, and the use of local council strategies.

4) Targeting behavioural change through radio campaigns (expected short term outcome: more women are willing to join SACCOs, more men are in favour of their
women joining SACCOs): One of the issues identified during the gender study was the power relationship between men and women and the refusal of many men to have their wives join a SACCO. AMFIU was thus tasked to develop a radio campaign together with MAMIDECOT SACCO13. The objective was to initiate behaviour changes of men and women as they realize the benefits of women accessing services from a SACCO. Radio spots were developed with the support of a communication expert, translated into Luganda, tested within the SACCO and aired out over a period of six weeks, seven days a week, three times a day.

5) Training of Trainers for the training of savings groups (expected short term outcome: women are trained in savings and loan associations and thereby enabled to join SACCOs): Many people and especially women are not able to join a SACCO as they lack basic financial literacy skills and particularly the knowledge and understanding of savings and loans. Thus, UWT was tasked to train five community based facilitators per SACCO who would then mobilize and train groups within the SACCOs’ operational areas and eventually link the groups to the SACCOs.

The pilot was implemented during the first two quarters of 2011 and evaluated in the third and fourth quarters. The evaluation drew on monitoring reports provided by implementing partners, field visits to the three pilot SACCOs and an evaluation workshop with key stakeholders. During the evaluation, not all of the short term outcomes could be effectively measured as the evaluation tools did not extend to men and women within the communities. However, as the SACCOs are in very close contact with the community members, their responses were used as a proxy.

Long term outcome: Increase in female participation

The project was designed in the understanding that the expected outcome could be found in the long term only. For most changes observed, it is important to note that they cannot be fully attributed to the pilot interventions. All SACCOs operate in a multi-partner environment where they engage in different projects simultaneously.

- All SACCOs now respect the 1/3 women quota on their board, i.e. they all have three female board members (out of nine). The chairperson of all three SACCOs is male, whereas the vice chairperson is female. Moreover, women are represented on all major committees. This represents an increase in female participation on board level, as at the time of the gender study, two out of the three SACCOs had only two female board members.

- On management and staff level, no significant changes could be observed.

- On a membership level, SACCO managers, board and staff members all reported an important increase in female membership during and after the interventions. When analyzing the data from the SACCOs, this increase could only be confirmed for group accounts. As the majority of group members were usually women, there was indeed a certain increase in female membership which could be directly attributed to the project. At least 500 women and 370 men have joined the SACCOs via a group as a direct consequence of the intervention14. When looking at individual accounts, the proportion of new female members as compared to new male members seemed to be slightly increasing.

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13 Due to budgetary reasons, this activity could only be conducted with one of the pilot SACCOs.
14 Here, only groups which have been mobilized and trained by community based facilitators belonging to the project, and which have then been linked to the SACCOs, have been taken into account. Thus, a direct attribution to the project is possible.
Short term outcomes

SACCO Board and management are sensitized towards gender issues: During the key informant interviews with SACCO board and management, all of those interviewed clearly pronounced themselves in favour of increased female participation within their SACCO. All of them were aware of the fact that women are disadvantaged. Sam Kahindi, chairman of Muhame SACCO stated: "Women are more involved in economic activities but are less appreciated. The fruits of their labour feed the men more than themselves". Moreover, all of them were in a position to bring forward arguments as to why increased female membership is necessary and would benefit the SACCO. To the question why there should be a specific focus on women, Jason Katobe, branch manager of Kaberebere branch, Muhame SACCO, responded: "Most of the women don't default; even if the repayment is late, they will communicate; women are good savers and good at mobilising other members".

SACCOs have a gender policy which is used and applied: The SACCO's now all have a gender policy. However, at the time of the evaluation, it was only partially applied.

Women are consciously targeted in mobilisation campaigns: As a consequence of the gender training and the communication strategy workshop, SACCO board and management describe themselves now as dedicated to the mobilisation of men and women.

More women are willing to join SACCOs, more men are in favour of their women joining SACCOs: Some of the interviewed have observed a more favourable response of men towards women who want to join a SACCO and actively engage in it.

Women are trained in savings and loan associations and thereby enabled to join SACCOs: More than 900 women and 300 men have been trained in basic savings and loan methodologies and more than 500 women and 370 men have joined the SACCO via a group account.

“Positive externality”: Even if this was not an explicit intention of the pilot project, the gender training seemed to have opened the eyes of the SACCO leaders for other vulnerable groups like disabled people. Iceme SACCO, for instance, has decided to provide for a representative of the disabled community on the board.

Challenges

Complexity of the project: The design of the project was too complex in terms of implementing partners (three implementing partners) and activities. This led to some overlaps and communication problems.

Short timeframe: Awareness creation and especially behavioural change require a lot of time. The timeframe for the pilot project (six months) was too short in this respect.

Lack of ownership and involvement of SACCOs: Despite the fact that the SACCO managers were involved in the process right from the beginning on, they sometimes did not feel as the rightful owners of the project. Especially in the detailed planning and implementation of activities they were not sufficiently considered. (This was partially also due to the complexity of the project.) In consequence, lack of commitment from their side could be occasionally observed.

Different SACCO contexts: The three pilot SACCOs were very different in terms of size, structure, foreknowledge of gender issues, etc.
This was not sufficiently taken into account in the design phase. Already existing knowledge and structures could have been put into better use.

**Recommendations**

**Ensure clarity** of responsibilities between the implementing organisation and SACCOs through:
- alignment of strategic plans of funding, implementing and benefitting partners;
- improved communication between implementing organisation(s) and SACCOs especially through stronger engagement of field officers;
- intensive, constant and continuous involvement and engagement of SACCO managers;
- cost-sharing;
- designation of a gender focal person per SACCO.

**Simplify the project design** by:
- having only one implementing partner in order to avoid conflicting timelines, unclear responsibilities, a multitude of contact persons, overlapping activities;
- combining similar activities, e.g. instead of having an initial study, a training needs analysis and a gender audit, one comprehensive baseline survey should be conducted in each of the participating SACCOs, pointing out the gender issues and needs. This survey would inform about the training (training needs), the policy (gender audit) and provide baseline data for effective monitoring;
- Applying the principle of subsidiarity: For each activity, it first needs to be checked if the SACCO could implement the activity on its own – at a lower cost. Only if this is not the case, funding / support from the implementing partner should be provided. For instance, radio campaigns can be implemented by the SACCOs with possible financial support provided by the implementing partner/ funder.

**Monitoring and evaluation:** Indicators should be agreed during a joint planning exercise with the SACCO (can be part of the training). This joint planning exercise would allow the SACCO to set its priorities, and all partners to work towards joint objectives.

**Inclusion of youth and young adults:** Gender mainstreaming is targeted towards taking into account the differences between men and women. However, wherever appropriate, young men and women can also be specifically targeted by the interventions.

**Section 5: The Way forward**

Based on the findings of the evaluation, i.e. the best practices and lessons learnt from the pilot, a scaled-up project was designed, to be implemented by UCA and funded by aBi Trust and the GIZ FSD programme.

A nationwide call for expression of interest was organized for which any SACCOs either member of UCA or partner of the GIZ FSD programme\(^\text{15}\) with a membership beyond 1000 members and a sincere motivation for gender mainstreaming as well as a willingness to contribute from their own resources could apply. Implementation of the scaled-up project will start in the 2nd quarter 2012 and will be organized in two phases. During the first phase:

1. Each of the participating SACCO will sign a MoU with UCA.
2. UCA will train a gender focal point in each SACCO who will work alongside the UCA field officer and the SACCO manager.

\(^{15}\) At the time of writing (February 2012) this is still under consideration
3. UCA will conduct a baseline survey in each SACCO (combining gender audit, training needs analysis and baseline).

4. A two-day gender training for SACCO staff and board will be organized during which participants will be introduced to gender and its relevance for SACCOs and work on identifying the gender gaps within their own SACCO.

5. A mystery shopper will come to each of the SACCOs to observe the work environment there and give recommendations on how to render the work environment more women-friendly.

6. In a one day workshop, the sample gender policy (already developed during the pilot) will be refined according to the specificities of each SACCO and further actions will be planned together with the SACCO.

Activities of the second phase are optional and depend on the outcome of the action planning at the end of phase one:

1. Advise on the revision of membership requirements.

2. Advise on affirmative action for recruitment of new staff members.

3. Support the revision of SACCOs’ mobilisation and communication strategy.

4. Train community based facilitators who mobilize and train groups in basic savings and lending methodology, explain SACCO procedures and products including relevant gender aspects.

5. Support the development of gender sensitive products.

6. Talk on governance before the elections at the annual general meeting.

7. Support the implementation of radio programmes focusing on behavioural change.

8. Organise an exchange visit to a model SACCO within Uganda.

All activities will be thoroughly monitored and an evaluation is to take place at the end of the project, whereby the best performing SACCO is to receive an award for its efforts.

Through this scale-up, it is hoped to extend gender mainstreaming to a majority of big SACCOs in Uganda and thereby improve their services for the communities in which they operate.
Section 1: What is a Savings Group?

Savings Groups (SGs) or Village Saving and Loan Associations (VSLAs) are self-selected groups of fifteen to thirty people who come together on a regular basis—usually weekly, fortnightly or monthly—to save and to borrow.

Many traditional groups do this also. Savings Groups, technically “time-bound distributing ASCAs”\(^1\), are distinguished by the following additional characteristics:

- They are often trained over a period of about a year in specific procedures for managing their meetings and keeping their funds secure by a **facilitating agency**, usually a local or international NGO.
- They use a **share system**, in which members can save up to five times a minimum amount set by the group. For instance, if the minimum

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1 Authors: Paul Rippey and Grace Majara
2 The term “Savings Group” was adopted as a generic term by industry consensus in 2010 to include all the various forms and brand names used to refer to time-bound distributing ASCAs. Some of the terms commonly used are Village Saving and Loan Association, or VSLA, used by CARE and Plan International in many countries, and sometimes shortened to SLA or VSL; Saving and Internal Lending Communities, or SILCs, used by CRS worldwide; Community Based Saving Groups, or CBSGs, used by Aga Khan Foundation worldwide; Community Saving Groups (CSG), widely used by all agencies in Kenya; and Saving for Change Groups, used by Oxfam and its affiliates.
3 ASCA is the acronym used for an accumulating savings and credit association.
amount is UShs 200, the members could save 200, 400, 600, 800, or 1000, but would not be allowed to save UShs 370. The share system helps facilitate bookkeeping for non-professional bookkeepers, and reduces errors. Having a maximum amount reduces the chance of dominance by members with the capacity to save more.

