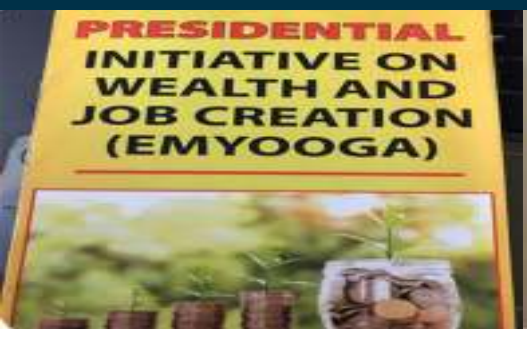
# AGRICULTURAL FINANCE YEAR BOOK

## 2024

Achieving sustainable financing of agriculture leveraging wealth creation funds



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**About this series**

The Yearbook presents views collected from various stakeholders within and outside the agricultural and finance sectors. The authors have synthesized and documented these views and also provided recommendations and conclusions with the aim of improving the state of agricultural finance in Uganda. The Articles presented in this Yearbook and the views expressed therein are those of the author(s).

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# FOREWORD

The 2024 Agricultural Finance Yearbook, which is the thirteenth edition in the series, offers the key highlights of Uganda's Agricultural financing environment. The theme for this edition is **"Achieving sustainable financing of Agriculture leveraging Wealth Creation Funds**". Particularly, the first chapter presents the trends in Uganda's Agricultural lending, focusing on new agricultural loan disbursements; demonstrates the governance gaps in Islamic Banking in Uganda and their implications for agriculture finance; and presents why Uganda needs an Agricultural Extension Services' Legislation. The chapter further discusses the progress Uganda has achieved in financing its coffee sector to meet the European Union Deforestation Regulation. Lastly, the chapter discusses regulatory loopholes that have caused the proliferation of counterfeit agricultural inputs in Uganda.

The second chapter of the yearbook discusses thoroughly how Uganda's agricultural sector can leverage both public and private sector Wealth Creation Funds to attract private sector credit. Particularly, the Book highlights the key successes and lessons for financing agribusinesses through the Financial Sector Deepening Uganda's Micro and Small Enterprises Recovery Fund; the progress on financing agricultural wealth creators through the Parish Development Model and the financing of agriculture enterprises under Stanbic Bank's Economic Enterprise Restart Fund. This chapter also presents how financing the agriculture sector in Uganda could leverage blended finance to attract private sector credit. It furthermore discusses the lessons from the implementation of the Small Business Recovery Fund for future financing of recovery of agribusinesses and highlights why Agricultural Credit Facility needs to include Tier IV institutions in its implementation to boost agricultural financing.

Chapter Three of the 2024 year book takes an assessment of the status of financing agricultural value chains in Uganda. Particularly, this chapter highlights the progress of financing small-scale cross-border traders of agricultural commodities; and highlights the extent and implications of child labour on Uganda's agricultural exports. The chapter further presents the cost of non-enforcement of East Africa grain quality standards in Uganda and finally presents an assessment of the readiness of agro-industries in Uganda to tap into opportunities presented by green financing funds, taking the case study of Bukona Agro-processors.

With regards to the chapter on innovative financing of agribusinesses, the 2024 year book demonstrates how Uganda can provide finances through Uganda Development Bank's Agri-Connect digital Platform; boosting financial institutions' lending based on moveable collateral; innovations in financing the energy needs of Uganda's Milk collection Centres, taking the case study of Heifer International's lease purchase plan; it also discusses the National Oil Palm Pricing Approach aimed at sustaining Uganda's thriving oil palm sector. The last chapter of year book presents the risk environment within which agricultural finance operates. It particularly presents the need for a fully differentiated Uganda Agriculture Insurance Scheme, explains why Tier IV financial institutions need to embrace credit information sharing to increase lenders' ability to predict default in agricultural financing. It further highlights the need for establishing an Export Insurance Credit Guarantee Scheme in Uganda. Lastly it shows how DFCU foundation's business development services programs can prepare Ugandan agribusinesses for credit, based on their progress and lessons learned .

We highly recommend this insightful book to all stakeholders working in, or with interest in, the agricultural sector in Uganda.

**Matia Kasaija (MP)**
Minister of Finance, Planning and Economic Development.

# EXECUTIVE SUMMARY

The first chapter of the Yearbook examines aspects of government policy and its implications for agriculture finance. The chapter reveals that there is a gap in prudential supervision of Islamic banking in Uganda with the removal of the Central Shari'ah law. It also highlights the key challenges in implementing the European Union Deforestation Regulation (EUDR), including a financing gap, misinformation on the purpose of EUDR, strict timelines, and industry alignment. The chapter further discusses the gaps in enforcement, limited institutional capacity, funding, and limited stakeholder engagement as hindrances in the fight against counterfeit agricultural inputs. The chapter reveals that the absence of an agricultural extension services legislation in Uganda has led to the proliferation of unqualified actors spreading misinformation to farmers and non-compliance.

Within the second chapter, the book thoroughly discusses the financing of Uganda's agricultural sector through wealth funds. Although wealth funds have registered tremendous success in providing finance for agriculture and other sectors in general, several challenges persist. For the Parish Development Model (PDM), it is revealed that SACCOs have insufficient skills to effectively utilize funds, SACCO leaders have capacity challenges which affect management and monitoring of operations, and there is a lack of market access. Similarly, the Stanbic Bank Economic Enterprise Restart Fund (EERF) highlights challenges such as abuse and mismanagement of SACCO funds by the SACCO leaders, conflict within SACCO leadership, and governance gaps. The chapter also reveals that the Small Business Recovery Fund (SBFR) is wrought with low uptake mainly due to its prohibitive eligibility criteria.

Chapter Three of the book takes an assessment of the status of financing agricultural value chains in Uganda. The chapter highlights key gaps in Uganda's Warehouse Receipt System Act 2006, such as the absence of provisions for electronic receipts, the limited scope of commodities covered, and inadequate penalties for non-compliance. The evidence in the chapter further highlights different criteria that agro-industries need to meet to access green financing. These include compliance with relevant laws and regulations, contribution to renewable energy production, alignment with national priorities, sustainability, scalability, and reliability. The chapter also highlights insufficient infrastructure, loopholes in border access encouraging smuggling, and corruption leading to harassment of traders as key challenges to small-scale cross-border agricultural commodity trade. The evidence further shows that the East African Grain Quality Regulations in Uganda are hindered by enforcement challenges that affect market access, especially for Uganda's maize output. The chapter highlights the need to introduce child labour-free certification in the agriculture supply chain and strengthen labour inspection to curb the persistent child labor in agriculture value chains.

Chapter four of the book presents innovations in financing agri-businesses. The Agri-connect digital platform highlights the opportunity of expanding credit for smallholder farmers through FinTech by providing efficient, low-cost cost and low-risk credit. Regarding the Security Interest in Movable Property Registry System (SIMPO), the chapter highlights that valuation difficulties, enforcement issues, limited knowledge about Asset-Based lending products, and inefficiency of existing second-hand markets limit the acceptance of movable collateral by financial institutions in Uganda. The Heifer International Solar Lease Purchase initiative highlights the need for extensive stakeholder engagement and transparent contracting frameworks in increasing uptake of innovative solutions in the agricultural sector. The chapter further reveals that global market trends, insurance, storage charges in Mombasa, transport charges, exchange rate and extraction rate are key determinants of oil palm pricing in Uganda.

The last chapter of the book presents the risk environment within which agricultural finance operates. It highlights the need for and benefits of having a fully differentiated Uganda Agriculture Insurance Scheme, which includes supporting high-risk regions and crops compared to the current model, which benefits farmers in lower-risk regions more. The chapter examines the benefits of Credit Information Sharing, including improved risk management at loan approval, and reduction of information asymmetry. The chapter further highlights the prerequisites for establishing an export insurance credit scheme. These include a well-defined stakeholder and institutional setup, risk sharing and operational framework, and awareness and capacity building. Finally, the chapter shows that tailor-made Business Development Services (BDS) support is effective and cooperatives are willing to pay for BDS support. However, there is a need to strengthen knowledge retention among farmer-based organizations and improve coordination among BDS providers.

# LIST OF ABBREVIATIONS AND ACRONYMS

| | |
|---|---|
| AAOIFI | Accounting and Auditing Organization for Islamic Financial Institutions |
| AAS | Annual Agriculture Survey |
| aBi | Agricultural Business Initiative |
| ACDP | Agricultural Cluster Development Project |
| ACF | Agricultural Credit Facility |
| ADC | Agribusiness Development Centre |
| AEAS | Agricultural Extension and Agricultural Service |
| AfDB | African Development Bank |
| AFYB | Agricultural Finance Yearbook |
| AGI | Agro-Industrialization |
| AGRA | Alliance for Green Revolution in Africa |
| AIC | Agro Consortium |
| AU | African Union |
| BAP | Business Accelerator Programme |
| BCBS | Basel Committee on Banking Supervision |
| BDS | Business Development Services |
| BoU | Bank of Uganda |
| BRELA | Business Registration and Licensing Agency |
| CAADP | Comprehensive Africa Agriculture Development Programme |
| CBOs | Community-Based Organizations |
| CIPA | Credit Information Providers Association |
| CIs | Credit Institutions |
| CIS | Credit Information Sharing |
| COD | Commercial Operation Date |
| COMCEC | Committee for Economic and Commercial Cooperation of the Organization of Islamic Cooperation |
| COMESA | Common Market for Eastern and Southern Africa |
| CPO | Crude Palm Oil |
| CRB | Credit Reference Bureau |
| CREEC | Centre for Research in Energy and Energy Conservation |
| CS3D | Corporate Sustainability Due Diligence Directive |
| CSA | Climate-Smart Agriculture |
| DCA | Development Credit Authority |
| DCDO | District/Subcounty Community Development Officer |
| DCOs | Digital Credit Officers |
| DFCU | Development Finance Company of Uganda |
| DPs | Development partners |
| DRE | Distributed Renewable Energy |
| EABC | East African Business Council |
| EAC | East African Community |
| ECGS | Export Credit Guarantee Scheme |

| | |
|---|---|
| EERF | Economic Enterprise Restart Fund |
| EIB | European Investment Bank |
| EICGS | Export Insurance Credit Guarantee Scheme |
| EPRC | Economic Policy Research Centre |
| ESG | Environmental, Social Governance |
| EU | European Union |
| EUDR | European Union Deforestation Regulation |
| FAO | Food and Agriculture Organization of the United Nations |
| FBOs | Farmer-based Organizations |
| FEWSNET | Famine Early Warning Systems Network |
| FinTech | Financial Technology |
| FFB | Fresh Fruit Batch |
| FMDCU | Fertilizer Market Development Coordination Unit |
| FOB | Free on Board |
| FSDU | Financial Sector Deepening Uganda |
| GCC | Gulf Corporation Council |
| GIZ | Deutsche Gesellschaft für Internationale Zusammenarbeit |
| GoU | Government of Uganda |
| GROW | Growth Opportunities and Productivity for Women Enterprises |
| ICBT | Informal Cross-Border Trade |
| ICT | Information and Communication Technology |
| IFC | International Finance Corporation |
| IFPRI | International Food Policy Research Institute |
| IFSB | Islamic Financial Services Board |
| IIFM | International Islamic Financial Market |
| ILO | International Labour Organization |
| IMF | International Monetary Fund |
| IRA | Insurance Regulatory Authority |
| IsDB | Islamic Development Bank |
| ITC | International Trade Cooperation |
| MAAIF | Ministry of Agriculture, Animal Industries and Fisheries |
| MCCs | Milk Collection Centres |
| MDAs | Ministries, Departments and Agencies |
| MDIs | Micro-Deposit Taking Institutions |
| MEMD | Ministry of Energy and Mineral Development |
| MFIs | Micro-Finance Institutions |
| MoA | Memorandum of Agreement |
| MoES | Ministry of Education and Sports |
| MoFPED | Ministry of Finance, Planning and Economic Development |
| MoGLSD | Ministry of Gender, Labour and Social Development |
| MoICT | Ministry of Information, Communication, Technology and National Guidance |
| MoLG | Ministry of Local Government |
| MSERF | Micro and Small Enterprise Recovery Fund |

| | |
|---|---|
| MSEs | Micro and Small Enterprises |
| MSMEs | Micro, Small and Medium Enterprises |
| MTEF | Medium-Term Expenditure Framework |
| MTIC | Ministry of Trade, Industry and Cooperatives |
| NAADS | National Agricultural Advisory Services |
| NAES | National Agricultural Extension Strategy |
| NARO | National Agricultural Research Organisation |
| NCPB | National Cereals and Produce Board |
| NDA | National Drugs Authority |
| NDP | National Development Plan |
| NFP | National Fertilizer Policy |
| NFRA | National Food Reserve Agency |
| NOPP | National Oil Palm Project |
| NPA | National Planning Authority |
| NPC | National Pricing Committee |
| NPL | Non-Performing Loans |
| NSSF | National Social Security Fund |
| NTBs | Non-Tariff Barriers |
| OECD | Organisation for Economic Cooperation and Development |
| OIC | Organization of Islamic Cooperation |
| OPM | Office of the Prime Minister |
| OPUL | Oil Palm Uganda Limited |
| OWC | Operation Wealth Creation |
| PAYE | Pay as You Earn |
| PBMIS | Parish-Based Management Information System |
| PDM | Parish Development Model |
| PFIs | Participating Financial Institutions |
| PREO | Powering Renewable Energy Opportunities programme |
| PRF | Parish Revolving Fund |
| PRM | Price Risk Management |
| PROFIRA | Project for Financial Inclusion in Rural Areas |
| PSFU | Private Sector Foundation Uganda |
| RFIs | Regulated Financial Institutions |
| ROSCAs | Rotating Savings and Credit Associations |
| SACCOs | Savings and Credit Cooperatives |
| SAP | Structural Adjustment Programme |
| SBRF | Small Business Recovery Fund |
| SDGs | Sustainable Development Goals |
| SIMPO | Security Interest in Movable Property |
| SMEs | Small and Medium Enterprises |
| SRBF | Small Business Recovery Fund |
| SSCBT | Small-scale cross-border trade |
| SSES | Single Spine Extension System |

| | |
|---|---|
| SSNBS | South Sudan National Bureau of Standards |
| STR | Simplified Trade Regime |
| UAIS | Uganda Agriculture Insurance Scheme |
| UBOS | Uganda Bureau of Statistics |
| UCDA | Uganda Coffee Development Authority |
| UCA | Uganda cooperative Alliance |
| UCF | Uganda Coffee Federation |
| UDBL | Uganda Development Bank Limited |
| UDC | Uganda Development Corporation |
| UEPB | Uganda Export Promotion Board |
| UFCC | Uganda Federation of Community Cooperatives |
| UGGDS | Uganda Green Growth Development Strategy 2017/18– 2030/31 |
| UMA | Uganda Meteorological Authority |
| UMRA | Uganda Microfinance Regulatory Authority |
| UMSC | Uganda Muslim Supreme Council |
| UN | United Nations |
| UNBS | Uganda National Bureau of Standards |
| UNCCI | Uganda National Chamber of Commerce and Industry |
| UNCDF | United Nations Capital Development Fund |
| UNDP | United Nations Development Programme |
| UNHS | Uganda National Household Survey |
| UNICEF | United Nations Children's Fund |
| UNIDO | United Nations Industrial Development Organization |
| URA | Uganda Revenue Authority |
| URSB | Uganda Registration Services Bureau |
| USAID | United States Agency for International Development |
| UWRSA | Uganda Warehouse Receipt System Authority |
| VAT | Value Added Tax |
| VSLAs | Village Saving and Loan Associations |
| WFP | World Food Programme |
| WRS | Warehouse Receipt System |

CHAPTER

# 1

# POLICY PERSPECTIVES

# 1.1 TRENDS IN AGRICULTURAL LENDING BY REGULATED FINANCIAL INSTITUTIONS IN UGANDA

Brian Sserunjogi[1]

## 1.1.1 Background

Since its first edition in 2007, the Agricultural Finance Yearbook (AFYB) has provided information on lending to the agricultural sector by financial institutions regulated by the Bank of Uganda. This first article in this 13th edition of the AFYB reviews trends in cash advances to the agriculture sector in Uganda by Regulated Financial Institutions (RFIs). The review covers the period 2007 to 2023 and provides general information on RFI lending to the sector[2].

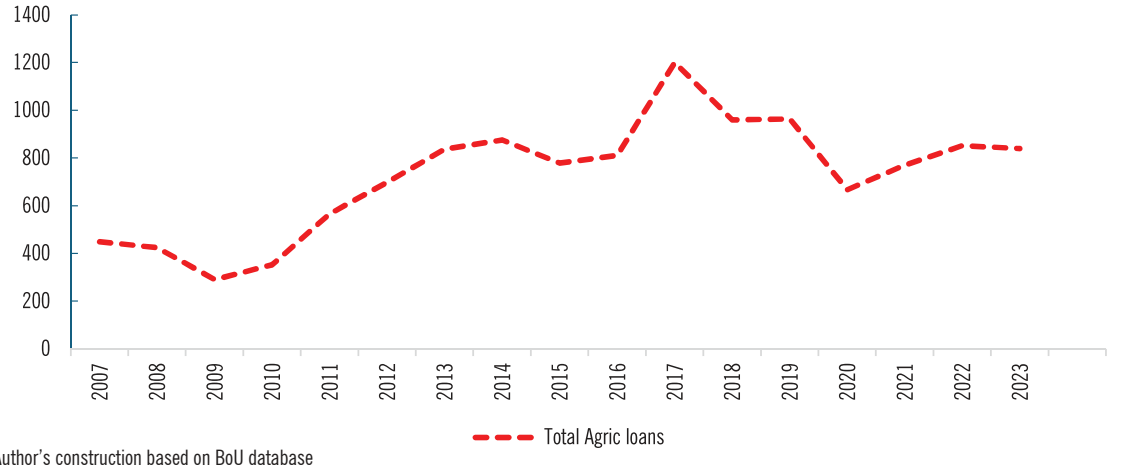
In this article, focus is on new advances to the agricultural sector rather than on outstanding portfolios. This approach provides a more dynamic perspective of development in lending for agriculture in the country. Examined in broad terms are: trends in total agricultural lending; level of participation of RFIs in agricultural lending; deepening of agricultural lending as reflected in the number of RFIs licensed; and disbursements made to the different segments of the agricultural value chains and actors.

## 1.1.2 Trends in Total Agricultural Lending

Over a 10-year period (2009-2020), there was substantial progress in private sector lending to the agricultural sector in Uganda, with growth in new private sector loan advances to the sector being much more impressive in the period 2009-2017 than in the period 2018-2020 (Figure 1). Between 2009 and 2014, in particular, total agricultural lending increased three-fold, from Uganda shillings (UGX) 291 billion to UGX 876 billion.

The rapid growth in new loan advances to the agricultural sector emanated from various sources. First was the establishment of the Agricultural Credit Facility (ACF) by the Bank of Uganda in 2009 and an increase in its funding over the first five years of existence. Government Budget allocation towards the ACF increased from UGX 20.5 billion in 2009/10 to UGX 30 billion in 2014/2015.[3] Second was the number of Tier-1 institutions (or Commercial Banks) that increased from 21 in 2009 to 25 in 2015.[4] Since commercial banks provide the largest share of agricultural loans, the licensing of four new banks between 2009 and 2014 substantially impacted disbursement of new agricultural loans in the period.

**Figure 1: New loan advances to the agriculture sector between 2007 and 2023**




Source: Author's construction based on BoU database

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2 The cooperation of the Bank of Uganda and of supervised financial institutions in providing the data on which this and previous articles are based, is greatly appreciated

3 https://www.bou.or.ug/bou/rates_statistics/statistics.html

4 Tier 1 are Financial Institutions regulated by Bank of Uganda, as of 2010, whose minimum capital requirements is UGX 25 billion.

Thirdly, due to increased use of financial technological (FinTech) innovations by financial institutions, especially in agency banking, new loan advances to the agriculture sector grew exponentially between 2016 and 2019. These technologies vastly eased access to banking for the previously unbanked and also reduced operational costs and risk aversion to lending for agriculture. In 2019, in particular, the number of Bank Agents increased from 4,022 to 11,330- a 10 percent month-on-month growth rate. All these positively impacted lending to the agricultural sector during the period.

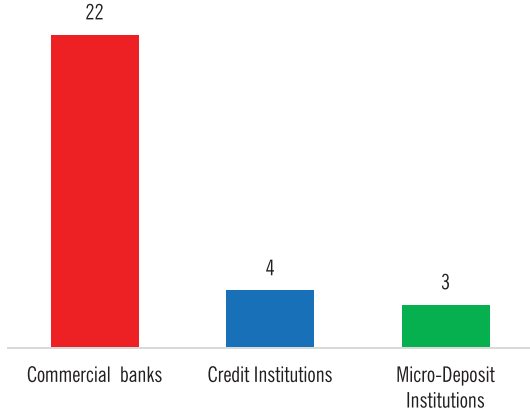
While a slight upturn in new loan advances to the agriculture sector was observed between 2020 and 2021, this was immediately followed by stagnation in lending to agriculture (2022-2023). In this period, new loan advances for agriculture marginally declined from UGX 852 billion in 2022 to UGX 840 billion in 2023. The stagnation was partly due to a moderate rise in lending rates in 2023 which, for the agriculture sector, kept lending rates high and unattractive. During the last quarter of 2023, for instance, the average prime lending rate for commercial banks remained unchanged at 20.5 percent (UBA, 2023)[5].

The stagnation in loan disbursement to agriculture was also compounded by the increased SFI risk aversion due to increase in non-performing loans (NPLs) in the other economic sectors. This was due to severe adverse effects of the COVID-19 pandemic and lockdown that virtually put a stop to general economic activities in the country and world-wide. As reflected in the Bank of Uganda Supervisory Report (2023), in 2022, NPLs in the manufacturing and trade sectors increased by 568.3 percent and 15.6 percent, respectively.

### 1.1.3 Sources of Credit for Agriculture in Uganda

In Uganda, agri-entrepreneurs obtain credit from diverse sources including government institutions, credit and micro-deposit entities, and even individual lenders. The most important sources of private sector credit, however, are commercial banks (now numbering 22 in the country), followed by Credit Institutions (4), and Micro-Deposit Institutions (MDI) (3 in number) (Figure 2).

**Figure 2: Number of regulated financial institutions in Uganda (January 2024)**




Source: Author's construction based on data from BoU annual supervision reports (various years)[6]

Over the years, the number of regulated financial institutions has varied due to dynamics in Uganda's financial sector regulatory environment. For instance, on 16th November 2022, Bank of Uganda issued a statutory instrument that increased the minimum paid-up capital requirement and minimum capital unimpaired by losses for commercial banks from UGX 25 billion to UGX 150 billion. Following the revision, by July 2024, three commercial banks- ABC Capital Bank, Guaranty Trust Bank and Opportunity Bank Limited- transitioned from Tier 1 commercial banks to Tier II Credit Institutions. This development effectively reduced the total number of commercial banks from 25 in 2023 to 22 in 2024.

Besides Tier 1 commercial banks, changes in the number of Tier II Credit Institutions as well as Tier III Micro-Deposit Taking Institutions have occurred. For instance, Mercantile Credit Bank Limited, a Tier II Credit institution, was closed in June 2024, which reduced the number of credit institutions from 4 to 3. On the other hand, effective November 2024, Pride Microfinance Limited that was operating as a MDI was upgraded from a Tier III deposit taking institution to a Tier II Credit Institution. This upgrade restored the number of Tier II Credit Institutions

5 UBA (2023) Uganda's Banking Sector Report. Accessed from https://ugandabankers.org/Uganda's%20Banking%20Sector%20Report%20for%20the%20year%202023%20and%20June%202024%20.pdf

6 https://bou.or.ug/bouwebsite/Supervision/supervisedinstitutions.html

to 4 as was the case in March 2023.

In regard to Tier III Microfinance Deposit taking institutions, Bank of Uganda revoked the license of EFC Uganda Limited and closed its operation in January 2024. This closure reduced the number of MDIs from 4 as at March 2023 to 3 by January 2024. However, the upgrade of EBO Cooperative Savings and Credit Society Limited to a Tier III MDIs restored the number of MDI to 4 in the same January of 2024.

### 1.1.4 Agricultural Lending by Categories of Financial Institutions

Review of private sector credit disbursement to Uganda's agricultural sector by categories of RFIs shows that commercial banks remain the main contributors to new loan advances for agriculture, accounting for over 60 percent of disbursements (Figure 3). Even then, credit flow from Tier 1 commercial banks stagnated between 2022 and 2023. As already mentioned in Section 1.2 above an increase in non-performing loan (NPL) portfolios in other sectors of the economy, due to the COVID-19 pandemic, curtailed growth in commercial bank lending for agriculture.

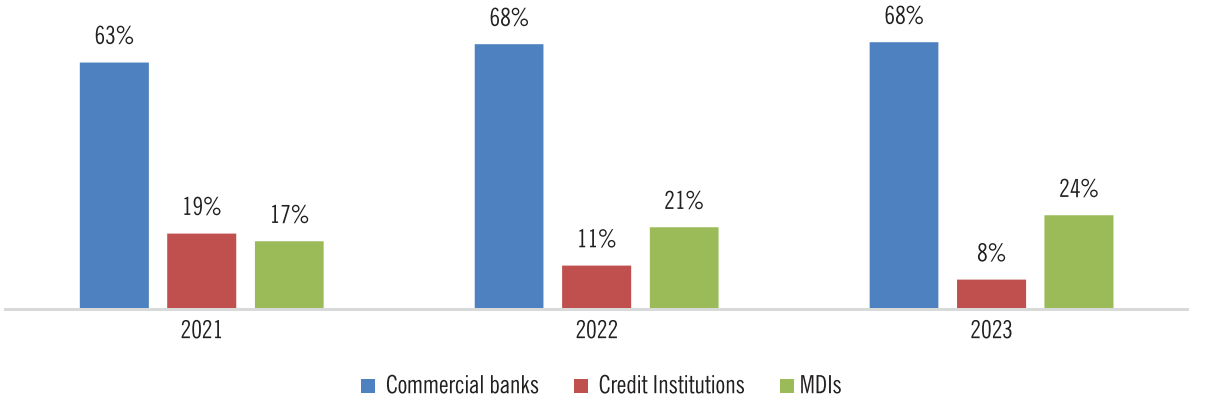
In contrast, during the same period, there was a steady increase in disbursement of agricultural credit through MDIs (Figure 3). New loan disbursement to the agriculture sector increased from 17 percent in 2020 to 21 percent in 2021, and further to 24 percent by 2024. The significant growth in the use of this channel for agriculture was partly due to the expanded use of MDIs to dispense funds for business recovery support.

Indeed, since 2021 to date, several COVID-19 recovery funds, such as the Stanbic Economic Enterprise Restart Fund and FSDU's Micro Enterprise Recovery Funds, targeted Tier III MDIs that have linkages with Savings and Credit Cooperatives (SACCOs), Village Saving and Loan Associations (VSLAs), Rotating Savings and Credit Associations (ROSCAs), Community-Based Organizations (CBOs) etc. to disburse agricultural loans.

Given the increasing role of Tier III financial institutions in the provision of agricultural loans that are currently largely channeled through Tier 1 commercial banks, Government must bring these Tier III institutions into the disbursement of the Agricultural Credit Facility (ACF) to ensure access of rural communities to affordable agricultural credit under the ACF which is Uganda's largest public-private programme for agricultural credit provision.

These delivery mechanisms could entail Tier 1 PFIs linking up with lower Tiers, such as SACCOs and VSLAs, to directly deliver ACF funds to rural communities. To further ensure success, only Tier IV microfinance institutions regulated under the Uganda Microfinance Regulatory Authority (UMRA) could be enabled to participate in this arrangement.

**Figure 3: Trends in agriculture credit disbursement by type of financial institutions**




Source: Author's compilation based on statistics in the BoU Annual supervision reports (various years)

### 1.1.5 Comparative Lending for Agricultural Value-Chain Activities

Given the current focus of the government on wealth creation through full agricultural value chain interventions, as outlined in the National Development Plan (NDP) IV and NARO Strategic Plan 2025-2030, government is increasing its funding support for the agriculture sector. Since reopening of the economy in 2021 following the COVID-19 economic disruptions, agricultural credit flow towards the production activities has registered significant growth (Figure 4). Of particular, for instance, agricultural production related financing increased by 38 percent, from UGX 355 billion in 2022 to UGX 489 billion in 2023. This growth in agricultural production credit is partly attributed to increased credit availability from recovery funds, and disbursement under the Parish Development Model (PDM) (see Part II).

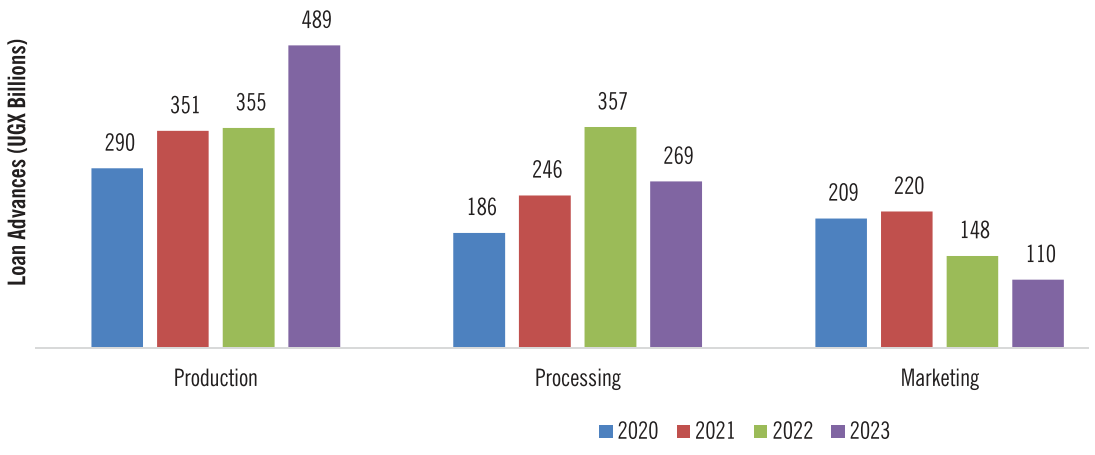
Indeed, since 2021, several organizations started recovery funds that increasingly disbursed agricultural credit to the last mile borrowers through linkage banking. This was achieved by mainly targeting Lower Tier financial institutions, as well as the unregulated institutions such as SACCOs, ROSCAs and VSLAs. As a result, by 2023, the Micro and Small Enterprise Recovery Fund had disbursed UGX 64 billion out of its target UGX 80 billion. This funding was intended to promote micro and small enterprises in the agribusiness sub sector that borrow in the ranges of UGX 100,000 to UGX 10 million targeted towards the agriculture sector. In the same vein, the Stanbic Economic Enterprise Recovery Fund disbursed UGX 100 billion towards agricultural related SACCOs. Of this fund, about 90 percent was disbursed through agriculture-related SACCOs. By end of 2023, MoFPED had also disbursed UGX 797 billion to Parish SACCOs under the PDM programme.

In contrast, in the same review period, agricultural credit flow toward the processing and marketing segments of the agricultural value chain declined. The highest decline in credit flow was registered for the processing activities, which dropped by 25 percent from UGX 357 billion in 2022 to 269 billion in 2023. Likewise, private sector credit flow to the marketing segment of the agricultural value chain also registered significant decline during the study period.

### 1.1.6 Emerging Policy Options

Based on the above review, it is clear that disbursement of new loans for the agriculture sector in Uganda has recovered since reopening of the economy following the COVID-19 lockdown in 2020. In spite the recovery, however, new agricultural sector loan disbursements remain below its pre-COVID-19 levels. It is also a fact that despite significant growth in agricultural loan disbursement through Credit Institutions and MDIs, buoyed by agricultural credit availed through enterprise recovery funds and PDM mainly targeting the smallholder farmers, commercial banks continue to dominate new loan advances to the agricultural sector.

**Figure 4: Trends in agriculture credit flow by type of value chain activity**




Source: Author's computation based on BoU database

Clearly, the dominance in agricultural credit lending by commercial banks does not address the fact that these banks are not easily accessible to rural communities. It was also clear from the study that MDIs and Credit Institutions dominate the financing of agricultural production by smallholder farmers, while commercial banks and lenders prioritize the financing of produce trade and the processing segments of the agricultural value chains.

In light of the above analyses and facts, it is proposed that the following policy options be urgently considered:

i. Because the majority of agricultural borrowers who are small-holder farmers obtain their credit largely from Tier IV financial institutions, government should institute quick measures to incorporate lower Tier (Tier IV) financial institutions into the delivery of the Agricultural Credit Facility loans. This will entail working with the Uganda Microfinance Regulatory Authority to link registered microfinance institutions with the Bank of Uganda regulated financial institutions.

ii. **Measures to improve financial management within SACCOs**: To effectively deliver agricultural credit to last mile borrowers through linkage banking partnerships, government must build the capacities of SACCOs and farmers' cooperatives to effectively manage group and member finances and lead members in sound use of their finances, assets and resources.

iii. **Close governance gaps within SACCOs**: For many SACCOs in Uganda, there is currently inadequate transparency, accountability, and effective management by SACCO leaders and Staff. This gap does not allow SACCOs to fulfill their mandates of empowering members financially and guiding their progress in finance and business management. Framework regulation and interventions should be considered to end abuse within SACCOs, and to facilitate transformation of SACCOs into vehicles of rural economic transformation.

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# 1.2 GOVERNANCE GAPS IN ISLAMIC BANKING IN UGANDA AND THEIR IMPLICATIONS FOR AGRICULTURE FINANCE

Lujja Sulaiman[1]

### 1.2.1 Background

Despite its name, Islamic banking is not a religious product. It is rather banking products and services developed to meet the requirements of people in a way that complies with the principles of *Shari'ah* (Islamic Law). The main characteristics of Islamic banking include: (i) prohibition of interest/*riba*; (ii) disapproval of speculation/*gharar*; (iii) money has no intrinsic value thus cannot be sold; (iv) wealth must be generated from legitimate transactions; (v) transactions must be linked to real economic sector; and (vi) no risk no gain (Lujja, 2017; OECD, 2020).

Many non-Muslim countries, such as the USA, UK, Bosnia, Denmark, France, Germany, Holland, Luxembourg, Russia, Switzerland, Australia, Spain, Canada and South Africa, have adopted Islamic banking. Besides, major international banks, such as HSBC, JP Morgan, Barclays Capital, Lloyds TSB, ANZ Grindlays, Citi Group, West Bromwich Building Society, Yorkshire Bank and Standard Chartered Bank, among others, have Islamic banking products. This demonstrates that Islamic banking makes business sense to even non-Muslims (Lujja, 2017)

The uniqueness of Islamic banking is rooted in the Islamic economic system which requires that all human endeavors must be value-loaded, and within the Islamic worldview. This position not only prohibit interest charges but also considers other concepts, such as problem of the consumer and the firm, market structure and economic development (Lujja, 2017). The strong foundation of Islamic economic system profoundly connects Islamic banking system to life after death which, according to Islam, has ultimate and eternal significance. This stand raised the Islamic finance profile in the global Islamic financial system, with Islamic finance offering lower systemic risks and more robust and sustainable financing system compared to its conventional counterparts (OECD, 2020).

Globally, the Sustainable Development Goals (SDGs) of 193 United Nations (UN) member states encourage all countries, regardless of income, to confront global issues including among others agricultural productivity through SDG-2 'Zero Hunger'- the second goal of the UN to be attain in member countries by 2030 (Overseas Development Institutions, 2020). In Uganda, government policies and plans recognize the transformative role that agricultural modernization can play, include priority areas such as productivity enhancement and attainment of SDG-2 of the UN. The 2020/21-2024/25 Strategic Plan of the Ministry of Agriculture, Animal Industries and Fisheries (MAAIF) also affirms the fact that the agricultural sector

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continues to employ majority of the workforce, with 72 percent of the working poor engaged in agricultural activities (Overseas Development Institutions, 2020; Agro-Industrialisation Programme, 2021; UBOS, 2023). Yet, despite the detailed MAAIF Plan and the significance of agriculture to the country, the budgetary allocation towards the sector remains extremely low. This gap requires funding complements from institutional lenders, including practitioners of Islamic banking.

In Islamic banking, there are alternative forms of financing, such as Islamic agricultural financing (Islamic modes of financing extended for agricultural sector activities), that can be tapped by countries as they seek to attain the SDGs by 2030. Indeed, a significant share of *Shari'ah* compliant resources could potentially be mobilized by Uganda for agricultural productivity enhancement (SDG-2) since the country has embraced and is familiarized with Islamic banking products, services, procedures and governance (Yahuza & Aziz, 2023). This article highlights gaps in the governance framework of Islamic banking in Uganda that is affecting expansion of Islamic finance and, particularly, the expansion of financing for agriculture.

### 1.2.2 A Global View of Governance of Islamic Banking System

Due its uniqueness, although Islamic banking is accommodated within the scope of the global financial system, its world-wide operation faces challenges because global banking regulation is spearheaded by the Basel Committee on Banking Supervision (BCBS). The BCBS is a forum for regular cooperation on regulatory and supervisory matters in banking that uphold the worldwide quality of banking supervision through setting of standards to secure convergence on supervisory regulations of internationally active banks (Goodhart, 2011; Lujja, 2016). The adoption of these international standards promotes effective risk-management culture in Islamic banks, and makes them develop sound internal rating and control systems. These ultimately improve and enhance the stability and external rating of Islamic banks (Basel Committee on Banking Supervision, 2006).

Against the BCBS standards, however, Islamic banks hold complaints about conventional banking regulations (Chapra and Khan, 2000). First is that convectional banking regulations are imposed on Islamic banks, yet the latter were unique in their bank-customer relationships. Indeed, while the relationship of Islamic banks with users of their funds is participatory (partnership and exchange-based), the relationship of conventional banks with users of their funds is creditor-debtor based. Given the unique nature of their banking transactions, in Uganda, Islamic banks require two layers of governance, i.e. corporate governance, because Islamic banking falls under the scope of banking services in Uganda (Section 162 of the Constitution of the Republic of Uganda); and *Shari'ah* governance because *Shari'ah* determines the Islamicity of Islamic banking system (Lujja, 2017).

The logical foundation of Corporate Governance in Islamic banks necessitates an additional layer of governance, i.e. *Shari'ah* governance, to ensure compliance of the unique Islamic banking operations with *Shari'ah* principles. *Shari'ah* governance is an organized arrangement under which the Regulator and financial institutions offering Islamic financial products ensure effective oversight and responsibility of the Board, *Shari'ah* Advisory Board, and Management to ensure *Shari'ah* compliance of Islamic banking operations to obtain stakeholder confidence.

Although *Shari'ah* is typically described as "Islamic Law", its boundaries go beyond the limited horizons of jurisprudence to include a set of norms and values that guide the Islamic way of life i.e.; belief, worship, economics, social, political and cultural affairs. When applied to banking, much of *Shari'ah* interpretations consider issues such as social justice, equity and fairness, public interest, as well as practicality of commercial transactions. This is because the overall objective of *Shari'ah* is to realize public welfare (*maslahah*) and to prevent harm (*mafsadah*) (OECD, 2020). It is against this background that *Shari'ah* is the guiding principle of the Islamic banking system (Lujja, 2016).

Islamic banking adopts *Shari'ah* (Islamic law) only to the extent of commercial transactions, but it does not extend to other domain of the Islamic religious affairs

such as belief, worship and social conduct. It is due to this universality that the global Islamic financial assets grew at an average rate of 11.7 percent in the year 2019 compared to the earlier period when it grew at an average rate of 16.1 percent between 2009 and 2014. The Global Islamic Finance Report (2020) established that *Shari'ah* authenticity deficit[2] and *Shari'ah* arbitrage[3] were the major contributors to this growth decline.

In a bid to comply with *Shari'ah* in Islamic financial transactions, various Shari'ah governance models have been adopted, with some countries favouring involvement of their regulatory authorities (i.e.; centralized model) and others shifting the entire *Shari'ah* governance responsibility to financial institutions (i.e.; decentralized model). Hasan (2010) categorized the approaches to *Shari'ah* governance across different jurisdictions into five, based on three respective jurisdictions (from three predominant regions) as the case study namely; Malaysia, Gulf Corporation Council (GCC) countries and the United Kingdom (UK) as highlighted below.

i) **Pro-Active Approach**. This is where *Shari'ah* governance is reinforced by government through distinct regulatory authorities. A two-tiered *Shari'ah* governance infrastructure is established, i.e. at Central Bank level (Central Shari'ah Advisory Council) and at financial institution level (Shari'ah Advisory Board) to ensure end-to-end compliance with *Shari'ah* principles. The Central Shari'ah Advisory Council helps to harmonize and standardize the interpretation of *Shari'ah* doctrines to avoid conflicting *fatwas* or *Shari'ah* rulings. Malaysia is best known for this approach.

ii) **Passive Approach**. This is where authorities have the same treatment for both Islamic and conventional financial institutions that utilize self-initiative rather than regulatory requirement to institute reasonable *Shari'ah* governance system. This approach was solely practiced by Saudi Arabia where Islamic banks were influenced by Islamic *Fiqh* Academy of the Organization of Islamic Cooperation (OIC) and the National *Fatwa* Council (*Al-Lajna al-Da'im*) on top of having a dedicated Ministry of Islamic Affairs, *Dawah* and Guidance which all provide guidance on *Shari'ah* related matters.

iii) **Minimalist Approach**. This is where the market develops its own *Shari'ah* governance system with little involvement of authorities, with detailed *Shari'ah* governance system undertaken at institutional level. This approach is popular in the GCC countries where Islamic banks are statutorily guided by Accounting and Auditing Organization for Islamic Financial Institutions/AAOIFI (Hamza, 2013).

iv) **Neutral-treatment Approach**. This is where the authority keeps silent on *Shari'ah* governance system. Instead, Islamic banks are merely required to comply with the existing (traditional) laws like all others. Banks have the duty of formulating mechanisms to comply with *Shari'ah* without any obligation and supervision from authorities. The UK is best known for this approach as it leaves responsibility for *Shari'ah* compliance to Islamic banks.

### 1.2.3 Progress in the Governance of Islamic Banking in Uganda

Unlike other countries, especially in East Africa, Uganda decided to roll out Islamic banking system after amending the existing legal framework. Following enactment of the *Financial Institutions (Amendment) Act 2016*, the Ministry of Finance gazetted the Financial Institutions (Islamic Banking) Regulations 2018 to provide for licensing and operation of Islamic financial business; its regulatory framework; and the regulation of financial institutions conducting Islamic financial business to ensure that they conduct operations in accordance with *Shari'ah* (Bank of Uganda, 2018).

From the perspective of the BoU, however, Section 115B (2) of the *Financial Institutions (Amendment) Act 2016*

2 Shari'ah authenticity deficit is the perception held by Islamic banking stakeholders (especially people on the demand side of financial services) that Islamic banking is only insufficiently different from conventional banking and hence is only partially in compliance with *Shari'ah* requirements.

3 *Shari'ah* arbitrage is exploitation of the conservative Muslims in the hands of bankers who offer them similar financial services as conventional financial institutions do, in the guise of Islamic finance to maximize profits as much as their conventional counterparts or even charge more for providing alternative financial services that are, superficially, *Shari'ah* compliant.

that provided for the Central *Shari'ah* Advisory Council at the Central Bank was not prudent. This was because one of the mandates of BoU is to approve Islamic products; which mandate overlaps with that of the Shari'ah Advisory Board at financial institutions level as per Section 115B (1) of the same Act.

In terms of governance, a regulator cannot approve products of Financial Institutions it regulates. Accordingly, on 27th June 2023, Section 115B (2) of the Act as amended in 2016 was repealed and Section 115B (4) was amended to remove the Central *Shari'ah* Advisory Board and its effect. It was in the same spirit of operationalizing Islamic banking that the Income Tax (Amendment) Bill 2023, the Value Added Tax (Amendment) Bill 2023, the Stamp Duty (Amendment) Bill 2023, and the Excise Duty (Amendment) Bill 2023 were also passed by Parliament on 27th June 2023, to provide for parity of tax treatment of Islamic financial business and Islamic insurance with conventional financial services and insurance business (Parliament of the Republic of Uganda, 2023).

Following the above amendments of the Financial Institutions Act and the tax regime, BoU issued the first Islamic banking license to Salaam Bank Uganda on 8th September 2023. This is a Tier 2 (Credit Institution) owned by Salaam Africa Bank, a full-fledged Islamic bank in Djibouti, which recently entered Uganda's financial landscape after acquiring Top Finance Bank. Whereas BoU is currently processing Islamic banking applications from Tier 1 (Commercial banks), there is currently no application from Tier 3 (Microfinance Deposit-Taking Institutions). It is important to note however that Islamic financial business is already operational in Tier 4 financial institutions that do not require licensing or special approval from the Regulator.