- Because the interest on the loans is returned to the members, it allows their loan fund to grow and members earn a substantial premium on their savings.

- All members witness every transaction in the meetings to the extent possible. Meetings are guided by agreed upon orderly procedures, usually with contributions to a welfare fund first, then savings, loan repayments, followed by lending.

- Members also reserve time for other activities, including addressing local social problems, resolving any conflicts within the group, and periodic elections.

- Groups are very transparent. All records and excess funds are kept in a lock box with three locks, and three separate members, chosen by the group, each keeping one of the keys. The box can only be opened in the meeting in front of all members by the three key keepers. This assures members that no one has conducted any transaction, or changed any recorded transaction, unless the entire group has witnessed it.

- Management serves the interest of members. Groups provide strong social support to save regularly, and to repay loans on time. However, members understand that it may be their fate to encounter difficulties in future, so they will allow members with a serious social problem some flexibility in loan repayment. In general, SGs have avoided both the massive defaults and the harsh repayment enforcement methods that have plagued other forms of financial services.

- Members can borrow from the group funds. All loans are approved by consensus or majority, and are made at an interest rate set by the group, usually 5 or 10 percent per month. Loans are for a short period, one to three months. Members will not approve loans if there are good reasons to think that the loan is not safe, or not in the interest of the member or of the group. A member in need of a loan is given a maximum of three times his or her savings to minimize the risk of failure to pay back the loan.

- About once per year, on a date chosen by the group, there is a share-out or distribution of all funds belonging to the group, with each member receiving her or his savings, plus a proportional share of any interest earned. The distribution is sometimes called the "action audit" because it is an opportunity to resolve any dispute, and verify that the savings of
members are intact in the form of physical money that they hold in their hands. Members also use the action audit to assess leadership performance and review group operations, including internal rules and regulations, the share value, interest rate and membership.

Savings Groups have grown very fast in the last five years, in large part because of the interest of donors who see them as a way of bringing financial services to people who otherwise cannot be reached. While Savings Groups are found primarily across Africa, they are spreading to Latin America, Asia, with even a small number of groups in Europe. There are now known to be about five million members in Africa, but many more groups probably exist, formed by members themselves, who share the approach with their relatives and neighbours.

Members report that one of the things they like best about savings groups is the savings discipline; peer pressure forces members to work hard and get money to save at least the minimum amount set by the group. They use their savings and loans for productive activities; for “income smoothing” – that is, helping them get through difficult seasons; or for health or other emergencies. The lump sums that they receive from both savings and loans enable members to take advantage of investment opportunities or to ease their insecurity and stress. In either case, they help increase family stability and security, creating the conditions through which farmers have the courage and willingness to invest in agriculture.

In Uganda SGs experience builds on traditional savings practices. SGs are known as Kalulu/ kilimba/bolicup in Northern Uganda, kweterekera in Central and Yahura/biika o’yeguze/o’yehore in the West. The VSLA model in Uganda dates back to 1998 with a pilot project in Arua district, West Nile region by CARE International. Besides CARE Uganda, Savings Groups are currently being promoted by a number of development agencies, both International NGOs (CRS, PLAN, PACT, World Vision, Child Fund, Danish Church Aid, GOAL, IRC among others), national NGOs (UWESO and NUDIPU) and district level NGOs and CBOs covering all the regions in Uganda. The implementing agencies report having formed 22,106 savings groups in Uganda, with 598,878 members.

The VSLA model was introduced in Uganda in response to the gaps that exist within the financial sector in the rural and marginalized parts of the country. The gaps result from: the difficulties and cost in taking financial services to poor and remote communities; the inconvenience, distance, and fees involved in working with other financial service providers; the emphasis of banks and MFIs on credit as opposed to savings, exposing the poor to greater risks and expense; and the need for collateral that poor people do not have.

Savings Groups focus on savings, asset building and the provision of credit proportional to the needs and repayment capacities of the borrowers. Groups are low-cost and simple to manage. Some members move on from SGs to formal and wider financial services, while others abandon other institutions in favour of Savings Groups. Many people use multiple financial services, including savings groups. Over time, VSLAs have proved their effectiveness in improving self-respect of individual members and helping to build up social capital within communities, particularly among women.

Section 2: Target membership

VSLAs are able to serve households in remote rural areas with low and irregular income, whose main economic activity is agriculture. Members of these households want to amass lump sums for
investments and emergencies, and so they need access to financial services, but the transactions they require are too small to make them attractive customers for Savings and Credit Cooperatives (SACCOs) or for formal financial institutions. VSLA members are predominantly women; existing VSLAs\(^4\) have a ratio of female to male members of 7:3. This is important because women are thought to constitute about 70 percent of the agricultural workforce. Through VSLAs, these women access financial services for their first time; some have built up their assets enough to be attractive clients for SACCOs, MFIs and banks. However, the 30 percent of VSLA members who are male are also an important group of people – about 180,000 men, also overwhelmingly farmers.

Section 3: Use of loans and share-outs

Loans

CARE reports that some of the common enterprises that VSLA members finance with their loans are investment in agricultural production, selling and buying of seasonal agricultural produce, operating stalls with merchandise and food stuffs in local markets, retail kiosks, operating small eating houses located at the trading centres, and road side businesses like frying snacks (pancakes, cassava chips etc.). Interest on VSLA loans ranges from 5 to 10 percent and it is payable on a monthly basis i.e. after every 4 weeks.

Interest earned on loans forms part of the profit that is shared out by the members at the end of the cycle. VSLA members indicate that some of the common uses of the share out include:

- acquisition of assets like land, bicycles, mobile phones, ox ploughs;
- construction and renovation of houses;
- start up or diversification of business enterprises;
- acquisition of household utensils like furniture, cups, plates, saucepans, mattresses and blankets;
- payment of school fees.

Uganda has had one of the first rigorous evaluations ever done of the impact of VSLAs. The study\(^5\) was conducted by the American firm, Innovations for Poverty Action (IPA), and consisted of a randomized control test, in which – through the agreement of the various VSLA training agencies – some parishes or clusters of parishes were chosen at random in Kumi, Bukedea, Kamuli, Kamwenge, Kanungu, Rukungiri and Bushenyi Districts to receive VSLA training, while others were temporarily excluded from training. In this respect, the study resembled the rigorous testing that is done for new drugs or medical protocols, such as prevention or treatment of HIV/AIDS.

The study found that the median weekly savings contribution is UShs 2000, and that almost all

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\(^4\) i.e. those established under the CARE FSDU-funded project (2006-2007)

\(^5\) Information from this as yet unpublished study presented here is from "Impact of Village Savings and Lending Associations: Preliminary Findings from Uganda", a slide presentation given at the Arusha Savings Group Summit, October 4-6 2011, Arusha Tanzania, and kindly made available by Thuysbaert, Bram and Savonitto, Benni.
of the members (89 percent) had borrowed at least once. The median loan amount UShs is 40,000, and the principal uses of loans were as set out in Table 1:

Table 1: Uses of loans by VSLA members

<table>
<thead>
<tr>
<th>Female Adults</th>
<th>Male Adults</th>
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<tbody>
<tr>
<td></td>
<td>Education</td>
</tr>
<tr>
<td></td>
<td>Health</td>
</tr>
<tr>
<td></td>
<td>Agricultural Spending</td>
</tr>
<tr>
<td></td>
<td>Commerce/Enterprise</td>
</tr>
<tr>
<td></td>
<td>Debts Reimbursement</td>
</tr>
</tbody>
</table>

| Education | 27 % |
| Health    | 19%  |
| Agricultural Spending | 12% |
| Commerce/Enterprise | 9% |
| Debts Reimbursement  | 9%   |

The study revealed that some 55 percent of members had received a share-out. The main uses of the share-out are set out in Table 2.

Table 2: Uses of share-outs by VSLA members

<table>
<thead>
<tr>
<th>Female Adults</th>
<th>Male Adults</th>
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<tbody>
<tr>
<td></td>
<td>Livestock</td>
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<tr>
<td></td>
<td>Food Consumption</td>
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<tr>
<td></td>
<td>Education</td>
</tr>
<tr>
<td></td>
<td>Commerce/Enterprise</td>
</tr>
<tr>
<td></td>
<td>Housework/repairs</td>
</tr>
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</table>

| Education | 18% |
| Livestock | 17% |
| Food Consumption | 13% |
| Housework/repairs | 12% |
| Commerce/Enterprise | 9% |

Share-outs

The share-out, being based on the member’s savings, is liquidity without the disadvantages of a loan. A loan is a lump sum that must be repaid in a specified period of time; the share-out is an asset, which does not need to be repaid. The share-out, therefore, is better suited to investment in agriculture or other productive activities, especially those with a long business cycle or an uncertain cash flow.

Section 4: Sustainability

VSLAs are formed against a firm foundation of self selection, training, constant supervision and quality control by implementing agencies. All these create a favourable ground for high performance in terms of savings and loans. Average annualized return on savings among VSLAs in Uganda is 63 percent, which is high compared to other African countries and presumably indicates good training by the facilitating agencies, and good commitment by the groups themselves. Average annualized savings per member in Uganda are $48.

Savings Groups have a very low failure rate, and in fact tend to grow spontaneously after the facilitating agency has moved on. The most authoritative research in this area is the panel study of 400 groups in six countries being conducted by VSL Associates with support from the Bill and Melinda Gates Foundation. In this study of 332 randomly selected groups mobilized in the last quarter of 2009, the groups are monitored yearly to measure key indicators including membership, savings and lending. In the first two years of the study, survival rate is 98 percent i.e. out of the 332 VSLAs monitored, only six have dissolved. During the same period, total membership in the groups has risen from 7261 to 7621, total savings from USD 182,589 to 251,933, and the average outstanding loan size from USD 36.30 to 43.10. The findings indicate that although a small

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number of groups break up, most groups grow stronger, and overall access to financial services through Savings Groups increases, as they add new members.

Section 5: Impact

The IPA study mentioned above provides Uganda with some of the most reliable preliminary data on impact.

Not surprisingly, the study showed little measurable impact from the presence of VSLAs. The study covered only two years, 2009-2011, and thus looks at very short term results; some VSLA experts, notably Hugh Allen, argue that results only begin to be apparent in the third year of VSLA membership, after groups have mastered procedures in the first year, and built their confidence and savings in the second year.

However, other studies and much anecdotal information suggest that VSLAs have positive and cumulative impacts at both individual and household levels. These include:

- changes in lifestyle (nutrition, clothing, housing);
- joint decision making among married couples;
- increased appreciation for the values of hard work and shared responsibilities;
- reduced gender based violence;
- increased control by women of household assets and resources;
- women’s self-esteem enhancement and improved uptake of leadership roles, by women, in the communities;

Finally, VSLAs can multiply their impact by serving as a platform for other development interventions, because they impact large numbers of hard-to-reach people, are easy to find, are disciplined, organized, transparent and punctual. Also, there are bonds of trust between the facilitating agency and the VSLAs, so the members are receptive to new messages.

For all these reasons, facilitating agencies are using their groups for other development activities. For instance, Uganda Women’s Effort to Save Orphans

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8 Editors’ Note: This view deserves to be better known and appreciated than is believed to be the case. The principle, of course, applies to many development initiatives and models. It should prompt governments and development agencies to avoid looking solely for quick-fix results.
(UWESO), with over 50,000 VSLA members in 38 districts, regularly introduces other development initiatives to their groups, including adult literacy, water tanks, agriculture, health screening, and promotion of solar-powered lamps. Other local NGOs around Africa do the same. Because of the interest in using VSLAs as a platform for other activities, the Aga Khan Foundation launched a learning initiative to discover the principles and practices that could make such linkages safe and beneficial. The learning initiative conducted ten studies and desk reviews, and culminated in a study\textsuperscript{9} which points to the dangers in financial linkages in which the group’s savings are placed at risk. It concludes that other sorts of linkages can be successful if certain good practices are observed.

**Section 6: Financial inclusion**

Savings Groups were originally envisioned as an affordable way of bringing financial services to poor, remote populations. At a cost-per-member often under 20 dollars, they compare favourably with the costs of creating other forms of financial services. However, savings groups are more than simply a way of reaching the hard-to-reach; in fact, they become permanent village institutions valued by members.

The 2009 FinAccess study\textsuperscript{10} in Kenya showed that about a quarter (26.8 percent) of people who used financial services used only informal mechanisms. However, almost another quarter (23.3 percent) use informal services in addition to formal and semi-formal services. Growth in the informal sector is strong in areas that are served by banks, MFIs and SACCOs as well as in unserved areas. Not surprisingly, people want access to more than one form of financial service. The same study showed that more than half of respondents gave as their principal reason for being in an informal group, that it gave them the “strength to save”.

Savings Groups meet the needs of proximity, high return on investment, flexibility, transparency, and social support to save regularly. Other sorts of institution may provide other desired services, in which case members are likely to use both institutions, rather than choose only one. One researcher\textsuperscript{11} found that “... informal groups and formal financial institutions are not simply substitutes for each other, but that clients value both, and that these different institutional forms may even be complementary”.

Saving Groups increase financial literacy. It has been argued\textsuperscript{12} that “regular meetings keep financial management at the front of members’ minds” and that members learn about money management through their participation. Loans are approved by all members, so the members serve as a de facto credit committee, learning to assess borrowing capacity. Also, since many VSLA members have experience with SACCOs and MFIs, they can compare and contrast the credit and savings practices of the various institutional forms, and bring some of the discipline and transparency of savings groups to other institutions when they choose to join them.

Only a few years ago, it seemed that there was no effective way to bring financial services to rural areas. Now there are several good ways, including Savings Groups, mobile phone banking, and better outreach by SACCOs, banks and MFIs. Competition among these options is an excellent development that will ease the lives of farmers,


and provide a necessary support for increasing rural productivity.

Section 7: The way forward

There is convincing evidence that VSLAs rapidly reach a critical mass and then become part of the culture, with the methodology spreading spontaneously from person to person. In an Aga Khan Foundation (AKF) study in Kenya\textsuperscript{13}, 43 out of 44 groups were still active after two years, and group members had formed another 37 groups spontaneously and independently. Another study in Zanzibar\textsuperscript{14} found that the number of groups had increased from 47 to 158 in the four years after the facilitating agency had left the area; one of the original groups had failed but was being reconstituted. In fact, every study that has looked at the question has shown that members continue to spread the VSLA concept after the facilitating agency has left the area.

There is, however, some evidence that group procedures in second generation groups drift away from some of the practices they were taught. The Kenya study just mentioned found that punctuality, use of lock-box, and respect for other procedures were less in second generation groups, and other studies have suggested similar findings, although not all. Oxfam in Mali\textsuperscript{15} finds that second generation groups perform about as well as first generation groups.

To ensure continuous technical support to the existing VSLAs and those that are newly formed, in order to address the above mentioned methodological drift, CARE and CRS are trying out models in which fee-for-service trainers are left behind after VSLA projects end. These models could be studied further and where necessary adopted.

Agricultural promotors should look at the possibility of using the networks of Savings Groups in Uganda as platforms for disseminating agricultural information and new practices. This can be a way to gain substantial outreach, but must be done with care and caution; some guidelines are documented in the AKF study cited above. Promotors should also be careful of interventions that increase the risk to the group, in particular by using the group’s assets as a guarantee for a loan or a purchase.

Finally, promotors should consider reversing the direction: rather than add agricultural services to savings groups, it is often more appropriate to provide VSLA training to farmers groups, as CARE has already done successfully.

There is little doubt that VSLAs have become part of the permanent social and financial landscape in Uganda. They do not compete with any other service, but rather strengthen the member’s and household’s capacities to participate more fully in the rural economy.


\textsuperscript{14} Anyango, Ezra; Esipisu, Ezekiel; Opoku, Lydia; Johnson, Susan; Malkamaki, Markku; and Musoke, Christopher (2006). “Village Savings and Loan Associations in Zanzibar” Nairobi and Uganda. Report on a joint study conducted by. Decentralized Financial Services and FSD Uganda.

Research and Innovations
6.1 Micro-factoring: Kenyan Example of using this Product to Improve Agricultural Value Chain Financing

Section 1: The product: What is micro-factoring?

Factoring is a form of business financing where you sell your invoices to a factoring company in exchange for immediate payment. It eliminates the 30–90 days that your customers take to pay your invoices, and provides you with the working capital you need to run your business. Factoring is a common practice for big business, but is revolutionary for micro entrepreneurs. A service tailored as a product for farmers and other micro-entrepreneurs is termed micro-factoring.

This is how it works:
1. You deliver goods or services to your customer and issue an invoice.
2. You sell your invoice to a factoring company, which immediately advances you the first instalment, between 70 and 90 percent of the gross value of the invoice.
3. The factoring company sends the invoice to the customer. You receive the first payment in as little as 48 hours.
4. After 30–90 days, the customer pays the full amount of the invoice to the factoring company as per prior arrangement with the seller.

1 Author: Beatrice Obara, CEO – De Deby Green Ventures Capital Ltd. (DGV Capital Ltd.) Kenya
Access to adequate and timely financial services for all actors in agricultural commodity value chains has proved to be a key element for success. This implies that not only large producers and traders but also small producers need access to appropriate financial services to make optimal use of value addition opportunities and resulting income generation. Such finance is, however, not always available, and chain actors working in agricultural and rural value chains frequently complain about a lack of access to financial services.

In response to this gap in finance, there has been a tendency for companies worldwide to focus on certain parts (or actors) in agricultural value chains and directly finance either producers or traders. While this specialization may be a good short-term solution to a burning problem, one may also question whether this will provide enough perspective for sustainability and scaling up of chain interventions needed to reach out to many millions of small rural producers and processors. One can also question whether such financing mechanisms will contribute to the desired empowerment of small rural producers and processors, or rather increase their dependency on larger chain actors.

In this article the link between chain actors and financial institutions is described as a means to deepening financial services for value chains. Value chain finance aims to address perceived constraints and risks by providing innovative ways of delivering financial services to rural producers and agribusinesses. It means linking financial institutions to the transaction points in the value chain, offering financial services to support the product flow, and building on the established relationships in the chain. It means that the product flow in the value chain is used as a carrier and collateral to provide financial services.

Section 2: The rural and agricultural finance gap necessitating micro-factoring

Without finance, farmers may not be able to buy good seeds, hire workers, or invest in equipment. For traders, a lack of finance may mean that they cannot pay cash when they take delivery of the crops – so the farmers may sell their crops elsewhere. For small-scale processors, a lack of finance may mean they cannot expand their operations. Private financial institutions have tended to regard such micro-entrepreneurs as unbankable. Banks did not think they were creditworthy – micro-entrepreneurs have no credit histories or collateral to offer; many are illiterate, so cannot fill in the necessary paperwork. For bankers it is easier and more lucrative to provide a handful of large loans to well-established businesses, rather than lots of small loans to such micro-entrepreneurs (Yunus, 2007 pp. 47-48).

An additional problem is that these businesses are in the countryside. Agriculture is a risky business. Drought, heavy rain, pests and diseases, unreliable input supplies, lack of storage and cooling facilities, bumpy roads, fluctuating prices, seasonality of many crops, all make the financial outcome of farming unpredictable (Fries and Akin 2004), so most banks are reluctant to finance crops and livestock. They have few staff or branches in the countryside, and distances are large, pushing up transaction costs.

The bad reputation of agricultural credit does not help either. From the 1950s to the late 1980s, public bodies intervened extensively in rural credit markets in developing countries, especially in Africa. Governments and international donors used heavy subsidies to promote rural lending. Credit was cheap, and it often went to the wrong people, at the wrong time, for the wrong purposes. When farmers had difficulty in repaying their loans, or deliberately defaulted on their repayments, no measures were taken against them. Due to low repayment rates and bad allocation, rural credit programmes became permanently dependent on external resources, and were not a viable operation for private banks.
The result is a serious and long-lasting rural finance gap (UNCTAD 2004) that constrains realizing the economic potential of agriculture. The perception of agriculture as risky means a loss to the farmers and other entrepreneurs, to the local and national economy and to the financial sector. It hinders agricultural development and blocks attempts to reduce poverty. Improved financial markets in rural areas would stimulate agricultural and rural growth, leading to economic growth and less poverty (USAID 2005).

With commercial banks reluctant to lend to the rural poor, and public agricultural development banks closed because of bad performance, it took microfinance institutions to prove that the asset-poor are bankable. With the use of new lending techniques, the microfinance industry showed that lending to micro-entrepreneurs is not only feasible, but can even be an attractive market opportunity.

Financing value chains

In general, there are three types of finance for the actors in the value chain:

a) Chain liquidity: Short-term loans from suppliers or buyers within the value chain
b) Agricultural finance: Financial services from commercial banks, microfinance institutions and other financial institutions
c) Value chain finance: Financial services that are based on meeting financial needs (usually short term) as product moves across transaction points and gains value through processing, storage, transport and marketing.

Micro-factoring as a value chain liquidity solution

Given reasonable weather conditions and good husbandry, one would expect cotton growing to provide growers with worthwhile incomes. During the picking seasons (August–December and March–May), the white burst balls can be plucked from the cotton bushes once every 2 weeks. The farmers take sacks of cotton to collection centres from where they are taken to a processing plant for ginning.