### 1.2.4 Implications of Shari'ah Governance System for Lending to Agriculture

During the 2024 Islamic Development Bank Group annual meeting in Riyadh Saudi Arabia, Uganda signed a financing agreement with IsDB worth USD 295 million for upgrading National Roads. The project aims to improve the socio-economic development of Uganda through better infrastructure, facilitating access to markets for farmers and traders among others. Under its Islamic Finance Advisory and Technical Assistance Division, IsDB has supported Uganda in developing the Islamic banking regulatory framework (including Shari'ah governance) under its Capacity Development Projects that are totaling to 180 across its member countries and worth USD 200,000 (Islamic Finance Advisory and Technical Assistance, 2024).

Uganda's familiarity with Islamic banking products, services and procedures will grant her numerous opportunities in respect to Islamic financing, mainly from the GCC. When *Shari'ah* governance system is streamlined, a significant share of *Shari'ah* compliant resources may be mobilized for agricultural productivity (SDG-2). For instance, IsDB new business model intends to boost the competitiveness of member countries by supporting them develop strategic industries for which they have comparative advantages, and crafting local supply chains and integrating them with Global Value Chains (IsDB Uganda Hub, 2020). For Uganda to tap such opportunity, the country needs to bridge gaps in the governance framework for Islamic banking.

### 1.2.5 Gaps in Governance of Islamic Banking System in Uganda

The coming into force of the *Financial Institutions (Amendment) Act 2023* removed the Central Shari'ah Advisory Council from the BoU that was previously mandated to regulate *Shari'ah* governance across Islamic banking. The amendment shifted the responsibility of *Shari'ah* governance to financial institutions that engage in Islamic financial business. This, however, has created a huge gap in prudential supervision of Islamic banking in Uganda and has caused delays in BoU issuing Islamic banking license to Tier 1 financial institutions.

According to evidence from research by Lujja (2016), BoU needs to monitor the functioning of Islamic banks from the *Shari'ah* perspective to avoid confusion and ensure standardization of Islamic banking operations across the industry. This is because *Shari'ah* (Islamic law) is subject to different interpretations by every *Shari'ah*

scholar at different times and locations that can lead to confusion and loss of customer trust in the whole industry. Standardization of *Shari'ah* interpretation is therefore necessary to ensure harmonization of the divergent views of *Shari'ah* scholars and Shari'ah Advisory Boards in respect to key *Shari'ah* related matters.

### 1.2.5.1 Closing institutional gaps in Islamic banking

When the *Shari'ah* governance system in Uganda is streamlined, financial institutions offering Islamic banking products will uplift Islamic agricultural financing because some of these products are currently objected to for merely mimicking conventional products without fulfilling the requirements of *Shari'ah*. Establishing *Shari'ah* governance system will ensure that Islamic agricultural financing fulfills the objectives of *Shari'ah*. These products include, among others, sharecropping (such as *muzara'ah, musaqah,* and *mugharasah*) and forward sale (*Salam*) (Yahuza & Aziz, 2023).

Since the agricultural sector remains the most essential real economic sector in Uganda, particularly in respect to rural peasant farmers, *Shari'ah* exceptionally allowed the contract of forward sale (*Salam*), although it constitutes selling non-existent items (*bay'al ma'dum*) which is prohibited under normal circumstances. *Salam* (forward sale) is a sale contract where one party sells specific goods/commodities to another party at a price paid in cash while the goods/ commodities are to be delivered at a future date. This product constitutes advanced funding on trust that fits well with the severe need of poor rural people for cash for production.

### 1.2.5.2 Emerging Policy Options

Against the above issues and the need for Uganda to tap resource opportunities that Islamic banking offer, there is urgency for the country to review and implement various policy options in respect to Islamic banking some of which are outlined below.

i) **Government involvement in *Shari'ah* governance matters.** Although Uganda has opted for the Neutral-treatment Approach of *Shari'ah* governance, where the Regulator shifts the entire *Shari'ah* governance responsibility to financial institutions conducting Islamic financial business, this option is not suitable for Uganda that requires favourable financing for national development. As a matter of fact, Neutral-treatment Approach of *Shari'ah* governance approach is favorable to non-Islamic legal environments that are reputable, enjoy maximum prudency in compliance with laws, and have attained high levels of economic development to self-attract local and international investors. The UK is a perfect match for these descriptions (Lujja, 2017).

Uganda needs to realize that the self-regulation model (in *Shari'ah* governance aspects) is presently unpopular, especially in the OIC countries where Uganda is a member. The country needs, therefore, to develop its own capacity to regulate *Shari'ah* governance of Islamic financial business as this forms the backbone of financing by Islamic countries, institutions and businesses. Capacity development could be ensured by either employing *Shari'ah* experts as has been the case with other specialized fields, such as bancasurance and agent banking, or developing their existing staff through intensive training and mentorship programmes. The former option would be more feasible and effective.

ii) **Establishment of a National Shari'ah Advisory Council at the Macro level.** Regarding the appropriate *Shari'ah* governance approach for an emerging economy like Uganda, the Standing Committee for Economic and Commercial Cooperation of the Organization of Islamic Cooperation (COMCEC) in its Report "Developing Islamic Finance Strategies in the OIC Member Countries" in 2016 recommended the pro-active approach where an independent National Shari'ah Board is created to provide oversight and governance to internal and independent Shari'ah advisory Boards (COMCEC, 2016).

Since BoU structures do not accommodate establishment of the Central Shari'ah Advisory Council, this Council may be put at the macro level i.e.; the Ministry of Finance or at the Uganda Muslim Supreme Council (UMSC) with the mandate to advise government, regulatory authorities, judiciary, and the industry on *Shari'ah* governance and Islamic finance related matters. This will minimize on conflict in interpretation of *Shari'ah*, help to standardize Islamic finance operations across the industry and ensure public confidence, thus avoiding *Shari'ah* authenticity deficit as well as *Shari'ah* arbitrage.

iii) **Establishment of Islamic Microfinance Directorate/Department with Tier 4 Regulator.** The conflict in the regulatory regime which has come as a result of government enactment of various laws that are meant to regulate the operation of cooperatives, particularly SACCOs, has caused neglect from the regulatory authorities in regulating and supervising Islamic Microfinance business and *Shari'ah* governance related matters at Tier 4 level.

*The Co-operative Societies (Amendment) Act 2020* provides for the registration and supervision of SACCOs by the Registrar of Cooperatives. However, the amendment was effected without amending the *Tier 4 Microfinance Institutions and Money Lenders Act, 2016*, which has resulted in conflict of laws governing SACCOs in the country. For instance, the *Co-operative Societies (Amendment) Act 2020* conflicts with the *Tier 4 Microfinance Institutions and Money Lenders Act, 2016* in registration, supervision and liquidation of SACCOs. As part of revamping local financial laws to meet the requirements of Islamic banking, these contradictions need to be urgently addressed.

iv) **Minimize Conflict between the Shari'ah Advisory Board and the Board of Directors.** The Board of Directors and the Shari'ah Advisory Board are the two most essential organs that affect the governance of Islamic banks. This is because the two entities share control responsibilities and must not conflict in duty and must support each other in order to reduce the *Shari'ah* non-compliance risks and insure the survival of Islamic financial institutions.

Khalil (2020) analyzed the effect of the characteristics linking the Shari'ah Board to the Board of Directors on the financial soundness of Islamic banking and showed that meetings between the Board of Directors and the Shari'ah Advisory Board have negative effects on the financial soundness of Islamic banking because they raise agency costs and spur conflict between *Shari'ah* experts and directors. In Uganda, Islamic banking business was rolled out in financial institutions without first establishing the Shari'ah Advisory Board, thus reducing the mandate of the *Shari'ah* scholars and making them seek favours from the Board of Directors and Management. To avoid this confusion, the name "Shari'ah Advisory Board" should be changed to "Shari'ah Committee" to ease discomfort of the Board of Directors who may assume that the "Advisory Board" is a parallel Board intended to dilute their mandate. Similarly, their role should be restricted to *Shari'ah* compliance related matters while that of the Board of Directors covers business related matters.

v) **Adopting international standards in Islamic finance such as AAOIFI, IFSB and IIFM.** The ultimate motivator of the decentralized *Shari'ah* governance system, i.e. the minimalist approach in GCC countries where financial institutions develop their own *Shari'ah* governance system rather than greater involvement of regulators, is the statutory requirement for Islamic financial institutions to be guided by AAOIFI (Hamza, 2013). This helps in standardization of Islamic finance operations across the whole industry to avoid contradiction between *fatwas* (rulings), decisions, and applications by different financial institutions offering Islamic financial business. Standardization

promotes credibility of Islamic financial business and boosts confidence of stakeholders.

In the UK, the accommodative approach towards regulation of Islamic banking, in terms of *Shari'ah* governance system, is due to shortage of *Shari'ah* scholars there. To mitigate potential *Shari'ah* non-compliance risks of Islamic finance operation in the UK, Her Majesty Treasury (2008) supported and recommended adoption of the international standards in Islamic finance, such as AAOIFI, Islamic Financial Services Board (IFSB) and International Islamic Financial Markets (IIFM), because the approach guarantees the role of the Islamic finance industry in cutting costs and improving documentation and confidence, and would lessen the burden on *Shari'ah* scholars in the UK. Uganda equally requires adoption of these international standards to avoid costly and unnecessary processes and mistakes.

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# 1.3 FINANCING UGANDA'S COFFEE SUB-SECTOR TO MEET THE EUROPEAN UNION DEFORESTATION REGULATION: PREREQUISITES AND PROGRESS

Caroline Wamono[1]

## 1.3.1 Uganda Coffee Production and the Importance of the EU Export Market

Coffee is the most valuable agricultural commodity in Uganda, with about 42 percent of rural farming households (1.8 million, 21% of the population) growing the crop[2]. Over the past two decades, coffee exports have been contributing 20–30 percent of annual foreign exchange earnings; and, since 2009/10, production has steadily increased from 2.7 million bags to 6.2 million bags (approximately 372,000 MT) in 2023 with export value of USD 965.14 million. Uganda is the seventh largest coffee producer in the world and the second in Africa after Ethiopia, with Robusta accounting for 80 percent and Arabica 20 percent of annual production[3].

Uganda's coffee enjoys ready global market, and provides for the country key resources for development and opportunities for household income generation and employment, especially for young people who constitute over 75 percent of the population[4]. With global coffee consumption rising at 2.2 percent annually, Uganda aims to triple its production to 20 million bags by 2030, with this surge expected to fuel substantial economic growth. With coffee cultivation spanning over 80 percent of districts, benefits of the coffee value chain are widely spread across the country and up to 80 percent of the export value benefit rural areas that are economically disadvantaged.

Considering the export destinations of Uganda's coffee, about 62 percent of total exports go to European countries, while Africa takes 16 percent exports and the rest goes to Asia, North America and Central America (Mexico). The major destinations of Uganda's coffee exports are Italy (39.5%), followed by India (12%), Germany (11.5%), Morocco (6.12%) and Spain (5.96%); making European Union member states the primary coffee export market for Uganda.

Against the importance of the European coffee market to Uganda, in December 2022, the European Union passed a regulation, code-named the European Union Deforestation-free Regulation (EUDR), banning the importation of coffee grown on land deforested as of 31st December 2020. The regulation entered into force on 29th

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2 Coffee Sub -Sector Strategy (2020/21 -2024/25)
3 UCDA Monthly Report, December 2023
4 The 2022 National State of the youth report: Assessing government investment in young people

June 2023 and is effective January 2026. In effect, the EUDR provides that Uganda coffee shall not be placed on the EU market unless it is deforestation-free, is produced in accordance with the relevant legislation, and is covered by a due diligence statement.

With 2024 Global coffee consumption forecast at 169.5 million bags with the largest increase in the European Union countries, the EU regulation threatens to destabilize a market long enjoyed by Uganda. Loss of access to the EU premium markets on account of the regulation would gravely impact the livelihoods and of coffee farmers and rural communities all over the country. Because of the potential impact of the article EUDR coffee regulation on Uganda's agricultural sector, therefore, this Chapter examines the progress and investment made in preparing the Ugandan coffee industry to meet the new regulation on coffee exports to the EU countries.

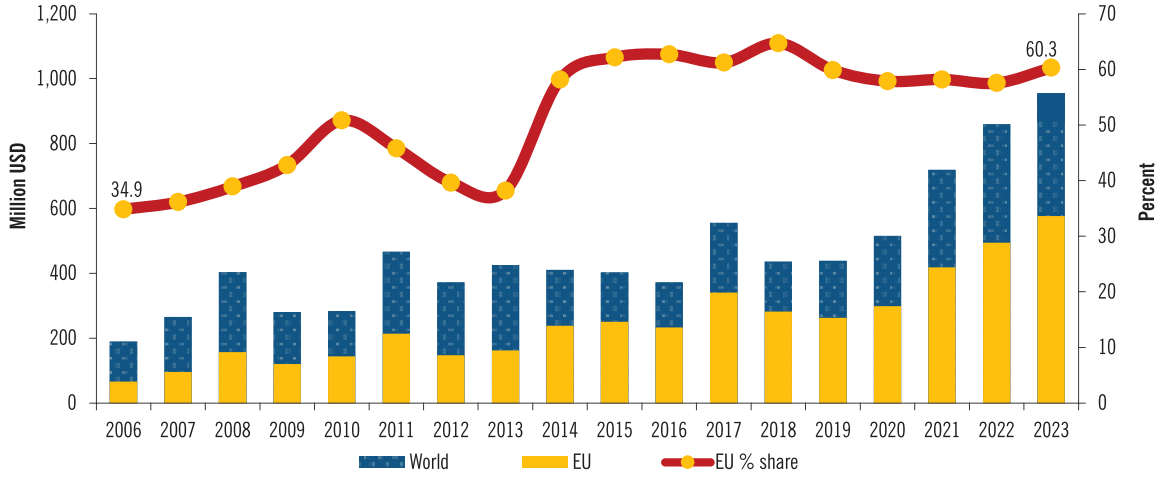
### 1.3.2 Trends in Uganda Coffee Exports to the European Union Market

The export of Uganda coffee to the European Union (EU) has been marked by significant fluctuations in growth, driven by factors such as changing global demand, quality improvements, market diversification, and climate-related challenges. The coffee export value to the UE in the period 2010-2015 generally declined due to global coffee price volatility and competition from other coffee producing countries. However, there was a general increase in export value from 2016 up to 2020, bolstered by investments in quality improvement, and sustainability initiatives that included partnership with EU organizations to strengthen the coffee supply chain. Uganda also expanded its coffee varieties, focusing more on Arabica coffee, increasingly preferred in the European market, which helped the country tap into new niches.

In the post-pandemic recovery phase, Uganda's coffee exports to the EU surged driven by the European demand for coffee and Uganda's growing reputation as a reliable supplier of Robusta and Specialty coffee. Between 2021 and 2023 (Figure 5), Uganda's coffee exports reached record highs, and the EU remained the dominant export market.

During this period, there was increase in demand for certified coffee, such as Fair Trade and organic coffee, and Uganda took significant strides to meet these certification standards that allowed it to capture a premium market segment in the EU. This response highlights the commitment of Uganda's coffee sub-sector to respond to challenges and adjust production practices to meet increasingly demand for environmental and social sustainability practices.

**Figure 5: Uganda's Coffee Exports to EU and the World, 2006 -2023**




Source: Author's construction using ITC Trademap (2024)

### 1.3.3 The European Union Deforestation Regulation on Coffee Imports

In December 2022, the European Union passed the regulation banning importation of coffee grown on deforested land as of 31st December 2020, code-named the European Union Deforestation-free Regulation (EUDR). The regulation entered into force on 29th June 2023 and is effective January 2026. The EUDR states that coffee shall not be placed on the European Union (EU) market unless it is deforestation-free; produced in accordance with relevant country legislation; and covered by statement of due diligence[5].

The objective of the EUDR is threefold: (i) reduce global deforestation, greenhouse gas emissions, and biodiversity loss; (ii) minimise EU's contribution to deforestation and forest degradation worldwide; and (iii) promote sustainable[6] consumption and production patterns in the European Union. The leading international agreement driving this regulation is the Paris Agreement under the United Nations Framework Convention on Climate Change that was concluded at the 21st UN Climate Change Conference (COP21). All coffee exporters and traders will be required to trace coffee back to the plot of land where it was produced, and certify that the land was deforestation-free as of 31st December 2020.

In Uganda the directive will come into effect in the first quarter of 2026, and coffee exporters to the European market must comply by this time. In effect, this means that the EUDR requires the following information to be available for Ugandan coffee exporters to produce Due Diligence Statements:

(i) Each coffee plot must be geo-located[7]; for plots smaller than 4 hectares a geo-location 'pin' suffices, while larger plots require their boundaries to be traced by polygons.

(ii) Coffee produced from a geo-located plot must be tagged and traced electronically through the coffee value chain to its point of entry in the European Union market. This implies that each transaction in the coffee value chain must be recorded and tracked to preserve the original geo-location of the transacted batch.

(iii) Detailed land-use maps from the cut-off date of December 2020 to the date of production must be available to prove that the coffee planted after the cut-off date is indeed deforestation-free.

Central in the pathway towards Uganda's EUDR compliance, therefore, is the establishment of a reliable traceability system that confirms that coffee production areas are not on land deforested after 31 December 2020. For this to happen without exclusion of any farmer or value chain actor, appropriate policy and legislation, and substantial resources will be required.

### 1.3.4 The Linkage Between Crop Production and Forest Cover in Uganda

Over the last 20 years, Uganda has witnessed intensification of human activities and agricultural production and consequent massive losses of natural vegetation. This condition is being worsened by the overexploitation of resources, use of unsustainable farming practices, and the emerging challenges of Climate Change. While forests used to cover 20 percent of the country, agricultural expansion to 40 percent of the land, among other factors, has led to loss of over 50 percent of forest cover by 2022. Since 1986, about 55 percent of natural forests in Uganda have been eliminated and converted to other land uses, and the country now has the third highest deforestation rate worldwide, with conversion of forests to agricultural land being a key driver.

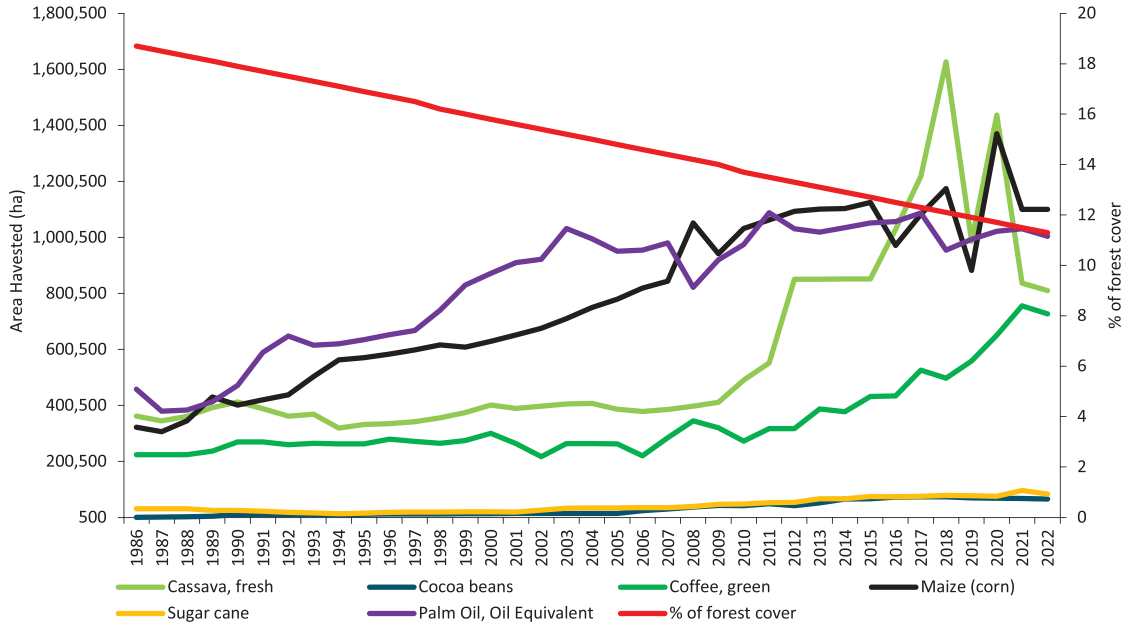
Although over the years forest cover loss due to cultivation of crops, such as Palm Oil and Oil equivalent, maize and cassava, has been significantly greater than for coffee, it is now evident that since 2020 forest loss due to expansion of land for coffee cultivation has significantly increased (Figure 6). In fact, area cultivated with coffee expanded by over 100 percent between 1986 and 2022, underscoring the need for Uganda to enforce relevant policies and regulations to address the EU Deforestation Regulation.

5 A mandatory document that exporters must submit before placing commodities on the EU market, it confirms that products are legally produced, de-forestation free and comply with EU regulations.

6 Avoidance of the depletion of natural resources to maintain an ecological balance

7 Determining the exact location based on a map

**Figure 6. Selected Crop Production Areas and Forest Cover, 1986-2022**




Source: Author's compilation based on the FAOSTAT database (2024)

### 1.3.5 National Response to Implementing the EUDR Regulation: Progress to Date

Since the beginning of 2020, the Government of Uganda (GoU) through the Uganda Coffee Development Authority (UCDA) has made efforts to enable compliance of the coffee industry with EUDR. This has mainly been through direct funding and mobilizing funding and support from Development Partner and from the coffee industry (private sector) players. The journey to compliance is being supported through a public-private partnership and, so far, various milestones have been achieved as outlined below.

#### 1.3.5.1 Setting the institutional framework for EUDR coordination and implementation

The activities summarized in Table 1 demonstrate the progress already made in mobilizing the various coffee sub-sector players to prepare for the implementation of the EU Deforestation Resolution in accordance with the EUDR/CS3D National Action Plan. So far, focus has been on instituting the Implementation Task Force; developing the National Action Plan; registering coffee farmers and the location of farms; and mobilization and availing relevant documents and information related to the EU regulation.