An example follows from Kenya...

Ninety-four percent of Rachuonyo’s households depend on rainfed agriculture for their livelihoods. Each family has about 80 acres (32 ha) of land. On 10–12 acres (4–5 ha) they grow cotton, yielding US $1,250/year, which is 80 percent of their income. On another 6–8 acres (2.4–3.2 ha) they grow sorghum, maize and legumes, mainly for home consumption. The rest of the land is left fallow for grazing.

However, Kenya’s smallholder cotton growers face a problem: they find it difficult to get paid on time. Some have to wait for months before they finally receive their money. The long delay makes it hard for them to feed their families in the meantime, or to invest in improving their farm enterprises. They often sell at low prices to traders; in these transactions farmers are in a poor position to bargain. They need cash urgently, do not know the prevailing market rates, and have no access to alternative sources of finance.

Similar problems face producers of many other types of agricultural products. Farmers have to invest up front, wait a whole season before harvesting the produce, then wait again for the buyer to pay. That limits their productivity and output, and means that they are forced to sell at low prices to intermediaries who can give them cash immediately.

Factoring as a solution

De Deby Green Ventures Capital Ltd (DGV Capital Ltd.) has developed solutions to this problem. It provides an innovative financing arrangement known as “invoice factoring” that offers short-term financial services to smallholders and other actors in the value chain.

DGV Capital Ltd. has adapted this service for various commodities in Kenya: cotton (mainly in the semi-arid areas in Kenya), tea (in the Kericho area in Rift Valley province), fish (Lake Victoria),

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2 See the definition and discussion in the following section of the website of the U.N. Food And Agricultural Organisation [http://www.fao.org/ag/ops/agrafinancialandinvestment/value-chain-finance/en/]
and horticulture, coffee and dairying (Central Kenya). The firm also partners with money transfer platforms as well as with companies offering modern technology in farming and services to enable the production of timely, quality products.

Section 3: Supply side

Factoring addresses key bottlenecks in agricultural value chains. A greater volume of produce now moves more smoothly than before, and payments are made on time. The strong linkage between the different actors cultivates a culture of responsibility in the chain. The chain provides a clear communication channel, keeping everyone informed about pricing and the quality required.

In implementing this innovative project, DGV Capital Ltd. encountered the following challenges:

- Proper structure of a factoring house is lacking due to the huge investment capital needed for set up;
- Human capacity to fully implement the project;
- Technical capacity in actualizing the envisioned output and support in shopping for strategic partners.

Partnerships

Current partnerships include:
- Kenya Commercial Bank - banking and payment systems
- Post Bank - payment systems
- Equity Bank - payment systems
- K-Rep Bank - bank loan
- Cotton Development Authority - cotton regulation, seed certification and distribution
- Nakumatt Holdings Ltd.- buyer of various items
- Tusker Mattresses Ltd. - buyer of various items
- East Africa Grain Council - policy and advocacy
- Makueni Ginneries Ltd. - lint and seed processing

DGV Capital Ltd is looking forward to working with development and commercial partners in the following core areas:
- Information technology capacity enhancement
- Human skill and capacity development
- Strategic partnerships and investor relations to grow the portfolio.

Micro-factoring is already operational within DGV Capital Ltd. The Partnerships Policy of the firm is aimed at up-scaling the benefits with the direct vision of commercializing and rolling out the product to other financial players in the market.

Experiences and challenges

Sensitization: Factoring is a new financial service in Kenya, and many people shy away from it. This is not because of its complexity but due to a lack of knowledge. Many people view factoring as a kind of loan. DGV Capital Ltd tries to educate the public by organizing forums as part of its marketing work.

Complexity of the groups: A lot of effort is needed to mobilize the producers into business groups before the factoring service can be introduced. This is costly and time-consuming. Most financial
institutions do not have the patience to do this groundwork; they rely on NGOs to establish the required relationships within the groups.

**Lack of regulation policy:** Factoring can be abused. It is not regulated by banking laws, and so unscrupulous operators could use it to defraud clients. DGV Capital Ltd is pushing for more factoring houses to be set up to have enough weight to lobby for regulations on aspects such as capital base, dispute-settlement procedures and licensing.

**Lack of investors:** Because factoring is new to Kenya, potential investors lack information, and are therefore unwilling to put money into this form of financial service. We are currently using trading finance facilities from K-Rep Bank and the COB fund through Pride Africa from IFAD Funding on Innovations.

**Lessons**

a) Factoring can be used to alleviate smallholder farmers’ cash-flow problems. Such farmers lack hard collateral to secure finance from banks and other financial institutions. The factoring invoice provides security that enables the farmers to obtain funds.

b) Factoring complements other innovative services such as M-PESA and Bank agency money transfers. These enable financial services to reach large numbers of widely scattered farmers who lack bank accounts.

c) Factoring is flexible enough to be easily replicated to other commodities.

d) Factoring builds the capacity of farmers, producers/small traders and other actors and strengthens the value chain. Policy makers should develop legislation to regulate and promote the industry.

**Section 4: Performance**

**Target market**

The factoring house serves SMEs within Kenya with linkages to the following sectors:

- Agro-based producers and processors
- Manufacturing sector
- Wholesalers and other suppliers commonly referred to as “middle men”.

**Project outreach**

Currently, DGV Capital Ltd is reaching about 3000 small-scale producers through 24 SMEs and 7 buyers (institutions) with a commercial fund of KShs 8,000,000 provided by the La Roschel De Deby Enterprises Ltd and RAVI (Rural African Ventures Investments) through Pride Africa – (IFAD Innovation Fund). The turnover in the last year stood at KShs 29 million. The outlook for significant expansion is promising.

**Project viability**

DGV Capital Ltd is in its second year now and can clearly and confidently list the following as the direct benefits to both SMEs and buyers.

**Benefits to SMEs**

- They are able to convert their invoices into instant cash ahead of due dates, thus enhancing working capital.
- They gain control over their cash flow.
- The uncertainty of debt collection and the related expenses is removed and therefore expenses can easily be projected.
- As a financing alternative, factoring is competitive with bank lending rates.
- They have access to and sustain mainstream markets which engage in volume buying
as they are able to continuously supply the required quantity and quality of products owing to support of factoring facility.

Benefits to buyers

- Buyers benefit with increased production capacity as the factoring facility ensures steady and sustained supply of raw materials and other inputs.
- Mainstream buyers become more interested in buying from small-scale producers, as there is no pressure to pay cash on delivery of products.
- Volume buyers can purchase from small-scale producers as part of practising social corporate responsibility and doing so in a profitable manner.

Final points

Factoring at the farmer and SME levels is new in Kenya, with DGV Capital Ltd. being the innovator. It is a profit making company that was established in December 2009 to support the development of Micro and Small Enterprises (MSEs) in Kenya for wealth creation. DGV Capital Ltd supports the MSE sector with micro financial services, consultancy in business development services and money transfers, focusing on innovative and unique methodologies.

So far DGV Capital Ltd has had no Government or donor assistance.

The IFAD-supported fund for working capital is through an intermediary, and attracts commercial interest rates.

Factoring methodology can be sustainable and can be replicated in several sectors and countries. It is straightforward to set up, as long as first, the necessary trust has been built amongst the players and second, partnerships have been developed with reliable banking institutions.

References

6.2 Linkages between SACCOs and the Central Finance Facility Promoted by the Uganda Cooperative Alliance

Section 1: What is a CFF/UCCFS?

Uganda Central Cooperative Financial Services Limited (UCCFS) is a Central Finance Facility (CFF) that is fully registered as a tertiary cooperative under the Cooperative Statute of 1991 in Uganda. It started its operations in the year 2008 with the overriding goal of providing financial services to the entire cooperative movement in the country. The facility has a financial pool created by the members - mainly cooperatives. UCCFS has a Board of Governors (elected from the membership) at the top and a team of dedicated and professional staff who manage the day to day running of the facility. At the moment, it has its head office housed under UCA in Kampala and eight regional offices in other parts of the country.

Its objectives include:

a) provision of financial services including liquidity management to its members;

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1 Author: Samuel Sentumbwe, Uganda Cooperative Alliance (UCA).
2 Editors’ Note: The mechanism described in this article, though based on a sound model used in many countries, still has to get through its difficult nascent stage in the challenging Ugandan cooperative environment.
b) provision of linkage and payment arrangements to all its members;

c) supply of any other cooperative support services demanded and approved by the membership.

This initiative was started and promoted by the Uganda Cooperative Alliance (UCA) after realising that there was a big financing gap in the cooperative sector which had been caused by the closure of the Cooperative Bank by the Bank of Uganda. It was set up with the intention of providing services similar to those provided by the former Cooperative Bank Limited. However, this time it is starting from the grass roots and is offering services in a more transparent, professional and therefore sustainable manner. The pool of funds has been mobilised by its members, who in turn access the funds when need arises. Funds are raised through sale of shares, acceptance of deposits and/or savings that periodically earn interest. Indeed, the procedures are similar and in line with the norms and practices of formal deposit-taking institutions. The promoters, including the UCA, envisage that with time and proper management the UCCFS will grow to fully serve as the Cooperative Bank in Uganda.

The concept and systems being used by the UCCFS have already attracted support from internationally recognised financial institutions like Rabobank, one of the world’s leading banks. Rabobank has provided funding to the facility’s activities and offered a long term loan at a very competitive interest rate. It has also received technical assistance in form of capacity building from other development partners including: Agriterra (a Dutch NGO); Canadian Cooperative Association (CCA); International Cooperative Alliance (ICA); Swedish Cooperative Centre (SCC); the Swedish International Development Agency (Sida) and the Uganda Cooperative Alliance, (an umbrella organisation for cooperatives in Uganda). UCCFS is currently in contact with other development partners in a bid to further its goals and objectives.

Section 2: The linkage between UCCFS and SACCOs.

Despite many SACCOs having accounts with Tier 1 financial institutions, many of them have not been able to access finance to enable them to achieve a satisfactory financial position. This is because the short term nature of most of the credit from financial institutions is in many cases not suitable to the operational demands of the SACCO members. This is where the CFF comes into the picture. Despite the fact that UCCFS also provides financial services to facilitate non-financial cooperatives, the Area Cooperative Enterprises\(^3\), most of the credit has gone through SACCOs, due to the fact that they are closer to the end users and are therefore better suited to monitor loan performance. So we can also state that UCCFS is linked to and serves the small scale farmer through SACCOs. A lot of emphasis has also been put on financing the small scale farmer through already tested and successful models. Working closely with UCA, most of the SACCOs that have benefited from this facility are those that are embedded in the tripartite model being promoted by UCA as explained in Fig 1 on the next page.

In this model, there are basically 3 types of services being offered in sequence by the 3 entities, SACCOs, ACEs and RPOs.

Linkage A - The Rural Producer Organizations (RPO) A primary society is made up of a minimum of 30 farmers who focus on producing up to three agricultural products. These are smaller cooperatives formed at village or parish level and their major role is to till their land and

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avail the agreed amounts of agricultural produce. The amounts produced are usually agreed upon with the ACE before the actual production starts. Produce from all the member RPOs is collected at the ACE stores.

Linkage B - The Area Cooperative Enterprise (ACE) A secondary level cooperative whose membership is made up of several RPOs does the value addition (bulking, cleaning, grading, packaging etc.) and the marketing of the produce on behalf of its members. It also issues a receipt to the farmers that acts as collateral to the SACCO in case one of its member farmers needs credit. The Saving and Credit Cooperative (SACCO) provides credit services using the receipts issued by the ACE as collateral. The sales of the farmers’ produce are done through the SACCO which makes the final payments to the farmers, deducting sums owing for loan repayment and interest.

Linkage C - The SACCO with which the RPOs and ACE partner is owned by farmers in the RPOs and is usually run at sub-county level. The farmers-members provide funds to the SACCO through paying membership fees, buying shares and making deposits. Since the financial institution is owned by the farmers, the SACCO is supposed to provide financial services at the best possible terms to its members. The farmers also stand to benefit by earning dividends accruing from the SACCO’s operations. However, despite this arrangement, many SACCOs do not have the financial capacity to meet loan demands and in most cases cannot easily provide term finance. This is when the CFF then comes in to boost the capital position of its members.

Linkage D - The linkage between UCCFS and SACCOs in Agricultural Finance

UCCFS mobilises deposits from its membership through membership fees, buying shares, mobilising savings and term deposits. It has managed to grow its capital base because the rates it offers are very competitive with the open market rates (both on the demand and supply sides of the market). The fact that members stand to earn dividends from the CFF’s earnings further consolidates the organisation’s position. Apart from supervising and auditing its members UCCFS has served its members in several other ways including:
a) **Liquidity management:** Many of the SACCO's in the country do not have enough operating capital to meet the financial demands of their clients. The SACCO's in the model above are even in a more difficult situation because most crop seasons start and end around the same period of time. This is not helped by the fact that most of the country's small scale farmers are compelled to sell their products during the harvest season (at very low prices) to meet their financial demands due to lack of proper infrastructure to hold onto the produce past the peak production periods.

The model tries to address this issue by providing a credit service to the farmers during such periods and allowing the ACE to sell at a later date when the prices are better. However, on the other hand the high demand for loans exerts pressure on the SACCO's loanable funds. In the past many SACCOs would resort to ad hoc and highly risky financial practices like borrowing from money lenders (many of whom are not licensed or regulated) to meet their financial demands. The slow and lengthy commercial bank procedures did not help. The CFF has therefore designed specific products to help SACCO's manage their liquidity.

b) **Short term contract financing:** UCCFS also provides credit products directly to some ACEs to enable them meet short term supply contracts with their clients like schools, government institutions, processing companies etc. Credit is usually given to support the value addition processes including drying, grading, packaging, transportation etc.

c) **Term finance:** One of the main problems hindering agricultural production has been the lack of improved agricultural technologies, equipment and infrastructure. UCCFS is currently offering credit facilities to its member ACEs to purchase better post-harvest handling machinery like driers, grading and packaging machines as well as building better warehouses. In some cases the RPOs have accessed better farming equipment like tractors in form of leasing through their ACEs. It is however important to note that despite a high demand for this product the activity of the CFF in this area has been limited by its financial resources.

d) **Promotion of Insurance Services:** In conjunction with Sanlam Assurance, the old age insurance scheme was commissioned among UCCFS members. This insurance product protects the SACCO's, its members and their families from losses in the event of the death of a borrower. The insurance indemnity offsets the debt of the beneficiary in case of death or inability to pay due to injuries sustained during the loan period. In the absence of such insurance the SACCO management would just liquidate the farmer's collateral. This is an easily-understood
insurance product and its introduction will undoubtedly have an educative benefit for farmers.

e) **Training:** In addition, the CFF is involved in mobilising for the formation of more financial cooperatives, offering training in financial cooperative management, helping the SACCOs in product development, facilitating horizontal integration among its members and also becoming a major platform in advocating for financial cooperative development.

f) **Flexible and Fixed Deposits:** In a move to promote the saving culture, UCCFS offers flexible and fixed deposit products in a manner similar to that used by the commercial banks. The fixed deposits attract a higher interest rate than ordinary saving. The rates are negotiated depending on the amount and period.

**Section 3: The future**

The future of this organisation lies in the continued strengthening/improvement of the systems currently in place as well as support from government, other private sector players, development partners and the general public. It is hoped that the CFF will achieve its main goal of becoming the major lender, and the primary depository of cooperatives in Uganda within the next five years.

At the moment membership to UCCFS is growing at an annual rate of ten percent and its portfolio has more than tripled since its inception. However, it’s still serving a small portion of the potential clientele. Moreover it has limited capacity to offer long term agricultural financial products, due to its limited financial resources. Therefore, for the CFF to play a bigger and more significant role in providing agricultural finance there is need to grow in terms of both outreach and financial capacity.

It is also important to note that there are other players, including the Government, that are keenly interested in increasing access to financial services especially among the poor/rural Ugandans. To achieve this, there is need for a concerted effort between the various organizations and players from the private and public sectors. One of the possible partnerships where the CFF could play a significant role is one with the MSC - as discussed below.

**Partnership with Government’s Micro-finance Support Centre (MSC)?**

The Micro-finance Support Centre Limited is a Government-owned company that is working towards reducing poverty by improving farmers’ access to credit. Indeed, MSC is one of the main implementers of the Prosperity for all Programme (PFA), working largely through SACCOs. However, MSC has experienced various challenges, among others in its interface with SACCOs. Many informed observers are of the opinion that the Government’s sound broad policy for harnessing SACCOs to provide financial services in rural areas has not yet produced a significant impact on a national level.

Though coming from very different roots, both MSC and the UCCFS seek to support SACCOs with financial services. It is therefore pertinent to ask whether scope exists for a public-private partnership between the two entities. Clearly such a partnership should have very clear operational guidelines, so that the autonomy of the UCCFS would not be affected and its close links to its membership maintained.

**Final points**

It is hoped that over the years, UCCFS will have significant impact on agricultural development in Uganda through provision of tailored financial products. Many entities including Government

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have agricultural finance on their agenda and it is important that they explore various avenues of expanding financial services in new directions, using new technology and innovations to serve more clients in remote communities, and offering them an ever-wider range of products.

In conclusion, the concept of the CFF has been tested in many parts of the world. It has shown very positive results in small and dispersed farming communities just like those in Uganda. The ground has been set by UCCFS and what remains to be done is to further tailor the concept to Uganda’s socio-economic environment, provide support at institutional and policy levels by the Government of Uganda as well as development agencies. The institutional support should only be for purposes of strengthening the facility and should not go beyond that level.

At policy level the emphasis should be on improving the formal legislative structure for SACCOs as a special type of cooperative, SACCOs are not well served by the current Cooperative Act of 1991. There is a parallel need to revise and modernise the Cooperative Act of 1991 (to regulate the RPOs, ACEs and Unions) to match the current development patterns.
6.3 Human Resources for Agricultural Banking

Section 1: Introduction

The world needs more productive, better managed agricultural enterprises. Global population is now 7 billion, out of which an estimated 33 million are Ugandans, a number estimated to double in the next 23 years. Therefore Uganda is expected to be home to 60 to 70 million by 2035; the world will then have over 9 billion.

The major setbacks to feeding these expanding populations are on the supply side of agricultural markets (Economist 2011). Farm yields, sustainable environmental management (see Kabaseke 2011), transport and other linkages between producers and consumers all drive a wedge between the potential and actual food production.

Access to finance is one of the ingredients that would reduce the barriers on the supply side. The absence of reasonable financial services – the right products, delivered in a sensible way – makes it another ‘wedge’ between potential and actual food production.

It is a contributing factor not only to persistent poverty, but also to food price inflation which curtails development. Just think of the current inflation scenario in East Africa (see Schmidt 2011, with further references).

This Yearbook provides a platform to discuss and track the trends of various aspects of agricultural production and its finance. This article addresses the question, “How best can financial institutions (FIs) get the human resources for creating, handling

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1 Authors: Januario Ntungwa, TRIAS Uganda, Kampala, and Oliver Schmidt, Mountains of the Moon University, Fort Portal.
and delivering the financial services required by agricultural enterprises?” Section 2 lays out the challenges; Section 3 presents the competencies that an agro-finance expert needs; Section 4 discusses how FI business models shape FI career perspectives through marking down the relevance of agri-finance competencies; Section 5 offers a comparative discussion of the case of Uganda’s Centenary Bank and India’s KBS Local Area Bank; Section 6 highlights implications for the design of academic and non-academic courses; Section 7 highlights policy implications.

Section 2: The challenges of ‘cultivating’ agri-finance experts

In the light of the fundamental task of feeding humanity of the future, would it not be reasonable to expect the best and finest young performers to flock to become agri-finance experts, to be part of these exciting and fulfilling challenges? Reasonable as it might be, it is a futile expectation. Agri-finance does not enjoy any particular prominence. Those who are becoming bankers – which for simplicity in this paper includes all people working in financial service industries – appear to favour a belief that becoming rich and cynical is both fundamental and absorbing a task.

Admittedly, the previous statement is rather a polemic cliché. But as is characteristic for any cliché, it has a grain of truth in it. The motivation and attitude and concept of how bankers see the world are fundamentally different from motivation and attitude and concept of how the world works for agro-entrepreneurs and other agriculturalists. They are separated by an information divide and mutual suspicion.

This has structural implications for the FIs. The time and placement it takes to become an agro-finance expert are largely lost on the usual career paths in FI. It compares to maternal (or in our modern times paternal) leave. Nice for you, we appreciate the idea of having a manager who did it, but it will not help you on the way to becoming that manager; you will have to work twice as hard as those on the career ladder who did not do it.

Accordingly, few FIs give agricultural finance a prominent place in their business planning. Rather it is an added area, often included largely for public relations reasons, especially as regards the Government.

Staff members do not build agri-finance competencies, because it does not help their careers. Business models – prime determinants of those careers – sideline and downplay agri-finance. Even if the FIs are nudged to pay attention to it, they have a narrow entry-point, because there are limited competencies among their staff.