**Table 1. Sequencing of activities for the preparation of implementation of the EUDR in Uganda's coffee sector**

| Time frame | Activities undertaken |
|---|---|
| November 2023 | Formation of the EUDR/CS3D National Taskforce (Public, Private and Civil Society Organizations) co-chaired by Uganda Coffee Development Authority (UCDA) and Uganda Coffee Federation (UCF) representing public and private sector, respectively |
| February 2024 | Territorial Approach (TA): Signing of MoU with Enveritas/JDE by UCDA on behalf of the sector to implement the TA |
| April 2024 | (i) Development & launch of the EUDR/CS3D[8] National Action Plan<br>(ii) Meeting with EU Commissioner for Environment, Oceans & Fisheries |

8 The Corporate Sustainability Due Diligence Directive (CS3D) is a directive in European Union (EU) law to require due diligence for companies to prevent human rights and environmental impacts in the company's own operations and across value chains.

| Time frame | Activities undertaken |
|---|---|
| October 2024 | (i) Registration of Coffee farmers and farms that commenced in October 2024, targeting registration of 1,700,000 farmers by February 2025.<br>(ii) Guidance documentation relating to EUDR FAQs[9] was released on 2nd October 2024 to support countries in their preparations to implement the regulation. |
| | National-level workshops to raise awareness among private sector stakeholders since 2022.<br>A specific communication agency Royal way media has been contracted since August 2024 to develop a communication strategy and popularize EUDR/CS3D. |
| August 2024 | Coordination Unit lead by Café Africa has been set up to coordinate all stakeholders involved in the compliance journey |

Source: Author's compilation

### 1.3.5.2 Progress on public sector investments for implementing the EUDR

To develop compliance, the Government of Uganda approved a total budget of UGX 35.6 billion for registering of all coffee farmers, and to put in the National Traceability System for compliance with the EUDR. The National Coffee Register that is provided for in the *National Coffee Act 2021* will be the framework for the creation of a National Traceability System aligned with EUDR. In Financial Year 2024/2025, UCDA received UGX 13 billion to support country-wide sensitization programmes and registration of 738,000 farms and 5,000 key value chain actors, but UCDA was dissolved under the rationalization of public agencies programme before the process started. The dissolution of UCDA and take-over of its functions by MAAIF has delayed start of operationalizing the government plan, although retention of most of the UCDA technical staff under the Coffee Department in MAAIF gives hope for minimum disruption of the progress so far made in the compliance journey. Nevertheless, with short time left to comply with the regulation by January 2026, it is critical that implementation is handled with urgency to enable Uganda retain its share of the premium EU coffee market.

Since the industry compliance budget is estimated at UGX 66 billion, glaring funding gaps remain for establishing the common user warehouse/storage data; setting up of traceability platforms; and acquisition of tools and capacity building at the business levels. The least covered in the value chain are the hulling stations that are the lowest business unit to start the end-to-end compliance. With at least 922 hulling stations certified by UCDA, the journey to compliance remains an uphill task given the timelines and limited funding available.

### 1.3.5.3 Progress on funding support by developmental partners

Several developmental partners have shown interest and commitment to support the coffee industry build compliance set by EUDR/CS3D, but much of the commitment is yet to be realised. The International Trade Cooperation (ITC) supported the formulation of the National Action Plan for Uganda; UNDP sponsored UCDA to pilot upstream registration of 12,000 farms in Kasese District using the Government geospatial systems; while aBi Development Limited through its funders the Royal Danish Embassy and European Union supported the setting up of the National Coordination Unit led by Café Africa, and also allocated funds for the registration of 912,906 polygons to support the industry immediately comply with the EUDR. As part of awareness campaign, Royal Way Media was contracted to develop a comprehensive communication strategy and carryout national wide sensitisation on the EUDR/CS3D.

The assistance given so far has enabled Uganda to take significant steps in the EUDR compliance journey. Nevertheless, clarity in regards to the compliance due diligence statement remains ambiguous until the expected legislation on Regulation Implementation is enacted, ideally before the communicated timeline of June 2025.

9 Frequently Asked Questions

### 1.3.5.4 Progress of private sector initiative to meet the EUDR

Besides the consolidated EUDR national compliance journey supported by the Government of Uganda and aBi Development Limited, several coffee exporting companies have undertaken voluntary certification and registration of farmers that they deal with, in addition to digitizing traceability systems at business levels. However, rapid field assessments by aBi Development Limited highlight significant gaps at the upstream levels, particularly coffee hulling stations, wash stations or collection centres that are the lowest coffee processing levels targeted for compliance. It is important to note that end-to-end compliance cannot be attained without these value chain segments being compliant.

The fragmented approach to compliance development in the country, rather than a consolidated nationwide approach, will draw from the industry more resources and time to comply. The process also currently wasteful because there is duplication of resources in registering same farms multiple times, wastage and inefficiencies, and absence of complementarity in not leveraging on each other's expertise. As such, there is urgent need for the coffee value chain actors to recognize that this is a common industry challenge that needs consolidated efforts and working together to achieve national industry compliance.

## 1.3.6 Challenges and Outstanding Steps in Implementation of the EUDR

As Uganda is highly dependent on coffee production and export for livelihoods and development, and given the January 2026 timeline for implementation of the EU coffee Deforestation Regulation, it is critical that all challenges and steps in domestication of the coffee regulation be expeditiously addressed. These are outlined below.

### 1.3.6.1 Key challenges

The following are the key challenges that need urgent attention:

(i) **Financing Gap:** While the coffee industry required UGX 66 billion to build national capacity for compliance with the EUDR regulations, only about 50 percent of the funds have so far been committed by government, development partners and the private sector. There is thus urgent need to raise resources to put in place effective traceability at the lowest business unit of hulling and wash stations, to assure end-to-end compliance.

(ii) **Industry Alignment:** On-going efforts for EUDR compliance have been characterized by disjointed action by industry players who chose to do the exercise individually rather than cooperatively, with duplication of work and wasting of already limited resources. Urgent alignment of industry players and coordination and harmonization are urgently required.

(iii) **Misinformation on the purpose of the EUDR/ CS3D:** Due to its unique nature, disinformation about the EUDR is hampering close participation by all stakeholders. Strategic action to address this is being pursued through targeted messages for different categories of stakeholders.

(iv) **Strict timelines**: The EUDR implementation timelines were revised by the EU Parliament to January 2026. Given the funding gap and need for the end-to-end (farm to ship) compliance, however, the timelines remain an uphill task that must be met. It is important to note that failure to meet the timelines will attract a penalty of 4% on non-compliant consignments.

### 1.3.6.2 Remaining steps in implementation of the EUDR

Since start of implementation of the EUDR requirement for coffee exports, significant progress has been made, but with much of the resources used directed to creating awareness and registering farms. For end-to-end compliance to be achieved on time, however, there is need for all value chain segments to be compliant, which requires having a complete national traceability system (i.e. data collection and its warehousing/storage, produce traceability systems, and requisite documentation).

Against the above, the following must be accomplished to attain full EUDR compliance:

(i) **Establishment of EUDR Data Warehouse:** Besides registration of farmers, there is need to agree on the long-term data storage service provider for the country; the governance system in place; and sustainability mechanism for of the system. This system will be a common user database that industry players, using the unique farmer identifier, can query to confirm EUDR compliance. Establishing this system will be informed by feasibility studies on how the system has been set and is being used in other markets in order pick the best experience and equipment to utilize in the Ugandan context.

(ii) **Establishment of traceability systems at the SMEs, Cooperatives and the lowest business unit of hulling and wash stations:** Establishing Uganda's traceability system will involve setting up of technology software to facilitate data capture; purchase of data tools (computers, tablets, Smart phones); establishing process flows and controls; and capacity building of the various coffee value-chain actors.

Once all the above issues are addressed, Uganda can focus on increasing its farmer productivity, expanding output, and uplifting the quality of its coffee for competitive world trade. Concluding, it must be restated that Uganda, under its NDP IV and strategic transformation plan set the lofty goals of dramatically expanding agricultural productivity and GDP contribution, modernizing farming, getting households out of subsistence, and of socio-economic transformation. Given the centrality of coffee in all these, the government must address the EU Deforestation Regulation on coffee production with utmost urgency.

# 1.4 IDENTIFYING REGULATORY LOOPHOLES RESPONSIBLE FOR THE PROLIFERATION OF COUNTERFEIT AGRICULTURAL INPUTS IN UGANDA

Sebuliba Jude[1]

## 1.4.1 Background

Agriculture plays a critical role in the economy of Uganda, contributing nearly a quarter of GDP and employing about 70 percent of the workforce (World Bank, 2021; UBoS, 2022). Despite its significance, however, the sector faces a persistent threat from counterfeit agricultural inputs, including seeds, fertilizers, pesticides and veterinary drugs. These fake inputs severely undermine agricultural productivity, food security, farm livelihoods, and human health. According to the United States Agency for International Development (USAID), over 30 percent of fertilizers sold in Uganda are substandard, with adulteration being a widespread issue (USAID, 2018). A survey by Feed the Future (2017) also revealed that over 50 percent of seeds on the Ugandan market are counterfeit, significantly reducing yields and endangering food security. These observations highlight the urgent need for regulatory intervention on the issue of counterfeits in farming.

In Uganda, fake agro inputs have been linked to substantial decline in agricultural productivity. For instance, counterfeit pesticides have been shown to reduce productivity by up to 43 percent, while fake cassava cuttings have led to 35 percent drop in cassava production (FAO, 2020). Similarly, counterfeit livestock vaccines have caused significant livestock losses and reduced animal health, thus posing risk to food safety and public health (Byaruhanga *et al*., 2018). These losses collectively reduce farmers' incomes by up to 30 percent (USAID, 2021), and threaten national food security and economic stability.

The consequences of counterfeit agricultural inputs are dire. Reduced crop yields due to fake agro inputs not only threaten household income and food security but also discourage farmers from investing in high-quality input use (Bold *et al.*, 2015). For livestock, use of counterfeit veterinary drugs may lead to poor animal health and deaths, reduced productivity and increased susceptibility to disease outbreaks, thus undermining efforts to enhance livestock production (Kasaija *et al.*, 2018). Moreover, the financial losses incurred by farmers due to counterfeit inputs erode trust in agricultural input markets, and further limit adoption of improved technologies and practices (Reinker and Gralla, 2020). This situation perpetuates a cycle of low productivity and poverty, hindering Uganda's agricultural transformation and sustainable development. In efforts to regulate agricultural and farm inputs, Uganda, over the years, has vested regulatory powers in line ministries (Agriculture, Animal Industry and

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Fisheries-MAAIF and Health); and put in place various policies, laws and regulations, and oversight institutions. These include the National Fertilizer Policy (2016); the *Agricultural Chemicals Act 2024*; the Seeds and Plant Regulations (2017); the National Drugs Authority (NDA); the National Agricultural Advisory Services (NAADS); and the Agricultural Police to address proliferation of fake inputs and health chemicals. Despite these measures, counterfeit products remain pervasive due to significant regulatory gaps. Explored in this article, therefore, are key gaps in the policy, laws and regulations, and the institutional frameworks that lead to proliferation of fake agricultural inputs in the Ugandan market.

### 1.4.2 Legal, Institutional and Policy Frameworks for Regulating Agricultural Inputs in Uganda

As a country whose progress has hinged on agriculture since colonial times, Uganda was a country that had very strong administrative, policy, legal and institution frameworks that guided the transformation of its agriculture until its disruption by the Idi Amin coup of 1971. In the more than 20 years of conflicts and shortage of goods, the sale and use of substandard and counterfeit agro-inputs became widely accepted and tolerated.

Largely arising from the above, the policy, legal and institutional frameworks that previous oversaw agro-input trade lost effectiveness. The situation was made worse with the decentralization of extension service to districts, which virtually neutered the oversight and management roles of the Central Government in agro-input trade and upholding of standards. In the new challenge of agricultural transformation where agro-inputs must play critical roles, it is imperative to review the current situation and identify gaps in policy, laws, regulations and administrative frameworks that must be urgently addressed.

#### 1.4.2.1 Legal frameworks

Uganda has enacted several legal instruments to regulate agricultural inputs. However, inconsistent enforcement, limited institutional capacity and inadequate stakeholder engagement have hindered their effective implementation, thereby undermining their potential to achieve desired outcomes. Below are the key legal frameworks.

(a) **Agricultural Chemicals Control Act 2007 (Amendment in 2024):** *The Agricultural Chemicals Control Act 2007* was enacted to regulate the importation, production, storage, sale and distribution of agricultural chemicals to ensure environmental safety and public health. *The Agricultural Chemicals (Control) Amendment Act 2024* dissolved the Agricultural Chemicals Board, and transferred its regulatory functions to the Ministry of Agriculture, Animal Industry and Fisheries (MAAIF). While the amendment aimed to streamline operations and reduce bureaucratic inefficiencies, it raises concerns about the potential weakening of the regulatory oversight.

The Agricultural Chemicals Board was responsible for regulating agricultural chemicals and providing critical expertise, with focus on inspection and monitoring. The transfer of the responsibilities of the Board to the Ministry, with its broader mandate, diluted the focus required for effective chemical input regulation. The dissolution has also posed challenges in ensuring compliance across the supply chain; with counterfeiters exploiting the weak monitoring systems and making it hard to differentiate genuine products from fake ones (Ashour *et al*., 2015; Mbowa *et al*., 2015).

(b) **The Seeds and Plants Regulation (2017):** The Seeds and Plants Regulation of 2017 was issued to enhance the regulatory framework governing agricultural inputs, particularly seeds, plant varieties and fertilizers. However, several critical limitations undermined its effectiveness in curbing sale of counterfeit agricultural products. Notably, the regulation lacks a robust, real-time tracking system for agricultural inputs; and mechanisms, such as unique product codes and digital authentication and traceability systems essential for identifying and verifying the authenticity of inputs throughout the supply chain are absent

(Ashour *et al.*, 2015). The regulation did not also prioritize the decentralization of fertilizer quality assurance laboratories which has undermined detection and removal of counterfeit products from circulation (Luswata and Mbowa, 2018). The absence of these systems has made easy the infiltration of counterfeit products into the Ugandan market.

Another critical shortcoming of the regulation is the lack of clear accountability mechanisms for stakeholders; particularly private dealers caught distributing counterfeit agricultural inputs, as it did not establish effective oversight structures or set stringent penalties to deter the involvement of private actors in counterfeit activities (Otieno *et al.*, 2019). The narrow focus of the regulation on fertilizers also limits authority to comprehensively regulate other essential agricultural inputs such as seeds, veterinary drugs and herbicides that are equally critical for safety in agricultural production (Mbowa *et al*., 2015). Furthermore, the regulation lacks provisions for empowering farmers and local organizations to monitor and report import and sale of counterfeit inputs effectively. Engaging communities and creating channels for reporting counterfeit products will significantly improve use of the regulation (Vudriko *et al.*, 2016).

(c) **National Fertilizer Policy (2016):** The National Fertilizer Policy (NFP) Uganda, developed by MAAIF in 2016, was intended to increase fertilizer use and improve agricultural productivity. However, Policy has significant gaps that have facilitated the proliferation of counterfeit agricultural inputs. These gaps include weak regulatory enforcement, poor institutional coordination, inadequate market control, and resource constraints, coupled with limited public awareness.

A fundamental element within the NFP is the lack of effective enforcement mechanisms. Although the *Agricultural Chemicals Control Act* of 2006 provides a legal foundation for regulating fertilizers, enforcement remains weak and counterfeit products continue to circulate. There are also no provisions for stringent penalties and legal repercussions for those involved in the manufacture, importation or distribution of counterfeit fertilizers. The policy also acknowledges the absence of robust quality assurance systems, such as adequately equipped testing laboratories at border points and within the country, which allows counterfeit fertilizers to enter the market unchecked. Thus, without adequate monitoring and legal deterrents, regulatory measures become ineffective and encourage non-compliance.

Another gap is the fragmented institutional framework overseeing the fertilizer sector. While the NFP proposed a Fertilizer Market Development Coordination Unit (FMDCU), it does not clarify the roles and responsibilities of key stakeholders such as MAAIF, the Ministry of Trade, Industry and Cooperatives (MTIC), and the Uganda National Bureau of Standards (UNBS). This opacity in responsibility creates inefficiencies and reduces accountability. Moreover, the policy insufficiently integrates into the enforcement system local governments that play crucial roles in grassroots monitoring, thus further exacerbating challenges in maintaining quality control.

The emphasis of the NFP on minimal government intervention and the encouragement of private sector participation in a liberalized fertilizer market have unintentionally created the environment that is conducive to the proliferation of counterfeit products. This is because there are insufficient safeguards to ensure that market entrants meet stringent quality standards, which leaves the market vulnerable to fraudulent activities.

(c) **Animal Feeds Act: Unlike** the under-enforced provisions for seeds and fertilizers, the *Animal Feeds Act* mandates licensing for production, storage and sale of animal feeds, along with inspection by designated inspectors. The Act

requires producers to establish or access quality control laboratories to ensure compliance with standards. Data from the Uganda Bureau of Statistics (UBoS), however, indicate that only 25 percent of animal feeds undergo quality verification before reaching the market.

This Act also emphasizes the need for detailed labeling to inform consumers. However, poor labeling practices that make it difficult for consumers to distinguish between genuine and counterfeit products have been identified as a significant challenge. A 2022 survey by MAAIF revealed that 45 percent of farmers were unable to verify the authenticity of inputs due to inadequate labeling (MAAIF, 2022). Although the Animal Feeds Act imposes stringent penalties for violations, such as selling non-compliant feeds, similar penalties for counterfeit agricultural inputs are weakly enforced, and cases of counterfeit agricultural inputs rarely lead to convictions.

(d) **The Seeds and Plant Regulations (2017):** The Seeds and Plant Regulations of 2017 were issued to ensure quality assurance in plant breeding, variety release and seed marketing. Despite these regulations, the seed sector is plagued by counterfeit seeds and false packaging, poor enforcement of certification standards, and limited awareness among farmers regarding the importance of using certified seeds. Except for entry into the country market by reputable seed companies, the seed industry in Uganda needs urgent development support.

(e) **The Plant Variety Protection Act 2014:** *The Plant Variety Protection Act* of 2014 was enacted to safeguard the intellectual property rights of plant breeders while promoting equitable benefit-sharing from plant variety innovations. The potentials of the Act, however, remain underutilized due to limited institutional capacity to enforce breeders' rights, and to lack of awareness of the law and its provisions among stakeholders and seed buyers.

### 1.4.2.2 Institutional Arrangements and Capacities

The effective implementation of the agro-input policies, laws and regulation to ensure proper handling and use and to prevent sale of substandard and counterfeit products in Uganda will depend on the institutional arrangement in place and the level of empowerment that they enjoy. With MAAIF, as the line ministry, and several institutions holding responsibility for various aspects of the provisions on agro-input use in the country, it is important to examine their setups, effectiveness and empowerment to identify gaps, challenges and weaknesses that must be addressed to properly tackle the issue of counterfeits in agro-input trade.

(a) **Ministry of Agriculture, Animal Industry, and Fisheries (MAAIF):** MAAIF is the principal entity responsible for agricultural policy development and regulations, and ensuring input quality through oversight and provision of extension service. Despite this crucial role, MAAIF faces significant budgetary constraints. Its budgetary allocation reduced from UGX 1.1 trillion in FY 2020/21 to UGX 664 billion in FY 2023/24, impeding its ability to effectively oversee the agricultural sector and enforce input quality standards. Moreover, inefficiencies in funds utilization, procurement delays, and insufficient institutional capacity have contributed to a budget absorption rate of less than 85 percent in recent years (UNBS, 2023). These limitations worsen the challenge of curbing the circulation of counterfeit inputs, particularly in rural areas where these inputs are most common (Andersson and Isgren, 2019).

(b) **Uganda National Bureau of Standards (UNBS):** UNBS has the mandate of setting and enforcing standards for agricultural inputs. However, this mandate is constrained by inadequate funding, with Budget allocation of UGX 51 billion in FY 2023/24, falls short of funds required to address its expanding responsibilities. The agency operates without advanced laboratory infrastructure and insufficient logistical support and personnel,

which restricts its ability to effectively monitor rural markets where counterfeit seeds, fertilizers and other inputs are widespread (Staudacher *et al.*, 2022). The inadequacies have hampered elimination of counterfeit products from Ugandan markets, and undermined confidence in the regulatory system (Ashour *et al.*, 2021).

(c) **National Drug Authority (NDA**): The National Drug Authority (NDA) regulates veterinary drugs, but with funding from part of the broader health sector budget and without specific allocation for its agricultural functions. This limits NDA's ability to monitor counterfeit veterinary drugs which are commonly used without the awareness of farmer (Byaruhanga *et al.*, 2021). The NDA also faces logistical challenges and overlapping mandates with MAAIF and UNBS, thus complicating its ability to coordinate its efforts with other agencies and serve rural areas effectively (Muhhuku, 2018). The resultant proliferation of counterfeit veterinary products has severe consequences for animal health and the overall agricultural sector.

(d) **Agriculture Police:** The Agriculture Police plays a crucial role in enforcing laws related to counterfeit agricultural inputs. However, this Unit is constrained by a limited budget and lack of essential resources (vehicles, communication equipment etc.) and shortage of adequately trained personnel (Vudriko *et al.*, 2017). Their operational capacity is further hampered by lack a clear mandate in some regions, and poor coordination with other regulatory agencies with fragmented enforcement efforts. All these regulatory gaps are exploited by counterfeiters, thus contributing to the continued circulation of substandard and counterfeit agricultural inputs in the country (Tambo and Mwambu, 2022).

### 1.4.3 Past Input Distribution Programmes in Uganda

The Government of Uganda has implemented several initiatives aimed at mitigating the negative impact of fake inputs. Key programmes include Operation Wealth Creation (OWC), the Agricultural Cluster Development Project (ACDP), and the Kakasa Initiative. The experiences from these initiatives can inform the comprehensive way forward for addressing the challenges of counterfeit inputs in the country's agriculture sector.

(a) **Operation Wealth Creation (OWC):** Launched in 2013, Operation Wealth Creation (OWC) is a government initiative designed to enhance agricultural productivity and improve household incomes by providing subsidized inputs to farmers. The programme has increased farmer access to agricultural inputs and raised awareness about proper input usage (Kasaija *et al.*, 2023). Even then, OWC has encountered substantial challenges, and corruption, poor accountability and the distribution of substandard inputs have undermined its effectiveness (Mbowa and Luswata, 2015). In addition, offseason and inefficient distribution chain have allowed counterfeit inputs to infiltrate the system thus compromising the programme's goals and diminishing potential productivity gains from it (Tambo and Mwambu, 2022). These issues have reduced the capacity of OWC to improve agricultural input supply and enhance productivity and rural livelihoods.

(b) **Agricultural Cluster Development Project (ACDP):** The ACDP, funded by the World Bank, focuses on increasing agricultural productivity and improving market access within selected agricultural clusters across Uganda. The project has made significant strides in enhancing input standards, building institutional capacity and promoting certified input dealers (World Bank, 2022). Despite these successes, ACDP has major limitations: (i) its impact is constrained by its geographically limited scope, with only selected agricultural clusters benefiting from its interventions; and (ii) delays in project activities have hindered its overall effectiveness.

The reliance on donor funding also raises concerns

regarding the long-term sustainability of such initiatives, particularly sustaining support and ensuring continued farmer engagement after funding by donors phase out (Staudacher *et al.*, 2022). These challenges highlight the need for more robust and sustainable mechanisms to combat counterfeit inputs.

(c) **Kakasa Initiative:** The Kakasa Initiative, introduced by the Uganda Revenue Authority (URA) in 2021, employs digital technology to combat counterfeit agricultural inputs. By using digital tax stamps, farmers can verify the authenticity of agricultural products via their mobile phones, offering significant advancement in promoting transparency and building consumer confidence (URA, 2021). Despite its potential, the initiative faces challenges in its adoption. Limited accessibility to digital platforms in rural areas and high implementation costs for small-scale suppliers are limiting the widespread use of this technology (Andersson and Isgren, 2019). These barriers underscore the importance of making digital solutions more accessible and affordable for smallholder farmers, to ensure that the benefits of technological innovation are adopt ed across the agricultural sector.

### 1.4.4 Regulatory and Compliance Challenges with Input Value Chain Players

Of the key groups who can help ensure that counterfeit and substandard agro-inputs do not enter the Ugandan market and sold to farmers are the importers and input dealers. Informed farmers also use their knowledge to avoid purchase of substandard inputs and minimize trade in counterfeit products. To address the challenge of counterfeit agro-input use in the country, therefore, critical examination must be made of the roles of these groups in upholding use of quality products and the challenges they face to ensure that counterfeit agro-inputs do not enter Ugandan markets and are sold to farmers.

(a) **Importers:** Agro-input importers play a pivotal role in ensuring that high-quality agricultural inputs reach Ugandan farmers. However, they face challenges that undermine their ability to comply with regulatory frameworks, thus aggravating issues of input quality and market stability. Uganda's porous borders are a significant challenge to regulating agricultural input quality. The Uganda Revenue Authority (URA) estimates that **30 percent of agro-inputs enter the country illegally,** bypassing critical quality checks and taxes (URA, 2020). This situation allows counterfeit and substandard products to flood the market, which undermine farmer confidence in agricultural inputs and erode trust in certified products. For example, counterfeit pesticides and fertilizers smuggled through border points such as Malaba and Busia have consistently posed challenges to enforcement efforts (Feed the Future Uganda, 2017).

Second, the lack of harmonized regulatory standards across EAC countries creates loophole for the entry of substandard or banned products into the Uganda market. For instance, while some pesticides banned in Uganda may still be permitted in neighboring countries like Kenya or Tanzania, cross-border trade facilitates their illegal circulation (Kuhlmann *et al.*, 2018). Such inconsistencies hinder regional collaboration in combating counterfeit agricultural inputs and undermine efforts to ensure upholding of quality.

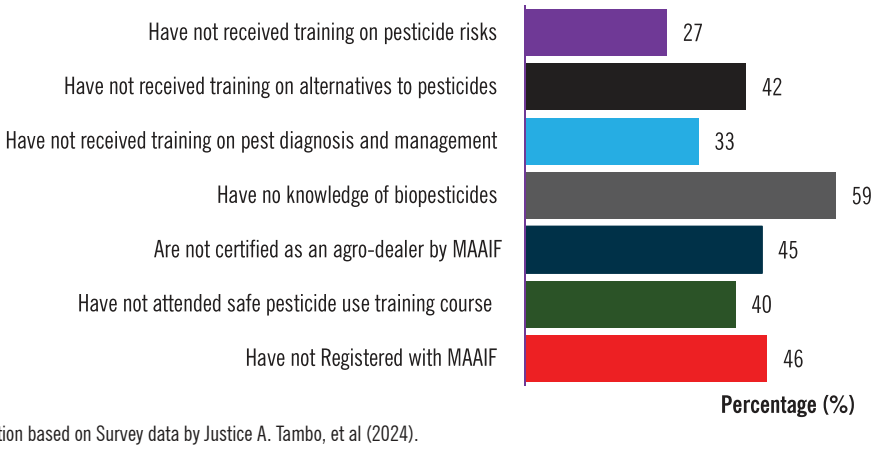
Importers also struggle with high costs associated with product certification and adherence to local standards. For smaller importers, these costs are prohibitive and compel some to seek informal channels to avoid expenses. A study by the International Food Policy Research Institute (IFPRI) revealed that **over 60 percent of importers find certification fees and compliance costs prohibitive**, limiting their ability to remain competitive in formal markets (Ashour *et al.*, 2022). Consequently, informal distribution networks proliferate and increase the risk of counterfeit products reaching farmers.

Although Uganda's regulatory framework demands stringent monitoring of inputs from entry to distribution, enforcement agencies lack requisite technologies and manpower to track products effectively. According to a 2021 report by the Ministry of Agriculture, Animal Industry, and Fisheries (MAAIF), Uganda has fewer than **150 Inspectors** tasked with monitoring flow of agro-inputs across over 2,000 entry points and nationwide distribution channels. These inadequacies create significant gaps in the regulatory system that enable counterfeit and substandard inputs to infiltrate the supply chain undetected (MAAIF, 2021). These gaps must be closed.

(ii) **Input Dealers:** Agricultural input dealers play pivotal role in Uganda's supply chain by acting as intermediaries between importers and farmers. These dealers are essential for ensuring that quality agricultural inputs, such as seeds, fertilizers and pesticides, reach farmers efficiently and in desired qualities. In their business operations, the Uganda National Bureau of Standards (UNBS) and other regulatory bodies mandate that the input dealers comply with strict quality standards to ensure safe and effective use of agricultural inputs. Despite these regulations, non-compliance is widespread.

As illustrated in Figure 7, 46 percent of agro-input dealers are not registered with MAAIF, the line Ministry mandated to register the dealers and ensure adherence to regulatory guidelines safety standards. These dealers often operate outside the regulatory framework, making it difficult for authorities to monitor and control the quality of agricultural inputs available to farmers. This situation exposes the market to counterfeit products, fosters an environment where counterfeit products circulate unchecked, and undermines the integrity of agro-input trade. Additionally, around 40 percent of agro-dealers have not participated in the essential training that is crucial for educating them on the proper application of agricultural chemicals (Figure 7). The absence of this knowledge not only affects the quality of the products sold but also poses significant risks to farmers who rely on these inputs for their crops. When dealers lack the necessary training, they may carelessly recommend harmful or ineffective products.

**Figure 7: Percentage of Agro-Input Dealers who Face Compliance Challenges**




Source: Authors' construction based on Survey data by Justice A. Tambo, et al (2024).

As depicted in Figure 7, there are also alarming gaps in knowledge and compliance among agro-input dealers. For instance, 59 percent of the dealers have no knowledge about biopesticides that are critical for sustainable pest management. Additionally, 42 percent of dealers have not received training on alternatives to pesticides; 33 percent lack training on pest diagnosis; and 27 percent are unaware of pesticide risks. These statistics highlight an urgent need for comprehensive training for agro-input dealers to provide them the necessary knowledge and skills to operate responsibly.

(c) **Farmers:** The regulatory compliance challenges extend along the agro-input value chain from importers and dealers to farmers. Farmers, as end-users of agricultural inputs, play pivotal roles in safeguarding input quality by identifying and reporting counterfeit products. However, several systemic challenges hinder their ability to effectively combat the proliferation of substandard and counterfeit inputs, posing significant risks to agricultural productivity and food security. Some of the key challenges inherent among farmers are reviewed below.

(i) **Limited awareness and knowledge of counterfeit inputs.** A 2022 survey conducted by the Food and Agriculture Organization (FAO) revealed that only 35 percent of farmers in Uganda could accurately distinguish between genuine and counterfeit agricultural inputs. This alarming statistic highlights a critical knowledge gap that leaves many farmers vulnerable to exploitation by unscrupulous agro-input dealers (FAO, 2022). The inability to recognize fake products not only compromises crop yields but also undermines trust in certified agro-dealers, perpetuating the cycle of low-quality input usage.

**(ii)** **Financial constraints and preference for cheaper inputs.** Limited financial resources of farmers often drive them to purchase cheaper, uncertified inputs, many of which are counterfeit. A report by the Ministry of Agriculture, Animal Industry, and Fisheries (MAAIF) in 2023 emphasized that financial pressure forces many farmers to prioritize affordability over quality (MAAIF, 2023). Consequently, these cost-driven decisions directly undermine national efforts to promote the adoption of high-quality, certified agricultural inputs.

(iii) **Weak cooperative membership and collective action.** Farmer cooperatives and groups are essential platforms for advocacy, knowledge sharing, and enforcement of input quality standards. However, only 20 percent of farmers in Uganda are members of such organizations, according to the 2023 MAAIF report. The fragmented nature of the farming community significantly limits collective action against the sale and distribution of counterfeit products. Without strong farmer networks, individuals are often left to navigate the complex agro-input market alone, making them more susceptible to fraudulent practices.

(iv) **Limited access to legal redress and enforcement mechanisms.** Farmers who unknowingly purchase counterfeit inputs face significant barriers to seeking redress. Weak consumer protection laws, combined with limited access to enforcement agencies in rural areas, discourage many from reporting cases. The lack of adequate legal support exacerbates the problem, as farmers often feel powerless to take action against well-connected or elusive counterfeiters. As a result, counterfeiters operate with relative impunity, perpetuating the cycle of fraudulent input distribution.

### 1.4.5 Emergent Policy Options

The persistent proliferation of counterfeit agricultural inputs in Uganda poses a significant challenge to the country's efforts to modernize its agriculture, uplift productivity, and ensure food security and rural livelihood transformation. Key to this are effective extension service and the use of authentic high productivity agro-inputs, particularly improved high yield seeds, safe quality pesticides, and effective fertilizers. Despite the existence

of various regulatory frameworks and institutional arrangements, however, critical gaps in enforcement, funding and public awareness continue to hinder the proliferation of counterfeit, fake and adulterated agro-inputs inputs.

To address these issues, approaches involving integration of advanced technological solutions, such as digital traceability systems, strengthened enforcement, enhanced public-private partnerships and empowered farmer networks is essential. Based on reviews outlined in Sections 1-5 above, various actions are here-below recommended to ensure that tight and effective frameworks, systems and institutions are put in place to effectively curtail the entry and sale of substandard and/or counterfeit agro-inputs in Uganda.

(a) **Strengthening regulatory enforcement mechanisms:** Enhance the capacity of regulatory institutions like the Uganda National Bureau of Standards (UNBS) and the Ministry of Agriculture, Animal Industry, and Fisheries (MAAIF) through increased funding, staffing and training. Introduce severe penalties for counterfeiters, and ensure regular market inspections to identify and deter non-compliance. Establish specialized task forces to oversee the enforcement of regulations and conduct targeted operations against counterfeit suppliers.

(b) **Implement a national digital traceability system:** Develop and deploy a comprehensive digital traceability system to monitor agricultural inputs from production or importation to the final consumer. This system should include unique product identifiers, mobile-based authentication tools, and a centralized database accessible by farmers, dealers and regulators. Such a system will enhance transparency, curb infiltration of counterfeit products, and rebuild farmer trust in agricultural input markets.

(c) **Enhance farmer awareness and education:** Launch nationwide campaigns to educate farmers on identifying and avoiding counterfeit agricultural inputs; and leverage radio, television and digital platforms to disseminate information. Additionally, organize community workshops and training in partnership with agricultural cooperatives and non-governmental organizations to empower farmers with knowledge about input standards and safe usage.

(d) **Encourage local production of quality agricultural inputs:** Invest in the development of local industries for the production of fertilizers, seeds, and pesticides to reduce dependency on imports prone to counterfeiting. Offer incentives such as tax breaks, subsidies, and low-interest loans to private sector actors willing to invest in the local manufacturing of agricultural inputs. Establish robust certification processes to ensure that locally produced inputs meet international quality standards, thereby fostering a sustainable and resilient agricultural sector.

By addressing these challenges comprehensively; Uganda can safeguard its agriculture sector; end import and sale of sub-standard/counterfeit agro-inputs in the country; enhance agricultural productivity and safety in agrochemical use; protect farmer competitiveness and incomes; and contribute to agricultural modernization and national economic development.

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# 1.5 WHY UGANDA NEEDS AN AGRICULTURAL EXTENSION SERVICES' LEGISLATION

Richard Miiro[1] and Patience B. Rwamigisa[2]

## 1.5.1 Background on Uganda's Agriculture

Agriculture is a key sector in the economy of Uganda. In the financial year 2022/2023, it employed 68 percent of the working population, contributed 24 percent of the National GDP, and 42 percent of the country's export earnings (MoFPED[1], 2024). The sector is critical to feeding the country's population which from the 2024 population and housing census stood at 45.9 million people (UBOS, 2024). With other key sectors[3], agriculture, through increased production, productivity and value addition, is expected to contribute to moving the national wealth (GDP) level from the current US$ 50 billion to US$ 500 billion by 2040 (MoFPED[2], 2024).

Despite its strategic importance, however, the performance of the agricultural sector is still sub-optimal, with an annual growth rate of around 2 percent compared to the country's population growth rate of 2.9 percent (UBoS, 2024). The sector's total factor productivity has also been in decline for almost two decades (World Bank, 2018). The poor performance of the sector has been due to several factors, including low crop and livestock productivity; declining soil fertility; limited use of improved agricultural technologies such as seeds, fertilizer and livestock breeds; limited access to agricultural extension and business development services including finance, insurance and markets; and poor road, railway, telecom and internet communication infrastructure that are affecting access to markets. These adverse factors are being compounded by the effects of Climate Change, particularly extended droughts, unpredictable rains, rising temperatures and increased incidences of pests and diseases (Olago *et al*., 2023); while conflicts in Ukraine and the Middle East increased costs of trade leading to high fertilizer costs and sharp rise in input and commodity prices in Uganda (UNDP, 2022).

The agro-industrialization programme as a central element of NDP IV requires smallholder, semi-commercial and commercial farmers to increase agricultural production and productivity, and value addition for the domestic, regional and global markets (MoFPED[2], 2024). To ensure competitiveness, the majority of Uganda's subsistence and peasant farmer must transform to market-oriented producers with strict and traceable

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standards across the entire agricultural value chain. In addition, government has targeted 39 percent of Uganda's population who are classified as poor for support through the Parish Development Model (PDM). This will enable them participate in the money economy, mainly through agriculture, with resilient and climate-smart practices sustainable production systems that address global concerns about Climate Change (ISSD, 2024). These lofty agricultural transformation goals raise the stakes for the country's agricultural extension and advisory system that has been struggling. In this article, therefore, the case is made for enactment of an agricultural extension legislation to revamp extension service and guide and regulate the pluralistic extension service provision in Uganda.

### 1.5.2 Evolution of the Agricultural Extension Policy in Uganda

Agricultural extension policies and practices in Uganda have been changing over the years (Semana, 1998; Rwamigisa *et al.*, 2017). Between 1898 and 1907, the British colonial government emphasized teaching farmers to take up modern agricultural technologies, tools, and practices for the production of export crops mainly coffee, cotton, tea, and tobacco. From 1920 to 1956, to increase the production of export crops to raise income and taxes to support administrative costs, food security and soil conservation, extension became regulatory through by-laws. These were enforced coercively by local chiefs who issued corporal punishment to those who failed to follow the recommended production practices (Nkonya *et al*., 2020). Between 1956 and 1963 there was a switch to working through progressive farmers as hosts of demonstrations in an attempt to reach other farmers (ibid).

Following independence and up to 1971, the new government emphasized agricultural education through training colleges and district farm institutes, the use of multiple extension methods including for non-export crops and livestock. The period 1971 and 1980 was one of no extension direction due to insecurity, breakdown in the rule of law, and economic downturn due to isolation of the Idi Amin military government by foreign governments which led to decline in export and limited foreign exchange earnings (Nkonya *et al.*, 2020).

The period 1981 to 1991 was one of recovery, when emphasis was put on building links between agricultural research, extension, education and the farmers, under a Unified Agricultural Extension System in which crop, livestock and other services were provided by the same person using the training and visit approach. Between 1991 and 1998, the Structural Adjustment Programme (SAP) of the World Bank ushered in trade liberalization, privatization of government parastatals, and decentralization that saw extension service decentralized to district, albeit with limited staff and little resources (*ibid.*).

Between 2001 and 2014, the extension policy shift led to change in extension provision to a demand-driven, decentralized, farmer-led, private sector-supplied and publicly funded service through the National Agricultural Advisory Services (NAADS) programme (MAAIF, 2016). Under NAADS, farmers, through their farmer organizations, were to participate in the planning, implementation, monitoring and evaluation of the services being provided.

In 2014, government again initiated changes in extension provision that led to the adoption of the National Agricultural Extension Policy 2016 and led to the introduction of the Single Spine Extension System (SSES). Under the SSES, all government extension programmes are to be provided through the districts, with one chain of command and no parallel programmes as was under NAADS (Kjær and Joughin, 2019; NAEP, 2016). The focus of NAADS then became limited to agricultural input distribution, with the military distributing the inputs under the Operation Wealth Creation (OWC) framework (Kjær and Joughin, 2019). The revised NAADS also promoted strategic commodity interventions, such as production of Macadamia and Hass avocado, and also agricultural value chain development and farmer access to agricultural financing (Ketra and Buyinza, 2023; Nkonya *et al*., 2020).

Since 2015, under the pluralistic approach, extension and advisory services have been largely delivered by both public and private sector players, with conditional grants to local governments to facilitate public extension.

This approach was intended to address the problem of lack of facilitation of extension workers to reach farmers (Mushemeza *et al*., 2023). In further support, in 2017, policy instruments were developed and widely disseminated to local governments, including Ethical Code of Conduct for agricultural extension and advisory service providers; registration and accreditation of agricultural extension and advisory service providers; guidelines and standards for agricultural extension services, procedures for developing agricultural extension materials; and detailed manual for farmer institutional development. However, the level of their utilization was limited (Nkonya *et al*; 2020).

This period also witnessed surge in the use of Information and Communication Technology (ICT) and digital systems (social media etc.) for extension messaging, weather information, accessing finance, agricultural inputs and markets and for organizing support services (Ayesiga, 2023). Even then, the capacity of extension workers to keep pace with extension paradigm and policy shifts, globally and nationally, has remained limited (Agwu *et al.*, 2023). There is also no focused agricultural extension strategy since the expiry of the SSES of 2016/2017-2020/2021. Thus, since enactment of the National Extension Policy in 2016, there has been no effort to revamp agricultural extension through a new policy or appropriate legislation. This gap requires urgent consideration and action by the government.

### 1.5.3 Performance of the Agriculture Extension Service in Uganda

To appreciate the need and call for agricultural extension legislation to support the goal of agricultural transformation in Uganda, it is important to assess how the extension service has been performing. At the onset of implementing the reform effort, MAAIF set four milestones to achieve by 2020. These were: 1) putting in place a policy and regulatory framework for pluralistic extension service; 2) establishing an efficient, effective and well-coordinated service delivery system; 3) putting in place mechanisms for development of harmonised agricultural extension materials; and 4) building strong producer/beneficiary organizations along agricultural value chains. The design of the National Agricultural Extension Strategy (NAES) 2016/2017-2020/2021 was largely informed by the desire to achieve these milestones.

One extension worker now serves 2,000 households (Opolot, 2024) compared to the recommended 1:500 (*ibid.*). The current staffing levels of agricultural extension workers stand at 4,504 against the 2016 target of 9,548 when there were 112 districts. With the present 147 districts, the extension staffing gap has likely escalated. The key limiting factors have largely been limited funding and the absence of clear legal and institutional framework to guide extension activities in the country.

**Budget allocations:** In the 2018/2019 financial year, the Directorate of Agricultural Extension was allocated UGX 7.3 billion. Yet, less than half of this amount was released. Government funding for agricultural extension has kept declining to the extent that by the end of 2020/2021 the Directorate received only UGX 0.5 billion for recurrent expenditures with no funding for development. The Directorate continues to receive the least funds allocation even within MAAIF despite its support across all of the other directorates; a fate endured by extension at the local government level where most extension work take place (Sserunjogi *et al*., 2023).

Besides the poor budgetary allocation for extension, even the extension grant that was instituted to support extension workers to reach farmers has not received the expected increment but has instead stayed below 50 percent of what was planned. For the FY 2022/2023, the grant was not funded due to concerns about public extension worker productivity, but was reinstated in FY 2023/2024. Whereas the allocation of the grant was based on staff in post at the time, the grant levels also remained static even when the number of extension workers almost doubled. These budget limitations affect extension staff recruitment, and the availability of transport and demonstration materials (Caritas Uganda, 2018). Because of these limitations, the performance of the agricultural extension workers has been weak and largely inadequate.

Despite the pluralistic extension framework used under

the SSES, there is no effective monitoring and evaluation of the extension services delivered by the non-state actors. The proportion of farmers targeted to access agricultural extension services was expected to move from 11.7 percent in 2017/18 to 34.1 percent in 2023/24 (MTEF FY2023/24- FY2027/28). However, in a study by Nnamulondo (2019), only 24 percent of farmers in a sub-county of Mityana district acknowledged that extension workers were meeting their information needs. A Caritas Uganda study of 2018 in the districts of Buhweyu, Buvuma, Koboko, Luweero, Moroto, Nwoya, and Serere also found that only 10 percent of farmers received agricultural extension services most of whom were men (Caritas, 2018). Of those who accessed extension services, 54 percent had received extension services only once; less than 0.5 percent received advice on each aspect of post-harvest handling, quality and standards and value addition; and none received guidance on market access and participation (Caritas, 2018).

While low access to extension services has persisted, the demand for extension services by farmers stands at only 12 percent (*ibid.*). This clearly highlights the limited farmer awareness of availability and/or need for extension service, and limited engagement with extension staff and reliance on their extension guidance. This reality reinforces the need to revamp the extension service in the country through policy and appropriate legislation if Uganda is to realize its objective of rapidly transforming agricultural production and productivity.

### 1.5.4 Need for an Agricultural Extension Service Reform and Extension Service Bill

A frequent outcry from farmers is about limited, unseen and unresponsive agricultural extension workers amidst changing production demands, challenging social and economic conditions, and increase in the population of farmers needing extension support (Kuteesa *et al*., 2018). Presently in Uganda, the government extension workforce stands at 4,504 against an establishment of 9,548, leaving a shortfall of 5,044. While the National Agricultural Extension Policy 2016 introduced a pluralistic extension system that allowed for multiple providers of Agricultural Extension and Agricultural Service (AEAS) (Rwamigisa *et al*., 2017), this has also come with its challenges.