Obviously, agri-finance experts exist. But they practically always exist outside of the FIs. They are a scarce and hence expensive resource which is provided by bilateral and international development aid agencies. Because they are expensive, there is no way FIs can have them on their regular pay-roll. After all, they are not even core to the business model. FIs located in rural areas could and perhaps should have remodelled their business, but they have limited financial resources and more often than not simply copy and paste the existing finance business models.

The same challenges reflect on universities. Agriculture and finance/banking are different faculties that hardly speak to each other. The problem is even compounded by a concentration on theory rather than on practice in most institutions of tertiary education. Even the few that have attempted to include practical sessions in the courses have difficulties in getting FIs to accept placement of the students to practise the theory.

Accordingly, they graduate either bankers or agriculturalists – who then continue to not speak to each other. The continued absence of interest from FIs in agri-finance skills has hampered the motivation of universities to design courses that bridge the gap.

Thus, specialised agri-finance training remains the domain of highly paid (because they are scarce) specialists. The training courses they run are singular, non-permanent events in the day-to-day business of FIs – and probably of agri-businesses
detail should not be limited to numerical, but also extend to understanding the general and specific conditions of the borrower (the market and its opportunities the borrower’s management capacity to grow over time).

However, these are colourings added to the core competency of a banker. The core competency is breaking down any request for a loan into a numerical scheme based on cash flows, collateral and capital. That requires the banker to focus on measurable aspects of the loan applicant; to be strict and impartial in recording them, and to instil at the level of appraisal that the bank will be fierce in recovering the borrowed amounts with interest within the agreed period.

In broader terms, a banker is a risk manager. Risk is uncertainty organized by numbers. The banker assesses risk in order to manage it. The banker is inclined to take minimal risk. That gives way to the above outlined profile in assessing credit. Let us remember, though, that the banker manages other people’s money, more precisely savings. He/she does not manage risks for his/her own sake but on behalf of the general public who have entrusted their savings to the bank.

**Agriculturalists’ core competencies**

The agriculturalist, on the other hand, pursues an enterprise that is subject to a great degree of uncertainty. Returns to the agricultural enterprise are always a function of the environment that is beyond the control of man. Pre-harvest, the enterprise may face heavy rains or thunderstorms or drought or locusts and other insects; post-harvest it may be subject to contamination during transport and storage, e.g. fungus or insects infiltrating harvest stores.

Although the effects of these events, and some of the events themselves, can be contained or mitigated, they remain difficult to quantify. Turning these uncertainties into measurable risk is costly in terms of the data required.
The agriculturalist, therefore, needs technical expertise specific to his enterprise and its environmental conditions, resilience and stress tolerance, and tenacity. Skills and was equipped to gather and utilize information from a broad range of sources. However, these skills may not be readily found among small-scale farmers.

Agri-finance experts’ core competencies

Agri-finance experts must be conversant and comfortable with the profiles above, i.e. the core competencies of both the banker and the agriculturalist. The agri-finance expert analyses the two means of managing environmental risk of the agricultural enterprise: technology and idiosyncratic skills of the agriculturalist.

Technology can be easily observed – does the enterprise own a tractor, how are stores constructed, which irrigation or pesticides or fertiliser does it apply? Also observable is the minimum optimal enterprise size required for a given technology. In the context of Uganda, upscaling to that required enterprise size meets the challenges of land ownership like securing a land title. The procedures are sometimes unclear, always lengthy and inevitably a source of uncertainty that adds to the opportunity cost of technology. Yet, the land-title is another ‘observable’ that the banker demands both to ensure that the borrower has access to the most basic production factor (land) and also as collateral for credit.

Idiosyncratic skills, however, are by definition unobservable. How does the agriculturalist absorb the balance of his enterprise eco-system? How well does he know where and when and how much to manipulate it, so that his crops and livestock prosper? These can be assessed either by following his performance over several seasons, if not years, or by sharing some of those skills, and hence turning them into ‘observables’. These two are inter-related.

Furthermore, the agri-finance expert will understand the relationship between the idiosyncratic skills observed and the application of technology: Some idiosyncratic skills may be negatively correlated to some forms of technology. A ‘green thumb’ does not make a skilled mechanic. Also, idiosyncratic skills may not be easily scalable — the farmer who does well on half an acre may do poorly on five acres.

In summary, the agri-finance expert has the competencies to overcome the usual information divide and mutual suspicion between bankers and agriculturalists:

- On the personal level, the agri-finance expert understands core competencies that shape the respective characters of bankers and agriculturalists and enables him/her to communicate effectively to both. He/she can translate either party’s analytical perspective of the agricultural enterprise into the terms of the other.

- On the technical level, the agri-finance expert commands specific personality and market intelligence that is required to understand the agricultural enterprises.

Section 4: Business model and human resources investment

In the light of the previous section, why should it be difficult to train agri-finance experts? After all, the banker – or the agriculturalist, for that matter – already possesses half of the necessary competencies. He/she only’ needs to acquire the other half. Alas, in the small word ‘only’ is incorporated a formidable challenge, which becomes visible when we consider the business models of financial institutions.

The business model of the bank is embodied in its balance sheet. Classically, bankers turn short-term liabilities, i.e. savings, into long(er)-term credit; MDIs and SACCOs aspire to move to the same business model. The most terrible thing that can happen to bankers is that savers call in their money all at once. Banking business will only work if it can avoid that event from coming to pass. In order to manage this, bankers give credit that is
repaid by a very regular, short-term schedule and/or give credit that has a low risk of default. These two are obviously closely related.

Lending to agricultural enterprises usually demonstrates one or both of the following:

- Agricultural enterprises have irregular cash flows, depending on seasonality of their crops, they regularly require medium or long-term schedules;

- Environmental risk of the agricultural enterprise translates into portfolio risk. This is because an environmental calamity could hit all agricultural loans in the lender’s portfolio, at the same time.

The logical effect is that credit to agricultural enterprises is significantly more expensive. But even if that interest premium would be paid by farmers, the bank may not be inclined to offer it, because of its HR requirement. As pointed out, the bank would need staff with specific competencies. Hiring such staff members raises its costs, because they are less flexibly deployed. Hence promotion will relatively be more costly to maintain.

Moreover, the opportunity costs are prohibitive. Any bank has scarce loan funds which its management chooses to allocate to this or that sector and risk profile. Lending to agriculture effectively means to apportion a larger part of the portfolio to higher risk and staffing cost. The management might even be questioned by owners and funders over its fiduciary responsibility if it makes such choices.

**Microfinance business model**

In the microfinance segment, we would expect a stronger drive towards agricultural lending. After all, credit-only-MFIs are largely financed by investors, not savers, who should have an entrepreneurial drive towards untapped markets. But, so far, that is not the case. The pre-dominant MFI business model is to borrow medium-term and lend short-term. Few MF investors, even those who are socially-minded, have created finance facilities specifically geared towards small-scale agriculture – though this is beginning to change.

**Business model and career path**

Staffing and staff development decisions are taken by both management and employees themselves – based on the business model that shapes the enterprise. Management will allocate resources for staff positions and staff development to credit officers who can be deployed flexibly. Hence promotion will rest on putting the bankers’ core competencies to profitable use.

Credit officers, therefore, will aspire to deepen their core competencies and to further their careers by overseeing profitable loan portfolios.

Their best strategy is to:

- Focus on credit to enterprises that repay in short-term patterns and/or that offer well-structured collateral, e.g. borrowers such as shops and other trading businesses.

- Signal numerical competencies by acquiring degrees in finance and accounting; in particular the professional certification stages offered by the Institute of Chartered Accountants (see Kakungulu 2010).

Senior bank managers who built their career on these two cornerstones are likely to assess business opportunities in the same light. It will be difficult for them to see potential for innovation in agri-finance, and hence they are not very likely to create staff development opportunities for agri-finance experts.

**Section 5: Changing motivation and attitude of FIs towards agri-finance**

Agricultural finance is possible if financial institutions combine a dedicated developmental vision and mission with innovation and a re-thinking of the profitability of the customer,
considering a range of financial products (notably savings and payment services). Under such a strategic outlook, which must be rooted with the investors/owners of the FI, the investment in agri-finance expertise becomes a business necessity, rather than a nuisance.

The additional cost of this strategy, compared to ‘conventional banking’, has been absorbed on the one hand by lower dividends for owners, and on the other hand by financial inputs from development agencies. For example, Sida and GIZ subsidised the development costs of a traction loan product.

It can surely be argued that the outstanding reputation of Centenary Bank as the only commercial bank with a substantial outreach to Ugandans beyond the high- and/or salary-income strata partly rests on its agri-finance efforts. As such, these efforts have sustained the robust average annual growth rate of 14.9 percent, by Centenary Bank’s savings portfolio.

The case of Krishna Bhima Samruddhi Local Area Bank Ltd (KBSLAB)

KBSLAB operates in 4 rural districts in Southern India, which have been classified by the government among India’s poorest districts. KBSLAB is part of the BASIX group which promotes ‘livelihood services’ through various avenues, including agricultural extension and microfinance. BASIX incorporated KBSLAB in 1999. In 2001 it was licensed by the central bank and started operating. Today it reaches out to about 1,500 villages.

Being a bank, KBSLAB provides products across four financial instruments; i.e. savings, credit, insurance and micro-pensions. Its loans include four products designed for agricultural activities of groups and individuals, including crop production and agri-investment.

However, KBSLAB itself and through ‘BASIX sister organizations’ also provides agricultural extension services, among others advice for productivity enhancement through increase in yields or reduction in costs, alternate market linkages, (i.e. input supply and output sales) and supporting producer groups to establish sustainable institutional linkages for better impact of livelihood promotion services (i.e. formation and management of cooperatives). These agricultural extension services are provided in the value chains of dairy, raising of sheep and goats, and crop production.

The case of Centenary Bank, Uganda

In Uganda, Centenary Bank has long been a leading provider of agricultural finance. Centenary Rural Development Trust, registered as a financial institution in 1983, started operating in 1986. It was transformed into a commercial bank in 1993 (MixMarket 2011). In 1998 – after 12 years of operation – the owners of Centenary Bank took the strategic decision to increase the agricultural loan portfolio from 9 to 20 percent. Based on that strategy, the bank management reshaped the business model; among other actions it developed an agricultural finance pilot that was run successfully at its branch in Mbale.

Centenary Bank at board and management levels has since put guidelines in place to continuously aim at the strategic objective of 20 percent loan portfolio in agriculture, instituting structures to support the development of agri-finance products. It has employed over 150 agri-finance specialists, continuously trained and provided them with physical facilities to serve small holder farmers.