First, the absence of a regulatory framework has led to many unqualified actors providing conflicting knowledge and information to farmers and value chain actors. The extensive network of players, such as civil society, farmer organizations and cooperatives, private sector seed companies, produce buyers, village agents and ICT companies engaged in extension services needs to be harmonized and regulated. Second, while policy instruments were developed to regulate AEAS in 2017, they were not accompanied by appropriate legal provisions to foster compliance. The emergence of programmes, such as agro-industrialization (AGI) and the Parish Development Model (PDM), and the recent rationalization of agencies back to government ministries call for the need to strengthen agricultural extension service through appropriate legislation for effectiveness and efficiency. Third, the NAADS Act of 2001 that had provided the legal framework for implementation of agricultural extension service in the country was recently repealed, with extension service provision steeped in legal lacuna. All these challenges need to be urgently addressed.

As earlier observed, the NDP IV, the agro-industrialization programme, the PDM, and the recent government rationalization of agencies into the ministries have increased the need for a more efficient agricultural extension system. In the void, many extension service providers, including farmers, are using social media and other communication channels to advise farmers without any regulatory framework. As such there is overlap, duplication and conflicting messaging that are undermining the quality and correctness of advice being offered (Agwu *et al.*, 2023). All these, and the surging reliance on digital technology, call for establishment of a robust, effective, efficient, well-coordinated, regulated, and harmonized agricultural extension system.

Presently, the absence of a legal framework for extension service has created a vacuum in ensuring institutional compliance to policy provisions as well as maintaining professional standards in service delivery. While the national extension policy and subsequent instruments

detailed the processes for registration and accreditation of service providers, procedures for the development of agricultural extension materials and registration of farmers for the different commodity value chains, no legal provisions were made for compliance by the various institutional actors. As such, implementation of some provisions of the policy became untenable. This, therefore, calls for policy and legal reviews and enactment of an appropriate extension law to strengthen the agricultural extension system in the country that must now bear the various responsibilities hitherto undertaken by the agencies and meet the set goal of agricultural transformation and rural development.

### 1.5.4.1 Agricultural Services Act will close gaps in extension service delivery and regulation

From 2001 to 2014, the NAADS Act of 2001 guided the delivery of extension and advisory services in Uganda. However, NAADS was stripped of its role in AEAS provision following concerns ranging from shift from its original mandates to political interference and mismanagement (MAAIF, 2016; Nkonya *et al*., 2020; Rwamigisa *et al*., 2018). During its initial operations, NAADS was implemented through a Secretariat overseen by a Board of Directors, District NAADS Coordinators, and Farmers' Fora, starting at the lowest administrative levels through the parish, the sub-county, the district and at the national level (NAADS Act, 2001).

Over the period of its implementation, several evaluations of the performance of NAADS were carried and published, including the World Bank Report (World Bank, 2011), Nkonya *et al*., (2020), and the National Agricultural Extension Strategy 2016/17 to 2020/21, that showed the failure to operationalize the programme as originally designed.

First, in the aspects of institutional set up, NAADs was to operate as a parastatal detached from MAAIF. The non-linkage to the line Ministry responsible for the agricultural sector was clearly ill-conceived and functionally impossible to implement without conflict. Second, in its design, NAADs was to have a pool of private extension service providers, mainly from public staff who would have been laid off. However, staff lay off was not completed which created shortage of qualified anticipated to join private extension services (World Bank, 2011). In addition, the capacity of smallholder farmers to offer effective demand for extension services, own, control and hold service providers accountable was overestimated. Third, there was a rapid expansion of the NAADS programme due to political pressure, which was further compounded by the addition on NAADS the roles of agricultural input procurement and distribution which made it a suitable candidate for corruption, elite capture and political interference. The parallel institutional arrangements that emerged with selective remuneration of staff led to conflict and difficulty in mainstreaming the set NEAS into the decentralized extension system (MAAIF, 2016; Nkonya *et al.*, 2020).

Whereas the NAEP 2016 shifted the mandate of agricultural extension to the Directorate of Agricultural Extension Services in MAAIF, the NAADS Act remained in force with the Secretariat assigned other functions. The attempt to repeal the Act met stiff resistance from a section of the political establishment as the Secretariat served as the source of inputs for their electorate. Specific gaps in the NAADs Act of 2001 include not focusing on the entire value chain, the promotion of a parallel system of agricultural extension service provision, focus on three enterprises per subcounty that excluded many farmers from service provision, and the lack of an effective monitoring and evaluation framework.

It is important to note that since 2014 NAADS Secretariat has relied on the law that governs extension even when it was executing non-extension functions. While a new agricultural extension legislation may not be a universal remedy, its enactment will institute mechanisms, systems, and structures to streamline pluralistic agricultural extension services in the country. Concluding, it must be emphasized that there is no country globally that has transformed its agricultural sector without putting in place an effective and efficient agricultural extension system that is governed by clear laws and regulations. For Uganda, therefore, it is hereby strongly recommended that

the enactment of the Agricultural Extension Services Act be expedited to enable delivery of effective extension service that will facilitate the modernization of the country's agriculture and the transformation of rural livelihoods.

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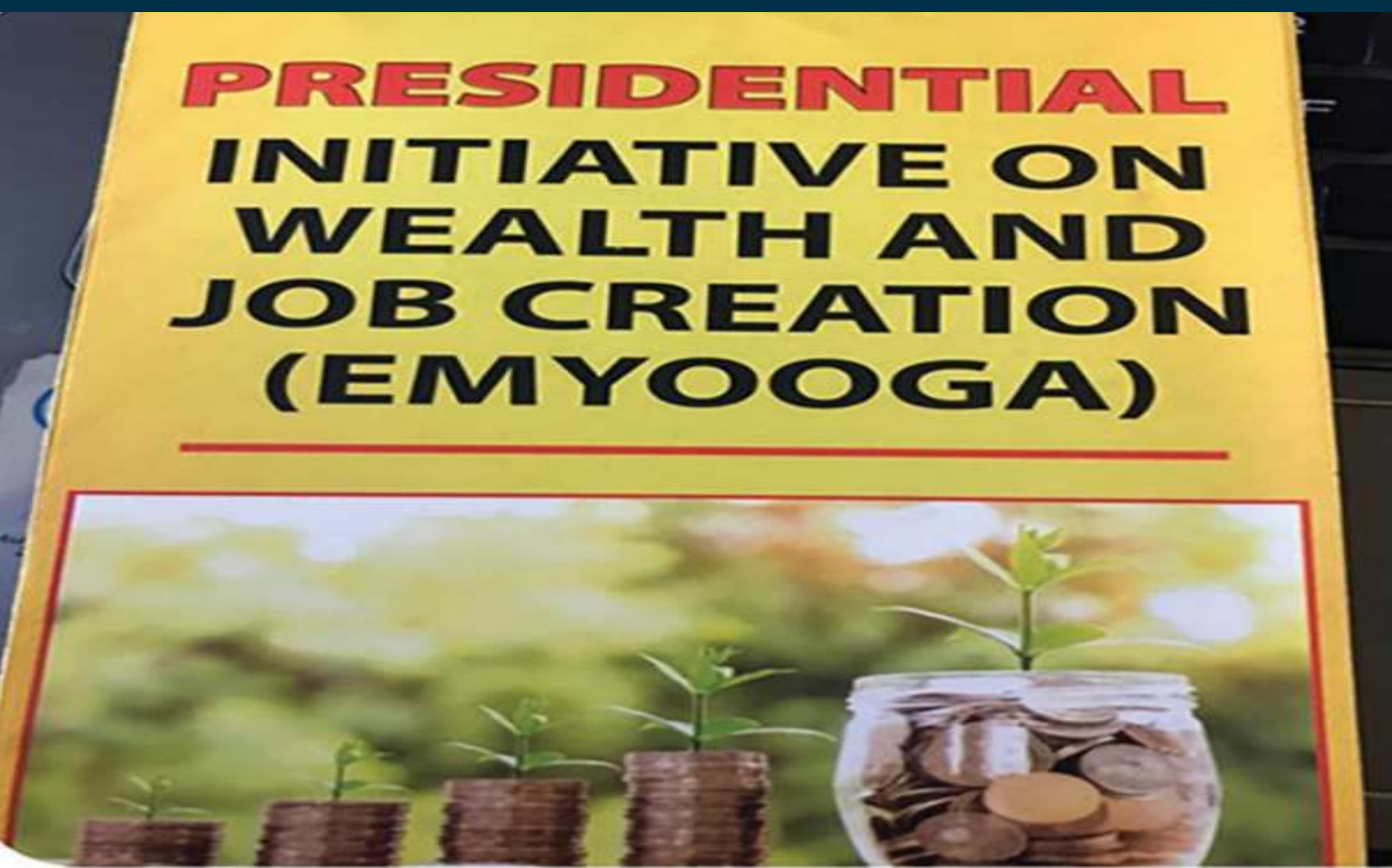
CHAPTER

# 2

# FINANCING AGRICULTURE THROUGH WEALTH FUNDS



# 2.1 FINANCING AGRICULTURAL WEALTH CREATORS: PROGRESS ON THE PARISH DEVELOPMENT MODEL

Christine Arwata Alum[1] and Swaibu Mbowa[2]

## 2.1.1 Introduction

The Parish Development Model (PDM) is an initiative of the Government of Uganda to enhance financial inclusion for subsistence households who cannot access private sector credit. While rural households throughout the country depend on small-scale agricultural and livestock production, commercial banks mostly target large-scale businesses, leaving these subsistence households to rely on informal financial providers (MoFPED, 2022). The PDM was therefore introduces a public credit facility at the Parish level to bridge this gap.

With 33 percent of households in the subsistence economy (UBoS, 2024), the PDM addresses key barriers to credit such as lack of collateral, limited financial literacy, and inability to tap formal financial services. With its launch, the PDM offers affordable credit, tailored financial products, and capacity building programmes to empower vulnerable communities. This article presents the efforts so far undertaken under the PDM to improve financial inclusion for rural and urban poor through capitalisation of Savings and Credit Cooperatives (SACCOs) and Parish Revolving Fund (PRF) disbursements, and reviews challenges encountered in implementation and in reaching out to subsistence households.

## 2.1.2 PDM SACCO Model

The Government of Uganda launched PDM in February 2022 with the goal to transition 3.5 million households (33%) from subsistence to the money economy. Of these households, 2.6 million (75%) engage in subsistence agriculture (UBoS, 2024). The programme is structured around seven pillars, namely: (i) agriculture value chain development; (ii) infrastructure and economic services; (iii) financial inclusion; (iv) social services; (v) community mobilization and mindset change; (vi) Parish-Based Management Information System (PBMIS); and (vii) governance and administration.

Under the Financial Inclusion pillar, a public credit facility was introduced at the Parish level to provide affordable investment loans to subsistence households. This initiative targets financially vulnerable households lacking access to private sector credit, stimulating household economic activity, and boosting national socioeconomic growth and transformation. The PDM is being implemented under three

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Phases, namely: Establishment (FY 2021/22-2022/23), Stabilization (FY 2023/24-2024/25), and Sustainability/ exit (FY 2025/26-2030) (MoLG, 2022).

### 2.1.3 Establishment and Capitalization of PDM SACCOs

From the launch of PDM, priority activities undertaken were provision of working capital to households and community mobilization for formation of groups and SACCOs. Since then, systematic implementation of the programme has been relentlessly pursued.

#### 2.1.3.1 Establishment of SACCOs

During the establishment phase of the PDM programme, the government successfully set up 10,585 PDM Tier 4 microfinance institutions (SACCOs) across Parishes nationwide (Table 2). However, according to data captured on the Parish-Based Management Information System (PBMIS) by February 2024 only 7,950 (75%) of these SACCOs were active. In this period, 814,961 beneficiary households from 15 sub-Regions had received the Parish Revolving Fund (PRF) by this time. Information from the MoFPED Financial Services Department reported that by May 2024 around 1.2 million households accessed the PRF. However, data from the EPRC field survey reveals that approximately 0.8 million beneficiaries registered in the PBMIS had accessed the PRF by the time of this study (Table 2).

#### 2.1.3.2 Transfer of PDM funds to SACCOs and beneficiaries

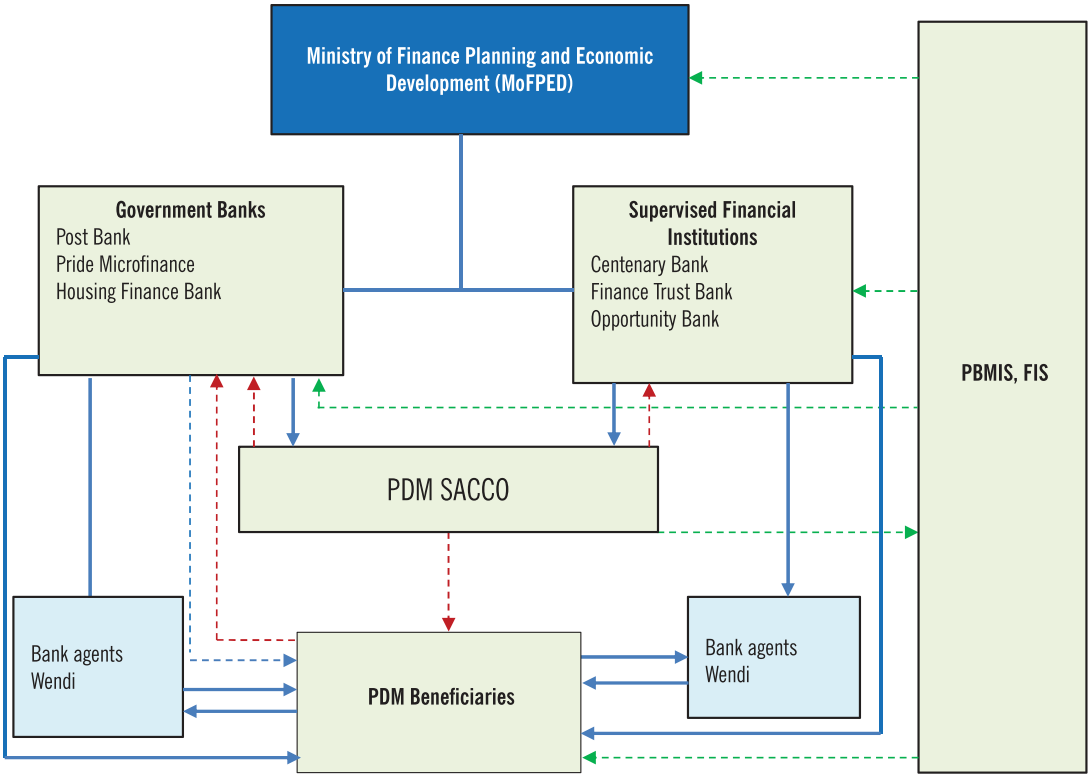
The PDM approach has established a digitalized Financial Inclusion System (FIS) that enables the Ministry of Finance, Planning and Economic Development (MoFPED) to transfer PDM funds through commercial banks to beneficiaries at the Parish level countrywide (Figure 8). Funds are transferred directly into designated Parish PDM SACCO accounts in various commercial banks, and is then disbursed to beneficiaries through mobile wallets following vetting at multiple levels, including community, enterprise group, SACCO and district. Initially, government

**Table 2. Regional distribution of households in subsistence, PDM beneficiaries and SACCOs**

| Sub-region | HH in subsistence economy | PRF Beneficiaries | PDM SACCOs Tier 4 Financial Institutions | Active SACCOs Tier 4 Financial Institutions |
|---|---|---|---|---|
| Acholi | 416,293 | 41,875 | 627 | 384 |
| Karamoja | 353,849 | 47,991 | 472 | 449 |
| Lango | 317,023 | 68,096 | 613 | 574 |
| Bukedi | 311,153 | 55,069 | 678 | 507 |
| Busoga | 294,608 | 65,681 | 760 | 609 |
| Teso | 259,383 | 90,452 | 854 | 753 |
| Kigezi | 258,849 | 27,566 | 428 | 240 |
| Bunyoro | 250,844 | 50,054 | 550 | 489 |
| Elgon | 224,692 | 83,222 | 1,266 | 1,045 |
| Tooro | 212,950 | 84,075 | 880 | 790 |
| Ankole | 196,939 | 24,703 | 872 | 308 |
| Buganda North | 146,770 | 88,566 | 969 | 861 |
| West Nile | 140,899 | 24,805 | 827 | 309 |
| Buganda South | 97,135 | 53,304 | 692 | 536 |
| Kampala | 17,612 | 9,502 | 97 | 96 |
| **Total** | **3,499,000** | **814,961** | **10,585** | **7,950** |

Source: Authors compilation based on MoFPED (2024) & UNHS (2021)

**Figure 8. Capitalisation mechanism of SACCOs and transfer of PRF to PDM beneficiaries**




Source: Authors' construct from fieldwork data (2024)

planned to transfer funds through government owned financial institutions i.e. Post Bank, Pride Microfinance and Housing Finance Bank, but due to their limited nationwide coverage, funds transfer was expanded to other supervised private financial institutions (Figure 8).

The Ministry (MoFPED) transfers funds for the Parish Revolving Fund (PRF) directly into designated Parish Development Model (PDM) SACCO Wendi accounts for lending to qualifying subsistence households. The Wendi system notifies SACCO leadership of funds deposits, and upon loan approval by the Parish SACCO committee the leadership alerts commercial banks and PRF loan applicants. Beneficiaries receive a voucher confirming the incoming of credit to their Wendi mobile wallets, which voucher enables receipt of cash from mobile money agents, Wendi agents, or banks and bank agents. Approved PRF loans are recorded in the Parish-Based Management Information System (PBMIS) which also supports government monitoring, data management, and informed decision-making at Parish, local and national levels (MoLG, 2022).

### 2.1.3.3 How much PRF have PDM beneficiaries received?

By February 2024, the Ministry of Finance, Planning and Economic Development (MoFPED) had disbursed UGX 797 billion to Parish SACCOs, with each receiving UGX 100 million. A total of 814,961 households in the subsistence economy also accessed PRF loans (Table 3), with each receiving an average of UGX 1.0 million as provided in the PDM guidelines (MoFPED, 2024). By February 2024, however, about 77 percent (2.7 million households) were yet to receive PRF loans, highlighting the need for continued SACCO capitalization in the "Stabilization Phase" of the PDM programme for FY 2023/24 – 2024/25.

**Table 3. Sub-regional PDM cash transfers (UGX) to beneficiaries as of February 2024**

| Sub-region | Mean | Median | Std. Dev | Minimum | Maximum | Total amount | Beneficiaries |
|---|---|---|---|---|---|---|---|
| Teso | 982,489 | 1,000,000 | 89,332.27 | 100,000 | 1,000,000 | 88,868,139,709 | 90,452 |
| Buganda North | 958,463 | 1,000,000 | 131,728.88 | 50,000 | 1,000,000 | 84,887,240,420 | 88,566 |
| Tooro | 967,062 | 1,000,000 | 114,477.21 | 90,000 | 1,000,000 | 81,305,728,198 | 84,075 |
| Elgon | 973,081 | 1,000,000 | 102,807.28 | 1 | 1,000,000 | 80,981,747,642 | 83,222 |
| Lango | 971,287 | 1,000,000 | 104,054.40 | 60,000 | 1,000,000 | 66,140,760,934 | 68,096 |
| Busoga | 995,159 | 1,000,000 | 48,995.96 | 52,646 | 1,000,000 | 65,363,063,646 | 65,681 |
| Bukedi | 992,845 | 1,000,000 | 55,665.78 | 100,000 | 1,000,000 | 54,674,968,200 | 55,069 |
| Buganda South | 957,384 | 1,000,000 | 135,287.05 | 50,000 | 1,000,000 | 51,032,403,316 | 53,304 |
| Bunyoro | 986,146 | 1,000,000 | 70,371.71 | 50,000 | 1,000,000 | 49,360,535,415 | 50,054 |
| Karamoja | 980,046 | 1,000,000 | 87,796.71 | 100,000 | 1,000,000 | 47,033,394,154 | 47,991 |
| Acholi | 982,513 | 1,000,000 | 93,538.11 | 1,000 | 1,000,000 | 41,142,737,000 | 41,875 |
| Kigezi | 995,690 | 1,000,000 | 44,854.05 | 100,000 | 1,000,000 | 27,447,180,000 | 27,566 |
| West Nile | 995,516 | 1,000,000 | 47,154.87 | 100,000 | 1,000,000 | 24,693,780,000 | 24,805 |
| Ankole | 981,758 | 1,000,000 | 77,750.41 | 50,000 | 1,000,000 | 24,252,372,000 | 24,703 |
| Kampala | 996,674 | 1,000,000 | 46,918.42 | 0 | 1,000,000 | 9,470,400,000 | 9,502 |
| **Uganda** | **977,537** | **1,000,000** | **97,045.93** | **0** | **1,000,000** | **796,654,450,634** | **814,961** |

Source: MoFPED (2024)

Against the above, revised periodic figures on disbursements and information from the MoFPED Financial Services Department showed that 1.2 million households had accessed the PRF by May 2024 with total value of UGX 1.126 trillion (MoFPED, 2024). The MoFPED attributed the differences in the February 2024 and May 2024 figures to the fact that some beneficiaries received PRF either in cash or via mobile money from the commercial bank in FY 2021/2022 before the PBMIS was launched; and there were delays in capturing data in the PBMIS at Parish level. It is also possible that some households had received less than the officially designated amounts of UGX 1 million.

### 2.1.3.4 Financial inclusion of marginalised groups

Under Pillar 3 of the PDM (financial inclusion), the government established digital public credit facilities at the Parish level to support 3.5 million financially vulnerable households unable to access private sector credit. Beneficiaries can obtain loans through the Parish Revolving Fund (PRF) at a low annual interest rate of 6 percent, compared to over 18 percent charged by commercial lenders (Musinguzi *et al.,* 2023). To ensure inclusivity, it is set that the proportion of PRF recipients

**Table 4: Regional distribution of PDM beneficiaries by gender**

| Sub region | Female | Male | Total | % Female | % Male |
|---|---|---|---|---|---|
| Kampala | 6,617 | 2,885 | 9,502 | 69.64 | 30.36 |
| Karamoja | 29,038 | 18,953 | 47,991 | 60.51 | 39.49 |
| Acholi | 25,103 | 16,772 | 41,875 | 59.95 | 40.05 |
| Kigezi | 15,841 | 11,725 | 27,566 | 57.47 | 42.53 |
| Buganda South | 30,085 | 23,219 | 53,304 | 56.44 | 43.56 |
| West Nile | 13,785 | 11,020 | 24,805 | 55.57 | 44.43 |
| Tooro | 46,507 | 37,568 | 84,075 | 55.32 | 44.68 |
| Ankole | 13,651 | 11,052 | 24,703 | 55.26 | 44.74 |
| Teso | 47,823 | 42,629 | 90,452 | 52.87 | 47.13 |

| Sub region | Female | Male | Total | % Female | % Male |
|---|---|---|---|---|---|
| Elgon | 43,192 | 40,030 | 83,222 | 51.90 | 48.10 |
| Lango | 34,841 | 33,255 | 68,096 | 51.16 | 48.84 |
| Bunyoro | 25,288 | 24,766 | 50,054 | 50.52 | 49.48 |
| Buganda North | 44,206 | 44,360 | 88,566 | 49.91 | 50.09 |
| Bukedi | 27,388 | 27,681 | 55,069 | 49.73 | 50.27 |
| Busoga | 30,693 | 34,988 | 65,681 | 46.73 | 53.27 |
| **Total** | **434,058** | **380,903** | **814,961** | **53.26** | **46.74** |

Source: MoFPED (2024)

should be 30% for women, 30% for youth, 10% for persons with disabilities, 10% for older persons, and 20% for men/general community. By February 2024, more women (53.3%) than men had accessed PDM credit (Table 4).