2 See also articles on Centenary Bank in the Yearbooks 2007 (Article 2.7), 2009 (Article 2.1) and 2010 (Article 2.1) and this Yearbook (Article 4.3). These articles give further details on the operations and approaches of Centenary Bank.
3 Author’s calculation, prices of 2005, based on Blatter/Kumwesiga/Mbabazi (2006) and AMFIU (2011).
KBSLAB operates, for a bank, with a relatively small profit, but its strategic focus is defined by the specific role it plays within the BASIX group. It is the only group-company that is allowed to mobilize savings from the public, which covered over 95 percent of its loan portfolio (2010).

Section 6: Design of academic and non-academic courses for agri-finance

There is no academic agri-finance course in Uganda. Issues of agri-finance are mostly provided by trainers. Most of these trainers have themselves acquired the skills in careers that combine finance, rural development and/or agriculture. They have often been employed for some years by banks and/or with international development agencies and many of them have a background as agricultural entrepreneurs.

Based on demand, they have designed their trainings in 3-5 day modules, which come roughly in two kinds:

- Training of financial skills for farmers, which range from financial literacy for informal savings groups to basic financial institution management skills for board members and staff of SACCOs. These trainings are usually paid for by development agencies or government.
- Training of agricultural skills for bankers, which enable them to analyse a range of agricultural enterprises and to communicate effectively with their owners. These trainings are usually paid for by financial institutions, maybe subsidised by development agencies.

Regularly, the same trainers work as consultants, so that the training modules are part of a larger package that may include mentoring, monitoring and reporting, and product development.

Most of the 27 Ugandan universities offer courses in finance and accounting; Makerere University Business School, Kyambogo, Uganda Martyrs’ (all Central Region), Islamic University Uganda (Eastern Region) and Mountains of the Moon (Western Region) offer microfinance courses. Makerere University Business School offers a postgraduate course (Master) in banking and investment, Mountains of the Moon University offers an undergraduate (Bachelor) in banking and development finance.

Mountains of the Moon University (MMU) has geared its microfinance courses to current and future employees of rural MFIs, in particular SACCOs. Its Academic Certificate in Rural Microfinance has a course unit ‘Savings and Credit in Agro-Value-Creation’; its Diploma in Rural Microfinance has two course units covering agricultural value chain analysis, basics of farm management and agricultural extension. These course units are designed and delivered in collaboration with MMU’s School of Agriculture.

MMU has also considered creating a specific course, e.g. a post graduate diploma, for agri-finance experts; as well as Academic Certificates geared to staff of agricultural marketing associations which would, for example, provide in-depth training on contract farming. However, the demand for such courses has so far been found to be limited. Also, student numbers for the Rural Microfinance courses have so far been moderate; it has sometimes been argued – though only based on anecdotal evidence – that the course title was not appealing.

MMU, as Uganda’s first (and so far only) community based university, has made a deliberate effort to offer courses that are needed, rather than just fashionable. But ultimately, it depends on attracting enough income from tuition – or from other funders – to run its operations. MMU’s strategy is therefore to partner with FIs to market specific agri-finance courses to the FI staff members, as part and parcel of staff development.

Section 7: Policy implications

Staffing and staff development decisions are made – by both management and employees themselves – based on the business model that shapes the
enterprise. In banks and MFIs, the business model favours short-term over long-term loans; and short- over long-term or flexible repayment schedules.

That incentive structure might change if banks and MFIs accessed very low cost (or long-term) finance or if they faced reducing profit margins in the pre-dominant credit business. The former is, by and large, not the case because the opportunity cost of agricultural finance are low-risk, low-cost government bonds. The situation encourages most Ugandan bank managements to 'do more of the same' (intensify short-term lending and keep more government bonds) rather than to innovate into new areas, e. g. agriculture finance.

Under such a scenario, the cost of building a workforce that has specific skills to assess agricultural enterprises looks prohibitively high; moreover it ultimately adds to the perceived risk of venturing into that area. Accordingly, the scope for agri-finance training providers remains very limited.

For an alternative scenario, FI investors and owners need to embrace principally different strategies which give way to agriculture-focused business models. The cases of Centenary Bank and KSB LAB show that such strategies are feasible.

Financial institutions’ interface with the agricultural sector can be further enhanced by a supportive regulatory framework – after all, the obstacles that befall FIs with regard to agriculture apply in principle to the FI-regulators.

Training providers, in particular universities can be valuable partners both in developing and implementing such business models and in the formation of the required HR, once the FIs strategic direction points to agri-finance. However, they need incentives in the form of a clear demand for graduates with the special competencies demanded in agricultural banking. This needs to be matched with career path opportunities in FIs that attract first class candidates.