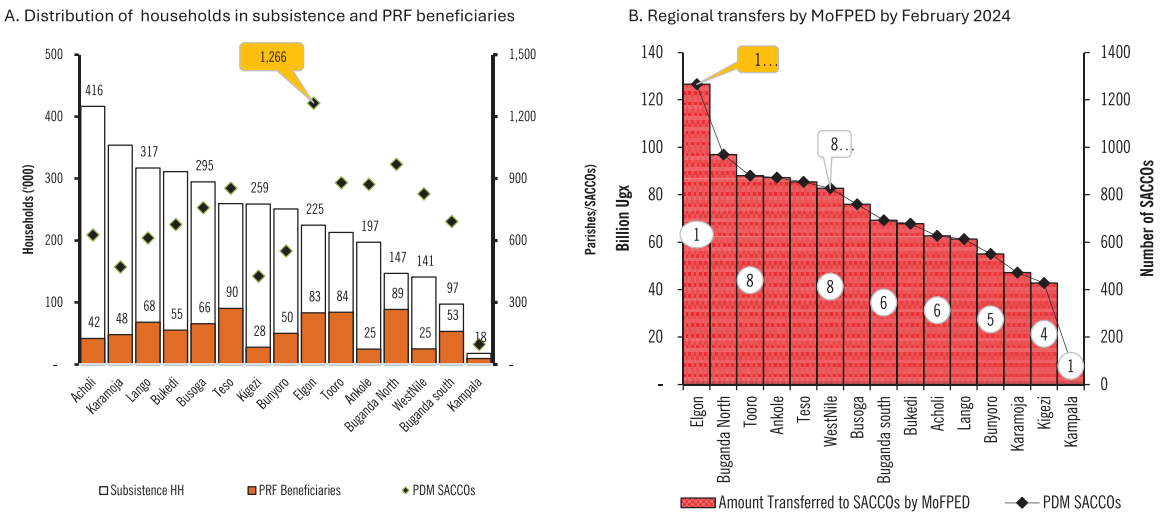
### 2.1.4 Targeting Households in Subsistence Economy

It is an established fact that there are huge disparities in Uganda in household income earnings and economic wellbeing among geographical areas, people with different livelihood activities, rural and urban, urban poor and urban rich, subsistence and commercial farmers etc. In terms of national spread, the subsistence economy and household poverty are concentrated in Acholi, Karamoja, Lango, Bukedi, and Busoga sub-regions, yet MoFPED's financial inclusion strategy does not adequately target them. Given the serious implications of disparities on national cohesion and desired economic transformation, the PDM interventions seek to empower households that are most in distress and/or are living outside the money economy.

#### 2.1.4.1 Challenges in targeting households in subsistence economy

With PDM implementation now on-going, the relationship between households in subsistence, PRF transfers and funds disbursements for selected regions are presented in Figure 9. Currently, regardless of the number of subsistence households in each sub-Region, MoFPED disburses UGX 100 million per Parish. This means that the distribution of funds based on numbers of Parishes rather than need is leading to and even accentuating disparities. For example, Elgon, with 1,266 Parishes (Figure 9) received the highest allocation (UGX 127 billion) by February 2024 (Figure 9), yet it is not among the poorest sub-Regions of Uganda.

**Figure 9. Challenges in targeting of households in the subsistence economy**




Source: Authors' computation based on MoFPED (February 2024) & UNHS (2021)

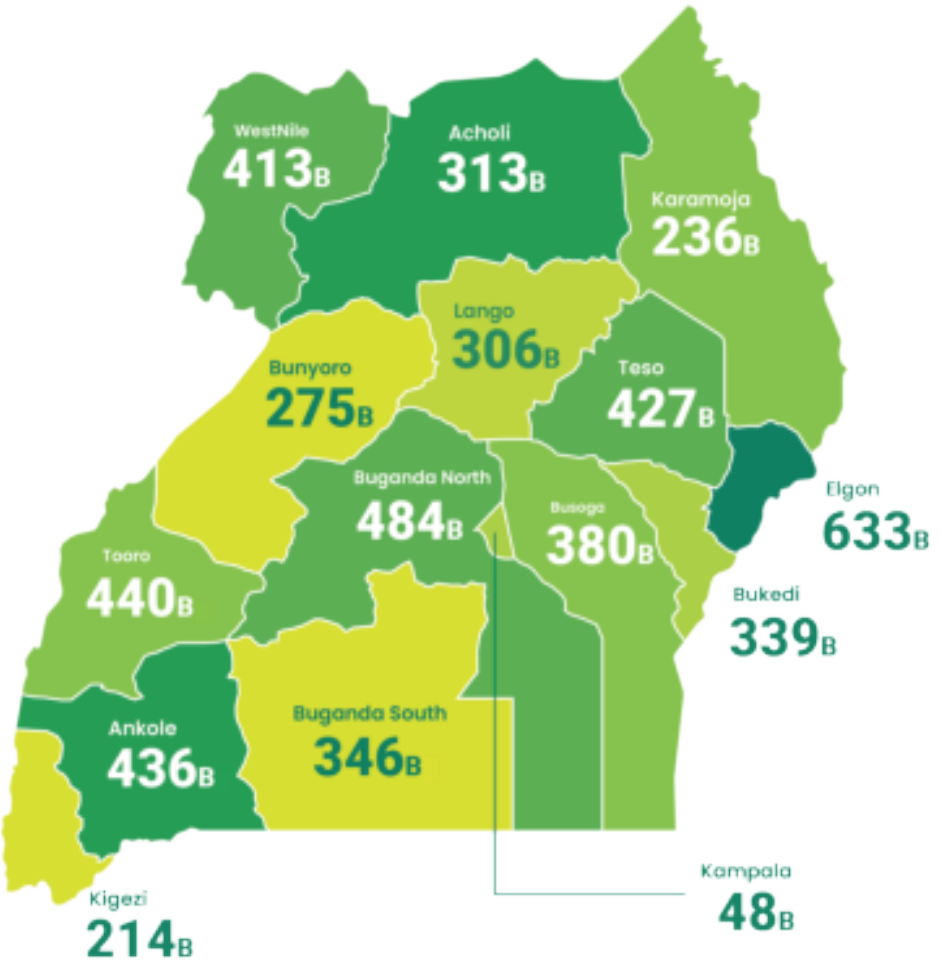
This study therefore recommends that for future PDM fund allocations, this approach should be revised to enhance focus on and prioritization of the sub-Regions with the highest numbers and proportions of poor subsistence households, to deliberately help narrow the national poverty gaps among regions and communities. The approach should also be first piloted to draw lessons and gather data that will in the final design of implementation.

### 2.1.4.2 Projected sub-regional PDM cash transfers by MoFPED

The projected sub-regional PDM cash transfers by 2030 relative to geographical sizes are illustrated by Figure 10.

Under the PDM guidelines of UGX 1 million per beneficiary, UGX 3.5 trillion was expected to be disbursed by the end of the stabilization phase in FY 2023/24 – 2024/25 (Table 5). Additionally, With MoFPED allocating UGX 100 million per SACCO over five years, a total of UGX 5.3 trillion (Figure 10) could be accumulated. This projected size of the PDM funds speaks to the potential of transforming the Parish Revolving Fund (PRF) into a "Rural Development Bank" during the sustainability and exit phase of the PDM.

**Figure 10: Projected amounts of PRF credit loans in Uganda by 2030**




Source: Authors' illustration based on MoFPED (2024) & UBoS publication (2024).

## Table 5: Projected sub-regional PDM cash transfers by MoFPED

| Sub region | Target Subsis-tence HH | Expected amount to be disbursed to HH in subsistence economy | PDM SACCOs | Capitalisation of SACCOs | | | | | Expected amount to be transferred to SACCOs |
|---|---|---|---|---|---|---|---|---|---|
| | | | | 1st year | 2nd year | 3rd year | 4th year | 5th year | |
| Buganda | 502,095 | 502,095,000,000 | 1,661 | 166,100,000,000 | 332,200,000,000 | 498,300,000,000 | 664,400,000,000 | 830,500,000,000 | 500,000,000 |
| WestNile | 396,974 | 396,974,000,000 | 827 | 82,700,000,000 | 165,400,000,000 | 248,100,000,000 | 330,800,000,000 | 413,500,000,000 | 500,000,000 |
| Busoga | 367,030 | 367,030,000,000 | 760 | 76,000,000,000 | 152,000,000,000 | 228,000,000,000 | 304,000,000,000 | 380,000,000,000 | 500,000,000 |
| Lango | 274,043 | 274,043,000,000 | 613 | 61,300,000,000 | 122,600,000,000 | 183,900,000,000 | 245,200,000,000 | 306,500,000,000 | 500,000,000 |
| Tooro | 266,557 | 266,557,000,000 | 880 | 88,000,000,000 | 176,000,000,000 | 264,000,000,000 | 352,000,000,000 | 440,000,000,000 | 500,000,000 |
| Bukedi | 251,509 | 251,509,000,000 | 678 | 67,800,000,000 | 135,600,000,000 | 203,400,000,000 | 271,200,000,000 | 339,000,000,000 | 500,000,000 |
| Ankole | 234,426 | 234,426,000,000 | 872 | 87,200,000,000 | 174,400,000,000 | 261,600,000,000 | 348,800,000,000 | 436,000,000,000 | 500,000,000 |
| Acholi | 233,106 | 233,106,000,000 | 627 | 62,700,000,000 | 125,400,000,000 | 188,100,000,000 | 250,800,000,000 | 313,500,000,000 | 500,000,000 |
| Teso | 231,580 | 231,580,000,000 | 854 | 85,400,000,000 | 170,800,000,000 | 256,200,000,000 | 341,600,000,000 | 427,000,000,000 | 500,000,000 |
| Karamoja | 222,491 | 222,491,000,000 | 472 | 47,200,000,000 | 94,400,000,000 | 141,600,000,000 | 188,800,000,000 | 236,000,000,000 | 500,000,000 |
| Elgon | 216,409 | 216,409,000,000 | 1,266 | 126,600,000,000 | 253,200,000,000 | 379,800,000,000 | 506,400,000,000 | 633,000,000,000 | 500,000,000 |
| Bunyoro | 208,135 | 208,135,000,000 | 550 | 55,000,000,000 | 110,000,000,000 | 165,000,000,000 | 220,000,000,000 | 275,000,000,000 | 500,000,000 |
| Kigezi | 130,086 | 130,086,000,000 | 428 | 42,800,000,000 | 85,600,000,000 | 128,400,000,000 | 171,200,000,000 | 214,000,000,000 | 500,000,000 |
| Kampala | 8,959 | 8,959,000,000 | 97 | 9,700,000,000 | 19,400,000,000 | 29,100,000,000 | 38,800,000,000 | 48,500,000,000 | 500,000,000 |
| **Total** | **3,543,400** | **3,543,400,000,000** | **10,585** | 1,058,500,000,000 | **2,117,000,000,000** | **3,175,500,000,000** | **4,234,000,000,000** | **5,292,500,000,000** | |

Source: Authors' computation based on MoFPED (2024) & UBoS (2024)

### 2.1.5 Emerging Policy Options

The PDM offers a pathway to enhancing access to affordable financial services through the Parish Revolving Fund (PRF). By financing agriculture wealth creators, the PDM has the potential to improve livelihoods, eradicate poverty and transform subsistence households. However, challenges such as insufficient skills to effectively utilize the funds, limited capacity among some SACCO leaders to manage and monitor operations, lack of data capturing in the PBMIS system, lack of market access due to increased production, and extreme weather events that threaten agricultural investments may hinder successful implementation of the programme.

From the above review of PDM implementation, the proposals outlined below should be put into consideration to ensure effectiveness of the PDM initiative and attainment of its set objectives as planned.

(i) The Ministry of Finance, Planning, and Economic Development (MoFPED) should strengthen partnership with supervised financial institutions to implement financial literacy training programmes. These programmes will equip farmers with essential skills to manage their finances effectively and be able to access loans. In light of the growing challenges of Climate Chane, the Ministry should also consider collaborating with financial institutions to offer agricultural insurance services to PDM beneficiaries and to all farming communities and entities in the country.

(ii) The Ministry of Local Government (MoLG) should build the capacity of SACCO leadership by providing targeted training on SACCO governance and financial management to ensure efficient funds utilization, effective recovery, and investment expansion. In addition, the Ministry should conduct regular performance evaluation of SACCOs to ensure adherence to fund disbursement guidelines and building of strong oversight and governance for the sustainability of the PDM.

(iii) The Ministry of Agriculture, Animal Industry and Fisheries (MAAIF) should enhance the delivery of Business Development Services (BDS) and other extension services to PDM enterprise groups and SACCOs to build competence and sustainability. This training should cover modern farming techniques, post-harvest management, agribusiness skills and collective marketing. Furthermore, the Ministry should encourage adoption of climate-smart agricultural technologies and practices to mitigate the impacts of Climate Change.

(iv) The Ministry of ICT and National Guidance should strengthen the functionality of the PBMIS, and eliminate data capture errors to ensure accurate tracking of loan disbursements and recovery by community Development Officers and Parish Chiefs. This improvement is essential for transitioning the PRF into a fully operational Rural Development Bank.

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# 2.2 MICRO AND SMALL ENTERPRISES RECOVERY FUND: KEY SUCCESSES AND LESSONS FOR FINANCING AGRIBUSINESSES

Joseph Sanjula Lutwama[1]

## 2.2.1 Background

The Micro and Small Enterprise Recovery Fund (MSERF) is a 5-year partnership between the Mastercard Foundation and Financial Sector Deepening (FSD) Uganda that is running from November 2021 to July 2027. The main goal of the MSERF is to directly protect 100,000 jobs that were at risk due to the adverse long-lasting effects of the COVID-19 pandemic, and create 150,000 new dignified and fulfilling work for young people (70% young women, 7% refugee youth and 3% young people with disabilities).

The MSERF manages a liquidity facility totaling to UGX 80 billion (USD 22 million) that is being utilized to build the resilience and capacity of lower tier financial institutions that serve micro and small enterprises (MSEs) by providing capital to ease their liquidity challenges that arose out of the adverse effects of the COVID-19 pandemic. The expectation is that by injecting much needed capital into their businesses, this would shorten the COVID-19 recovery trajectory of these largely women and youth-owned and operated businesses. Beyond direct beneficiary impact, the MSERF also aims to bolster the Mastercard Foundation Young Africa Work (YAW) strategy in Uganda by addressing systemic issues of access to affordable finance across the country in the portfolios of agriculture, trade and services, and the digital economy.

To date, with two and half years into the life of the fund, the MSERF already exceeded its initial target of reaching out to 50,000 micro and small enterprises with a total of 82,245 MSEs accessing the MSERF, and took out 116,786 business loans. Of the loans, 72 percent of the enterprises are owned by women, far beyond the initial target of 30 percent; while youth owned enterprises accounted for 46 percent of MSEs that accessed the MSERF against the initial target of 40 percent. Eight out of every ten enterprises accessing the MSERF are micro businesses that on average borrowed less than UGX 500,000 each for less than 12 months. From these loans, estimated 190,095 jobs have been preserved against the target of 100,000; while 20,640 jobs have so far been created by the MSEs that accessed the MSERF.

Out of the UGX 80 billion (USD 22 million) available to the MSERF, 80 percent (UGX 64 billion) has already been

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disbursed to the Participating Financial Institutions (PFIs). The goal is to roll this over eight (8) times to hit a target of UGX 640 billion being lent out to the MSEs over a 5-year period. To date, a total of UGX 142 billion has been lent out with over x2 multiplier effect. In the sections that follow, the impact of blended finance facilities such as the MSERF on financing of the agricultural sector in Uganda are analyzed and discussed.

### 2.2.2 Structure and Operation of the MSERF

The MSERF is focused on extending zero rated capital to Tier 3 (i.e. Micro-Deposit Taking Financial Institutions), and selected Tier 4 financial institutions (i.e. Savings and Credit Cooperative Organizations and Non-Deposit Microfinance Institutions) serving the micro and small enterprise market segments that borrow UGX 100,000 to 10,000,000. Tier 4 financial institutions range from Non-Deposit Micro-Finance Institutions (MFIs), Savings and Credit Cooperative Organizations (SACCOs) to Digital lenders. The following four broad criteria are considered in selecting the MSERF Participating Financial Institutions (PFIs).

**Client Segment:** What is the level of experience of the institution in serving the target clientele? The ability of the businesses to reach the poorest of the poor, but particularly those employing at least 70 percent of young women and men; businesses providing service/products specifically benefiting women; and those with lending products designs that are inclusive, i.e. are in languages borrowers understand, support diversification of women's economic activities etc.

**Capacity and Readiness:** What is the capacity of the institution to deploy the capital effectively and quickly for the target clientele once disbursed? Especially institutions that have conducted market research with particular focus on enhancing gender, women empowerment, and inclusion.

**Degree of Digitization:** The degree of digitization to ascertain how efficiently capital is being deployed and/or how client information is being captured– not only from a reporting perspective but also from an impact analysis perspective.

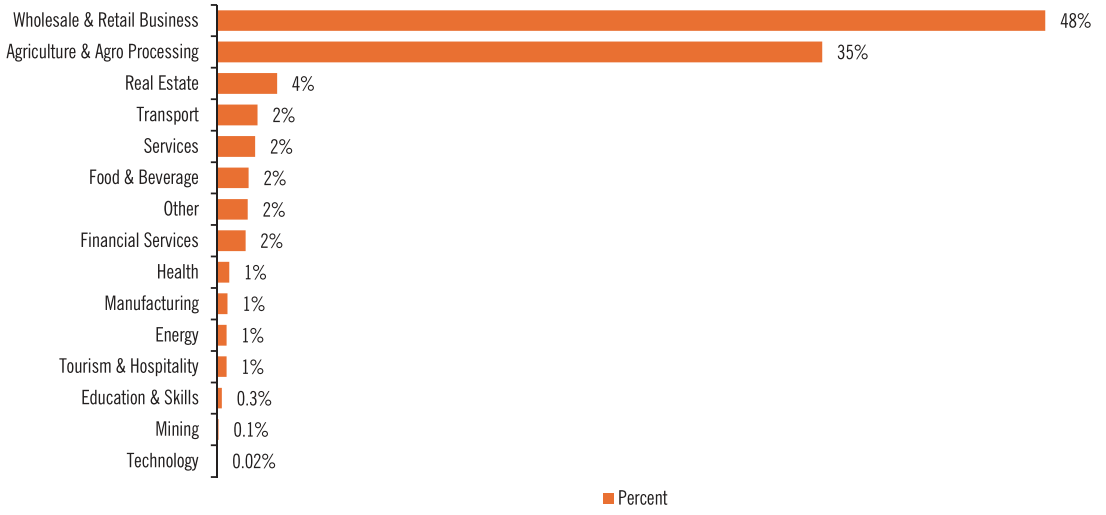
**Financial and Governance Viability:** Robustness of the institution, both financial (especially ability to take credit risk) and oversight, with operational gender/youth inclusive policies.

Under the MSERF, each PFI can access not more than 20 percent of their MSE outstanding loan portfolio or UGX 7 billion, with a minimum of UGX 2.6 billion below which the MSERF can disburse funds to the eligible PFIs. Unlike other blended finance initiatives in the market such as the Agricultural Credit Facility (ACF) and the Small Business Recovery Fund (SBRF), however, the MSERF does not require its PFIs to cap the interest rates against which they on-lend to their customers. Instead, it negotiates with each of the PFIs the interest rates against which they are to on-lend to their customers. As such, the MSERF interest rates on these loans vary from as low as 16 percent to as high as 133 percent on an annualized basis.

The PFIs are only required to pay back the principal into the facility after the agreed period so that funds can revolve and be further utilized. The interest income and fees that PFIs earn are expected to cover any losses arising from non-performing loans (NPLs) and other administration costs because the MSERF does not provide any guarantee to cover non-performing loans.

While the bespoke approach of the MSERF has allowed for the quick uptake of the facility by the eligible PFIs far above other blended finance initiatives in the market, it has excluded many much smaller Tier 4 financial institutions especially in Northern and Eastern Uganda. Most of the Tier 4 financial institutions in these regions are undercapitalized, with very small loan portfolios and inefficient operational and corporate governance structures. To this end, the MSERF has created a special window to cater for affirmative action for Tier 4 financial institutions in these regions, although it is yet to be rolled out with potential beneficiary financial institutions currently undergoing due diligence. It is anticipated that each qualifying institutions will receive technical assistance and a cost sharing grant for a period of

**Figure 11: Distribution of the total value of MSERF credit by sector**




Source: Author's analysis of FSD Uganda's MSERF Data as at 30th June 2024

eighteen months within which an interest free liquidity facility of about UGX 360 million will be extended to these institutions.