References
### List of Abbreviations and Acronyms

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<tr>
<th>Abbreviation</th>
<th>Definition</th>
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<tbody>
<tr>
<td>AAC</td>
<td>African Agricultural Capital Ltd.</td>
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<td>aBi Trust</td>
<td>Agribusiness Initiative Trust</td>
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<td>ABDC</td>
<td>Agri-Business Development Component</td>
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<td>ACE</td>
<td>Area Cooperative Enterprise</td>
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<td>ACDI-VOCA</td>
<td>Agricultural Cooperative Development International - Volunteers in Overseas Cooperative Assistance</td>
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<td>ADB (AfDB)</td>
<td>African Development Bank</td>
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<tr>
<td>AFAP</td>
<td>Agricultural Finance Action Plan</td>
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<td>AFS</td>
<td>Agricultural Finance Strategy</td>
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<td>AKF</td>
<td>Aga Khan Foundation</td>
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<td>AMFIU</td>
<td>Association of Microfinance Institutions of Uganda</td>
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<td>APEP</td>
<td>Agricultural Productivity Enhancement Programme (former USAID project)</td>
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<td>ARDC</td>
<td>Aquaculture Research &amp; Development Center</td>
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<td>ASCA</td>
<td>Accumulating savings and credit association</td>
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<td>ASPS</td>
<td>Agricultural Sector Programme Support (former Danida project)</td>
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<td>BAT</td>
<td>British American Tobacco Uganda</td>
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<td>BoU</td>
<td>Bank of Uganda</td>
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<td>BMZ</td>
<td>Germany Federal Ministry for Economic Cooperation and Development</td>
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<td>bn</td>
<td>Billion</td>
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<tr>
<td>CAADP</td>
<td>The Comprehensive Africa Agriculture Development Programme</td>
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<td>CARE</td>
<td>CARE International is a development NGO</td>
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<td>CBO</td>
<td>Community-based organisation</td>
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<td>CDO</td>
<td>Cotton Development Organisation</td>
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<td>CFC</td>
<td>Common Fund for Commodities</td>
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<td>CGAP</td>
<td>Consultative Group to Assist the Poor</td>
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<td>CGIAR</td>
<td>Consultative Group on International Agricultural Research</td>
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<td>CIAT</td>
<td>International Center for Tropical Agriculture</td>
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<td>CICS</td>
<td>Competitiveness and Investment Climate Strategy</td>
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<td>COREC</td>
<td>Coffee Research Centre</td>
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<td>CORI</td>
<td>Coffee Research Institute</td>
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<td>CPC</td>
<td>Cane production contract</td>
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<td>CRS</td>
<td>Catholic Relief Services</td>
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<td>CSO</td>
<td>Civil society organisation</td>
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<td>CWD</td>
<td>Coffee Wilt Disease</td>
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<td>Danida</td>
<td>Danish International Development Agency</td>
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<td>DCA</td>
<td>Development Credit Authority (USAID)</td>
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<td>DED</td>
<td>(former) German Development Service</td>
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<td>dfcu</td>
<td>Development Finance Corporation of Uganda</td>
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<td>DFID</td>
<td>Department for International Development (UK)</td>
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<td>Abbreviation</td>
<td>Full Form</td>
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<tr>
<td>DFR</td>
<td>Department of Fisheries Resources</td>
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<td>DP</td>
<td>Development partner</td>
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<td>DRC</td>
<td>Democratic Republic of the Congo</td>
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<td>DSIP</td>
<td>Development Strategy and Investment Programme - MAAIF</td>
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<tr>
<td>EAC</td>
<td>East African community</td>
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<td>EAGC</td>
<td>Eastern Africa Grain Council</td>
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<tr>
<td>EADB</td>
<td>East African Development Bank</td>
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<tr>
<td>FAO</td>
<td>Food and Agriculture Organisation of the United Nations</td>
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<td>FAQ</td>
<td>Fair average quality – coffee</td>
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<tr>
<td>FCR</td>
<td>Forwarder's Certificate of Receipt</td>
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<td>FI</td>
<td>Financial institution</td>
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<tr>
<td>FINCA</td>
<td>Foundation for Community Assistance (MDI)</td>
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<tr>
<td>FISH</td>
<td>Fisheries Investment for Sustainable Harvest (former USAID project)</td>
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<tr>
<td>FoB</td>
<td>Free on board (FoB/R is: free on board rail)</td>
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<tr>
<td>FoT</td>
<td>Free on truck</td>
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<tr>
<td>FSD</td>
<td>Financial System Development Programme (BoU/GIZ)</td>
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<td>FSDU</td>
<td>Financial Sector Deepening Uganda (former DFID project)</td>
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<td>FSP</td>
<td>Financial service provider</td>
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<td>GAPS</td>
<td>Good agricultural practices</td>
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<td>GDP</td>
<td>Gross Domestic Product</td>
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<td>GOAL</td>
<td>An INGO focusing on the poorest sections of populations</td>
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<td>GoU</td>
<td>Government of Uganda</td>
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<td>GIZ</td>
<td>Deutsche Gesellschaft für Internationale Zusammenarbeit GmbH (formerly GTZ, DED and Inwent)</td>
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<td>GTZ</td>
<td>Deutsche Gesellschaft für Technische Zusammenarbeit GmbH (German Technical Cooperation) From 2011 GTZ has merged into GIZ – see above.</td>
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<td>HR</td>
<td>Human resources</td>
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<td>IAP</td>
<td>Index of agricultural production</td>
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<tr>
<td>ICO</td>
<td>International Coffee Organisation</td>
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<td>ICRC</td>
<td>International Committee of the Red Cross</td>
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<tr>
<td>IDEA</td>
<td>Investment in Developing Export Agriculture (former USAID Project)</td>
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<tr>
<td>IFPRI</td>
<td>International Food Policy Research Institute</td>
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<tr>
<td>IFRS</td>
<td>International Financial Reporting Standards</td>
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<tr>
<td>ILO</td>
<td>International Labour Organisation (a UN specialized agency)</td>
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<tr>
<td>IMFP</td>
<td>Integrated Fisheries Management Plan</td>
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<td>INGO</td>
<td>International non-governmental organisation</td>
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<td>IRC</td>
<td>International Rescue Committee, an NGO</td>
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<td>ISTA</td>
<td>International Seed Testing Association</td>
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<td>IT</td>
<td>Information technology</td>
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<td>KACOFA</td>
<td>Kapchorwa Commercial Farmers Association</td>
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<td>KCA</td>
<td>Kaweri Coffee Alliance</td>
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<td>Acronym</td>
<td>Full Form</td>
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<tr>
<td>KCFASP</td>
<td>Kaweri Coffee Alliance Support Project</td>
</tr>
<tr>
<td>KSL</td>
<td>Kinyara Sugar Ltd</td>
</tr>
<tr>
<td>KYAPS</td>
<td>Kyamuhunga Peoples Savings and Credit Cooperative Society</td>
</tr>
<tr>
<td>KYC</td>
<td>Know your customer</td>
</tr>
<tr>
<td>LEAD</td>
<td>Livelihoods and Enterprise for Agricultural Development (USAID)</td>
</tr>
<tr>
<td>LC</td>
<td>Letter of credit</td>
</tr>
<tr>
<td>MAAIF</td>
<td>Ministry of Agriculture, Animal Industry and Fisheries</td>
</tr>
<tr>
<td>MAMCOT</td>
<td>Mateete Microfinance Cooperative Trust Ltd</td>
</tr>
<tr>
<td>MBWin</td>
<td>FAO/GTZ Microbanking system (MIS)</td>
</tr>
<tr>
<td>MCAP</td>
<td>Matching Grant Facility for Capacity Building</td>
</tr>
<tr>
<td>MDI</td>
<td>Microfinance Deposit-Taking Institution (Tier 3 financial institution)</td>
</tr>
<tr>
<td>MF</td>
<td>Microfinance</td>
</tr>
<tr>
<td>MFI</td>
<td>Microfinance Institution (Tier 4 financial institution)</td>
</tr>
<tr>
<td>MFPED</td>
<td>Ministry of Finance, Planning and Economic Development</td>
</tr>
<tr>
<td>MFW4A</td>
<td>Making Finance Work for Africa Initiative</td>
</tr>
<tr>
<td>MI</td>
<td>Market information</td>
</tr>
<tr>
<td>MIS</td>
<td>Management Information System /Market Information System</td>
</tr>
<tr>
<td>MoFPED</td>
<td>Ministry of Finance, Planning and Economic Development</td>
</tr>
<tr>
<td>MOP</td>
<td>Microfinance Outreach Plan</td>
</tr>
<tr>
<td>MSCL(MSC)</td>
<td>Microfinance Support Centre Ltd</td>
</tr>
<tr>
<td>MSME</td>
<td>Micro, small and medium enterprises (see also SME)</td>
</tr>
<tr>
<td>MT</td>
<td>Metric tonne</td>
</tr>
<tr>
<td>MTCS</td>
<td>Medium Term Competitiveness Strategy</td>
</tr>
<tr>
<td>MTTI</td>
<td>Ministry of Tourism, Trade and Industry</td>
</tr>
<tr>
<td>NAADS</td>
<td>National Agricultural Advisory Services</td>
</tr>
<tr>
<td>NaFIRRI</td>
<td>National Fisheries Resources Research Institute</td>
</tr>
<tr>
<td>NARO</td>
<td>National Agricultural Research Organisation</td>
</tr>
<tr>
<td>NDA</td>
<td>National Drugs Authority</td>
</tr>
<tr>
<td>NDP</td>
<td>National Development Plan</td>
</tr>
<tr>
<td>NGO</td>
<td>Non-governmental organisation</td>
</tr>
<tr>
<td>NKG</td>
<td>Neumann Kaffee Gruppe</td>
</tr>
<tr>
<td>NOGAMU</td>
<td>National Organic Agricultural Movement of Uganda</td>
</tr>
<tr>
<td>NRM</td>
<td>National Resistance Movement (the ruling party in Uganda)</td>
</tr>
<tr>
<td>NSCS</td>
<td>National Seed Certification Service</td>
</tr>
<tr>
<td>NUCAFE</td>
<td>National Union of Coffee Agribusinesses and Farm Enterprises. (founded in 1995 as the Uganda Coffee Farmers Association (UCFA).</td>
</tr>
<tr>
<td>NUDIPU</td>
<td>National Union of Disabled Persons of Uganda</td>
</tr>
<tr>
<td>OECD</td>
<td>Organisation for Economic Cooperation and Development (Paris)</td>
</tr>
<tr>
<td>OPV</td>
<td>Open-pollinated variety – of seed</td>
</tr>
<tr>
<td>P4P</td>
<td>Purchase for Progress – WFP scheme</td>
</tr>
<tr>
<td>p.a.</td>
<td>Per annum</td>
</tr>
<tr>
<td>Abbreviation</td>
<td>Description</td>
</tr>
<tr>
<td>--------------</td>
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</tr>
<tr>
<td>PACT</td>
<td>An INGO that focuses on building communities</td>
</tr>
<tr>
<td>PAR</td>
<td>Portfolio at risk</td>
</tr>
<tr>
<td>pcm</td>
<td>Per calendar month</td>
</tr>
<tr>
<td>PEAP</td>
<td>Poverty Eradication Action Plan</td>
</tr>
<tr>
<td>PFA</td>
<td>Prosperity for All Programme (formerly known as Bonna Baggagawale)</td>
</tr>
<tr>
<td>PLAN</td>
<td>An INGO with a special interest in the welfare of children</td>
</tr>
<tr>
<td>PMA</td>
<td>Plan for Modernisation of Agriculture</td>
</tr>
<tr>
<td>PMS</td>
<td>Performance Monitoring System (for Tier 4 institutions in aggregate)</td>
</tr>
<tr>
<td>PMT</td>
<td>Performance Monitoring Tool (for Tier 4 institutions)</td>
</tr>
<tr>
<td>PO</td>
<td>Partner organisation (MSCL terminology)</td>
</tr>
<tr>
<td>PRDP</td>
<td>Peace, Recovery and Development Plan – for Northern Uganda</td>
</tr>
<tr>
<td>PRSP</td>
<td>Poverty Reduction Strategy Paper – World Bank</td>
</tr>
<tr>
<td>RATIN</td>
<td>Regional Agricultural Trade Intelligence Network</td>
</tr>
<tr>
<td>RMSP</td>
<td>Rural Microfinance Support Project (ADB/GoU)</td>
</tr>
<tr>
<td>RPO</td>
<td>Rural Production Organisation (see also ACE)</td>
</tr>
<tr>
<td>SACCO</td>
<td>Savings and Credit Cooperative (Tier 4 financial institution)</td>
</tr>
<tr>
<td>SCOPE</td>
<td>Strengthening the Competitiveness of Enterprise Development (former USAID project)</td>
</tr>
<tr>
<td>SHG</td>
<td>Self-help group</td>
</tr>
<tr>
<td>Sida</td>
<td>Swedish International Development Co-operation Agency</td>
</tr>
<tr>
<td>SIDI</td>
<td>Solidarité Internationale pour le Développement et l’Investissement</td>
</tr>
<tr>
<td>SME</td>
<td>Small / medium enterprise</td>
</tr>
<tr>
<td>SPEED</td>
<td>(Also Rural SPEED) Support for Private Enterprise Expansion and Development(former USAID project)</td>
</tr>
<tr>
<td>SPS</td>
<td>Sanitary and phyto-sanitary</td>
</tr>
<tr>
<td>UCA</td>
<td>Uganda Cooperative Alliance</td>
</tr>
<tr>
<td>UCB</td>
<td>Uganda Commercial Bank (now defunct)</td>
</tr>
<tr>
<td>UCDA</td>
<td>Uganda Coffee Development Authority</td>
</tr>
<tr>
<td>UCE</td>
<td>Uganda Commodity Exchange</td>
</tr>
<tr>
<td>UCFa</td>
<td>Uganda Coffee Farmers Alliance</td>
</tr>
<tr>
<td>UCGEA</td>
<td>Uganda Cotton Ginners and Exporters Association</td>
</tr>
<tr>
<td>UCOP</td>
<td>Unit cost of production</td>
</tr>
<tr>
<td>UCSCU</td>
<td>Uganda Cooperative Savings and Credit Union</td>
</tr>
<tr>
<td>UCTF</td>
<td>Uganda Coffee Trade Federation</td>
</tr>
<tr>
<td>UDB</td>
<td>Uganda Development Bank</td>
</tr>
<tr>
<td>UShs (UGX)</td>
<td>Uganda Shillings</td>
</tr>
<tr>
<td>UIB</td>
<td>Uganda Institute of Bankers</td>
</tr>
<tr>
<td>UML</td>
<td>Uganda Microfinance Ltd. now Equity Bank</td>
</tr>
<tr>
<td>UMU</td>
<td>Uganda Martyrs’ University</td>
</tr>
<tr>
<td>UN</td>
<td>United Nations</td>
</tr>
<tr>
<td>UNADA</td>
<td>Uganda National Agro-input Dealers Association</td>
</tr>
<tr>
<td>Acronym</td>
<td>Description</td>
</tr>
<tr>
<td>---------</td>
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</tr>
<tr>
<td>UNBS</td>
<td>Uganda National Bureau of Standards</td>
</tr>
<tr>
<td>UNCTAD</td>
<td>United Nations Conference on Trade and Development</td>
</tr>
<tr>
<td>UNEX</td>
<td>Union Export Services Ltd. - coffee export organisation for coops</td>
</tr>
<tr>
<td>UNHS</td>
<td>Uganda National Household Survey</td>
</tr>
<tr>
<td>URA</td>
<td>Uganda Revenue Authority</td>
</tr>
<tr>
<td>URM</td>
<td>Upland Rice Millers Ltd</td>
</tr>
<tr>
<td>USAID</td>
<td>United States Agency for International Development</td>
</tr>
<tr>
<td>USD</td>
<td>United States Dollar – also US$</td>
</tr>
<tr>
<td>USTA</td>
<td>Uganda Seed Trade Association</td>
</tr>
<tr>
<td>UWESO</td>
<td>Uganda Women’s Efforts to Save Orphans</td>
</tr>
<tr>
<td>VAT</td>
<td>Value Added Tax</td>
</tr>
<tr>
<td>WFP</td>
<td>World Food Programme</td>
</tr>
<tr>
<td>WII</td>
<td>Weather index insurance</td>
</tr>
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</table>