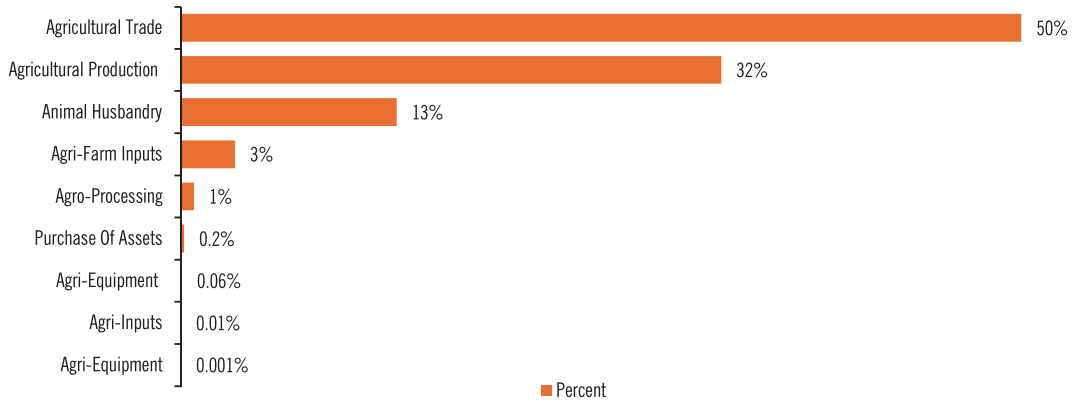
### 2.2.3 Performance of the MSERF in Increasing Access to Agricultural Finance

Under the MSERF programme, the MSE sectors prioritized are agriculture/agribusiness, light manufacturing, construction, tourism, health, education, trade and services (transport and warehousing). In terms of disbursement performance by borrowing sectors, wholesale and retail trade are the most, with the two sectors accounting for 48 percent of total disbursement to the MSERF PFIs to date. The agricultural sector comes second accounting for 35 percent of total credit disbursed to the MSERF PFIs (Figure11).

Within the agricultural sector loan portfolio, over 80 percent of the borrowers are micro enterprises but they only account for 53 percent of the agricultural loan portfolio. As expected, the larger enterprises are borrowing much bigger loans than the micro-enterprises, with over 95 percent of them borrowing over UGX 1 million. Furthermore, agricultural production and produce trade are the major purposes of the agricultural loans accessed from the MSERF, with the latter accounting for the largest share of the loans (Figure 12).

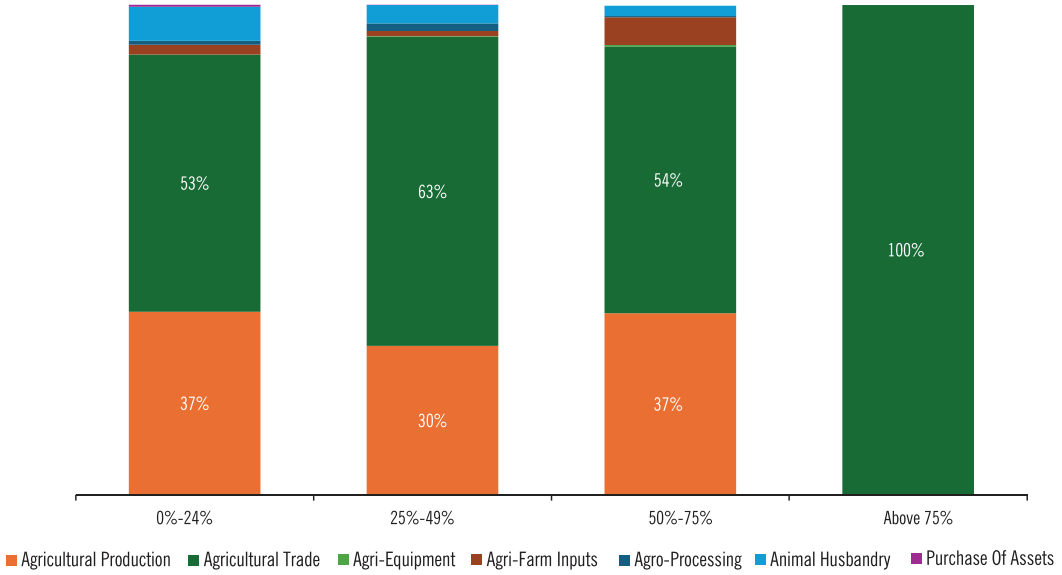
With the exception for animal husbandry, most agricultural loans do not exceed a tenure of 6 months, which is a clear indication that they are driven by the agricultural seasons. Most of the agricultural loans across different purposes attract an interest rate between 25-49 percent

**Figure 12: Distribution of the total value of MSERF agricultural loans by loan purpose**




Source: Author's analysis of FSD Uganda's MSERF Data as at 30th June 2024

**Figure 13: Distribution of agricultural loans by interest rate**




Source: Author's analysis of FSD Uganda's MSERF Data as at 30th June 2024

per annum (Figure 13). In exceptional circumstances, agricultural loans can be accessed at an interest as low as 16 percent per annum from SACCOs, and as high as 133 percent from Digital lenders; with the former being production loans while the latter are trade loans. Digital lenders usually offer very short-term loans of less than one month duration without the requirement of physical collateral; reason why, when annualized, their loans turn out to be very expensive and few for durations of up to 12 months.

### 2.2.4 Lessons from MSERF Operation for Future Recovery Financing of Agribusinesses

The huge goal of national economic transformation through investment in the agricultural value chain, spelt out in the Fourth National Development Plan (NDP IV) and National Action Plan, requires multiple interventions and strategies of which the MSERF provides valuable experience. As a way forward, and in concluding this review of the performance of the MSERF so far, three key take home lessons are presented below.

(i) **The case for a customized approach:** Unlike other blended finance recovery initiatives, the MSERF took a customized approach where it did not require a cap on interest rates across the board for all its PFIs. The MSERF terms and conditions were tailored to the business models and product features of each PFI. This allowed for quick disbursement of the MSERF funds both to the PFIs and end-customers which is truly facilitating the quick recovery of the MSERF beneficiary businesses. Within a space of just over 2 years, over 30,000 micro and small agri-businesses accessed over UGX 38 billion. This is contrast to just over UGX 18 billion accessed by 2,700 small agribusinesses from the Agricultural Credit Facility (ACF) (BoU, 2024) with a similar agricultural goal over a 14-year period.

(ii) **Intentionality delivers greater impact:** Related to the customized approach, the MSERF was intentional in the selection of the PFIs that would benefit from its liquidity facility. Since it focused on supporting the recovery of women and youth owned micro and small agri-businesses, MSERF narrowed down its focus to Tier 3 and Tier 4 financial institutions that are already experienced at serving this customer segment. It was therefore much easier for the MSERF funds to reach its targeted customer segment-the young women involved in agriculture. The ACF which is entirely focused on Tier 1-3 financial institutions has not had much success with the micro and small agribusinesses even with the introduction of the block allocation

targeted to this customer segment. In contrast, despite the micro and small agribusinesses accounting for 62 percent of ACF beneficiaries, this market segment constitutes just 2 percent of the total funds lent out to agribusinesses over its 14 years of operations (BoU, 2024).

(iii) **The case for diversification of the fund recipients:** The lessons from the MSERF so far show that different categories of financial institutions offer a wide range of interest rates for agricultural loans ranging from as low as 16 percent per annum to as high as 133 percent per annum. Therefore, instead of just requiring a cap on the interest rates that is not sustainable, like the case with like MSERF, blended finance facilities should be more selective by targeting those financial institutions with the most competitive interest rates for their end-customers.

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# 2.3 STANBIC BANK ECONOMIC ENTERPRISE RESTART FUND (EERF): SUCCESSES IN FINANCING RECOVERY OF THE UGANDA AGRICULTURE SECTOR

**James Junguru**[1]

## 2.3.1 Background on EERF

Following the severe effects of the COVID-19 pandemic and lockdown on the Ugandan economy, and particularly the debilitation of the informal micro and small enterprises and smallholder farmers, Stanbic Bank Uganda decided to establish the Economic Enterprise Restart Fund (EERF) as a support initiative. The EERF was launched in 2020 jointly by the Bank and the United Nations Development Programme (UNDP) Uganda Country Office, primarily as a buffer fund to address the adverse effects of the COVID-19 lockdown on the economy.

The EERF is a refinancing fund with the target of helping small and micro-enterprises, Savings and Credit Cooperatives (SACCOs), Village Savings and Loan Associations (VSLAs) and Non-Deposit Taking MFIs to survive, recover and thrive. The EERF also targeted other financial institutions (commercial banks and MDIs in Tier 1-3) that had existing relationships with these entities and with various groupings of enterprises.

The development objective of the EERF was the restart of the economy post-COVID by availing a syndicated fund. The core strategy of the EERF was to avail refinancing capital to Participating Financial Institutions (PFIs)- commercial banks or MDIs- to on-lend either (a) through SACCOs, VSLAs and Non-Deposit Taking MFIs to members/clients; or (b) directly to MSMEs. In addition to on-lending capital, the EERF initiative covers provision of technical support; financial literacy training through the Stanbic business incubator; and digitisation services to SACCOs, VSLAs and Non-Deposit Taking MFIs and their clients.

Through the EERF, Stanbic Bank has been extending capacity building and affordable credit support to farmers, women and youth groups seen to be at the bottom of the economic pyramid. The goal is to ensure that the development impacts of the EERF financing operations will be sustained at both institutional and end-user levels long after the refinancing loans have been fully repaid. This article highlights the progress in implementation of the EERF; challenges faced and how they were addressed; and lessons learned so far. Like for other initiatives, it is expected that the experiences accumulated will help inform agricultural development activities laid out in the Uganda National Development Plan IV (NDP IV).

1 Manager of the Economic Enterprise Recovery Fund, Stanbic Bank ()

### 2.3.2 Structure and Operation of the EERF Recovery Fund

Although established by Stanbic Bank, the Business Banking Division of the Bank actually borrows substantially from the EERF to on-lend to SACCOs, VSLAs, Non-Deposit Taking MFIs through its branch networks, and direct to MSMEs. For transparency, the EERF issues refinancing to Stanbic's Business Banking Division under the same kind of contracts terms and procedures as for wholesale loans to any other participating financial institution (other banks and MDIs), and recover the funds from Stanbic's Business Banking Division in full according to the repayment schedules of the sub-loans. For objectivity and effectiveness, the EERF has set institutional structures, operational procedures, and eligibility requirements for its lending.

#### 2.3.2.1 Institutional structure and operation of the MSM recovery fund

The EERF was established as a multi-investor COVID-19 impact relief fund. In addition to funding from Stanbic Group, the Fund aims to attract investments from other local and international development impact-oriented financiers. The total capital loans or grant loans is US$ 40 million, with a loan portfolio of over US$ 100 million that is benefiting more than 7,500 SACCO's, VSLA's and business enterprises. Of the loans, the Bank offers an unsecured portfolio of up to UGX 4 billion with a tenor of not more than 36 months.

For many SACCOs digitization has paved the way for the adoption of innovative and more convenient payment channels. The Stanbic FlexiPay mobile money solution allows users to receive and make payments without the need to necessarily have a bank account. Under EERF, Stanbic has been distributing FlexiPay integrated smart phones to PDM-verified SACCOs, and this has substantially eased and secured transactions between SACCO managers and members.

Disbursements to SACCOs is based on onward lending to members at an interest rate of 12.5 percent for the multipurpose SACCOs, and 10 percent for agriculture-based SACCOs and Cooperatives. Notably, these financing arrangements help accelerate financial inclusion for those segments of the population directly involved in agricultural production.

#### 2.3.2.2 SACCO eligibility requirement for the EERF recovery fund

The EERF lending criteria depends on the linkage banking institutional framework, with SACCOs and VSLAs being the key conduits through which recovery funds are transferred to the final borrowers. The following are the eligibility requirements for the Stanbic Bank's EERF recovery fund for the target qualifying SACCOs/VSLAs:

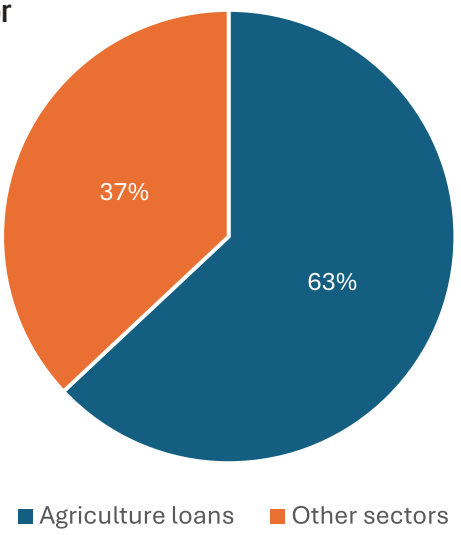
i. All registered SACCOS by the Ministry of Trade Industry and Cooperatives.
ii. All VSLAs registered by the District/Subcounty Community Development Officer (DCDO)
iii. With existing customers and new bank customers, interest rate is 12.5 percent per annum for multi-purpose SACCOs and 10 percent per annum for purely agriculture SACCOs/VSLAs.
iv. Unsecured Term Loan up to UGX 4 billion with tenor of not more than 36 months.
v. Maximum amount of 45 percent of SACCO Loan Portfolio.
vi. Bank statement for 12 months where SACCOs/VSLAs are banked elsewhere.
vii. Minimum of 3 years in operation.
viii. Satisfactory credit bureau checks on the institution and board members.
ix. Portfolio Performance-Ageing report. A copy of certificate of registration as a SACCO as per legal requirements.
x. Copy of institution's operational license from Uganda Microfinance Regulatory Authority.
xi. Letter of authorization to borrow from District commercial officer or commissioner of cooperatives.
xii. Copy of financial cards for the SACCO and keyboard members.
xiii. SACCO board resolution authorizing the facility (where applicable).
xiv. Copy of Identity cards of the board members.
xv. At least, the immediate audited financials must

be presented. And cash flow projections plus any budget and project plans.

### 2.3.3 Performance of the EERF Recovery Fund: Focus on Agriculture Versus other Sectors

Review of the performance of the EERF shows that disbursements for agriculture account for the bulky of the loans given out so far (Figure 14). Indeed, as at 2024, the fund had disbursed UGX 100 billion to various financial institutions, of which funds 90 percent were disbursed through agricultural related SACCOs while other SACCOs disbursed the remaining 10 percent; with average loan ticket of UGX 400 million per SACCO.

**Figure 14: Distribution of EERF recovery loans by sector**




Source: Author's construction based on the EERF database

Since 2022, UGX 158.6 billion has been lent to 767 SACCOs/VSLAs translating into financial access for a total of 383,500 SACCCO members. Also, 5,312 VSLAs have been lent EERF funds through SACCOs. The SACCOs lending to their members charge set interest rates of 12.5 percent for the multipurpose SACCOs, and 10 percent for agriculture-based SACCOs and Cooperatives.

On capacity building, a total of 1,103 SACCOs under EERF (20% East,35% North,45% Central) have accessed financial training. Furthermore, 174 SACCOs have benefited from the digitization grant, and 15 of the digitized SACCOs without power received solar power systems to support their operations. Other EERF impact indicators include increased farm yields and output through accessing agricultural loans accessed; increased milk production for farmers under dairy cooperatives; improvement in SACCO members' household incomes; and increased number of children accessing education and livelihood conditions.

### 2.3.4 Challenges in the Implementation of the EERF Recovery Fund

In the implementation of the EERF, the various challenges identified main point to serious capacity and management weakness within SACCOS that need very urgent attention. This is because SACCOs and community run savings and credit institutions have become central for financial mediation in rural Uganda, with major poverty alleviation programmes such as the Parish Development Model (PDM) and Operation Wealth Creation (OWC) depending on them. Some of the key challenges identified are outlined below.

(a) **Inadequate financial management within SACCOs.** One of the biggest challenges faced by SACCOs and farmer cooperatives is the inadequate capacity of leaders and staff to effectively manage their group and member finances.

(b) **Governance gaps within SACCOs.** There is no transparency, accountability and effective institutional management within SACCOs. This does not allow SACCOs to fulfill their mandate of empowering members in business development, income generation and financial management.

(c) **Inadequate use of technology.** In this digital world, many SACCOs still operate using manual processes, outdated technologies, and slow decision-making from boards and management. Other persistent issues, such as bad loans, stiff competition from other financial service providers and ever-changing regulations, further complicate their operations.

(d) **Mismanagement**. Abuse and mismanagement SACCO funds and the loans received by SACCO leaders is a widespread challenge due to poor oversight and management frameworks and weak

law enforcement processes and measures.

(e) **Conflicts**. Internal rivalries and conflicts among some SACCO leaders are impeding smooth operations of some SACCOs, and are eroding the trust of members and the general population in SACCOs as safe and viable means of finance mobilization for the rural populations, particularly farmers and women who manage household affairs.

### 2.3.5 Lessons from EERF Recovery Fund Operation for other Financing Initiatives

It is a fact that the Stanbic Bank's EERF is not the only initiative in Uganda established for the economic and livelihood development of ordinary people, particularly rural communities engaged in farming and other agro value chain income generating activities. It is also true that other initiatives now being implemented, and those being planned benefit from past and shared experiences. In this regard, the following experiences and lessons learnt from the EERF implementation are hereby shared for the common benefit of the country.

(i) Partnerships are key in the implementation of EERF recovery funds. Through EERF, Stanbic Bank has been collaborating with entities such as Project for Financial Inclusion in Rural Areas (PROFIRA), Alliance for Green Revolution in Africa (AGRA) and Opportunity Internal as well as local authorities. Through the Stanbic Business incubator, the collaboration provided training in financial literacy and basic business know-how to 576 SACCO leaders. The partnerships have covered several areas, including financial management, governance, agro-enterprise management, and credit risk management. Other important areas tackled are compliance, leadership and self-management; governance, quality management, strategy and business planning; and financial management, marketing and customer management, and digitization.

In 2022, aBi Finance came onboard to help fund the improvement of financial management systems of SACCOs by digitizing day-to-day operations. Under this initiative, the SACCOs are equipped with computers and accessories and their staff provided with necessary skills to operate the equipment. To date, 174 SACCOs have already benefited. Enhanced due diligence on agricultural loans is prerequisite to mitigating the high riskiness in the sector.

(ii) It is vital to align the repayment frequency of the EERF recovery fund to customer cash flows, as this eases repayments and reduces defaults.

(iii) Partnering with Fintech to digitize the SACCO operations promotes transparency.

(iv) Crop insurance is a key supportive facilitator of the EERF loan initiative, and mitigates against various potential risks.

(v) Capacity building of the SACCO members is necessary in ensuring that best farming practices are learnt and followed.

(vi) Partnering with development partners to cover risks of lending through guarantees is key in ensuring uptake of the fund.

As pointed out earlier, progress in implementation of the EERF will continue, with lessons learnt incorporated to assure greater success. With effective implementation, success will benefit not only participating entities and loan borrowers but also Stanbic Bank and its collaborators.

# 2.4 LEVERAGING BLENDED FINANCE TO ATTRACT PRIVATE SECTOR CREDIT TO UGANDA'S AGRICULTURE SECTOR

Geoffrey Okidi[1]

## 2.4.1 Introduction

Agriculture is one of the key sectors that play critical roles in the economy of Uganda. In Financial Year (FY) 2022/2023, agriculture accounted for 24 percent of the country's Gross Domestic Product and 42 percent of export earnings (MoFPED, 2024); and is the main source of raw materials for the country's largely agro-based industries. Agriculture provides critical forward and backward linkages within the economy, creating opportunities for many actors within the agricultural value chains. Furthermore, the Uganda Bureau of Statistics estimates that about 68 percent of Uganda's working population is employed in agriculture.

Given the leading role of agriculture as a source of livelihood, the Government of Uganda has identified agro-industrialization as one of the key growth drivers[2] in supporting its long-term aspiration of transitioning into a modern industrial economy. This is explicitly expressed in the country's Fourth National Development Plan (NDP IV) and the Uganda Vision 2040; with the agro-industrialization agenda aiming at increasing commercialization and competitiveness of agricultural production and agro-processing. Commercialization of agriculture is, however, impeded by several factors including inadequate access to cheap and patient financing.

Currently, the agriculture sector benefits from four primary financing modalities: (i) public budget support; (ii) state agriculture financing programmes; (iii) development partner financing; and (iv) private sector financing (EPRC, 2021). Individually, however, each of these financing modalities have gaps that partly limit the expansion of finance to support agriculture sector. These existing weaknesses in the individual financing mechanism have resulted in increased need to blend financing modalities for agriculture, mainly with a view to attracting private sector credit to the sector.

According to Periera (2017), blended finance refers to the combination of grant-equivalent finance with non-concessional finance (loans) to provide greater finance at below-market rates or with longer maturities than provided by the finance market. Against this definition, this article examines the performance of three blended finance initiatives and identifies lessons learned and how these can be applied to current and future blended finance initiatives so that they can deliver greater and sustainable impacts.

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2 The other 3 key growth sectors are: i) Tourism development; (ii) Mineral development including oil and gas; and (iii) Science, technology and innovation (STI)

### 2.4.2 Gaps in the Existing Financing Modalities for the Agricultural Sector in Uganda

Over the years, the agriculture sector of Uganda's economy has enjoyed funding from the national Budget, support from development partners, and through private sector investments. A review of the various funding provided for agriculture and gaps existing are presented below.

(a) **Budget support to agriculture:** The national Budget allocation to agriculture in FY 2024/2025 was UGX 1.88 trillion compared to UGX 1.81 trillion in FY 2023/2024. The allocation to the sector in FY 2024/2025 is about 2.6 percent of the UGX 72.1 trillion Budget (MoFPED, 2024). This is well below the minimum 10 percent of national Budget committed to in the African Union (AU) Maputo Declaration of 2003, and the AU Comprehensive Africa Agriculture Development Programme (CAADP) Kampala Declaration of 2024. The low level of funding undermines the institutional and physical investments required for the transformation of the agricultural sector.

(b) **State programmes for financing agriculture:** To focus financing on the agriculture sector, Government has over time implemented several programmes including: the *Entandikwa* Scheme (1996), *Bonabagagawale* (Prosperity for All), the National Agricultural Advisory Services (NAADS), Operation Wealth Creation (OWC) (2013), Presidential Initiative on Jobs and Wealth Creation (*Emyooga*) (2015) and more recently, the Parish Development Model (PDM) Programme. Other State agriculture programmes include provision of affordable credit for businesses and manufacturers through Uganda Development Bank, Microfinance Support Centre, Uganda Development Corporation, the Small Business Recovery Fund, the Agriculture Credit Facility and the Agro- Insurance programme, among others.

Recently, more targeted initiatives for women and exporters are being rolled out, notably the Generating Growth Opportunities and Productivity for Women Enterprises (GROW) Project worth US$ 217 million; and the Investment for Industrial Transformation and Employment (INVITE) Fund worth US$ 210 million (UGX 800 billion) to address working capital challenges of exporters due to start in FY 2025/2026. Key challenges of the State programmes for financing agriculture are that they are scattered among different agencies, and are uncoordinated, non-transformative, and often perceived as politically motivated.

(c) **Development partner financing:** Development partners have for long supported Uganda's agriculture sector by providing financial resources and technical assistance to guide implementation of key agriculture projects, and by contributing to policy formulation. Financial support provided by development partners comprises direct funding of relevant agricultural projects, and indirect financial support provided through general Budget support earmarked for agriculture sector support.

Some of the key development partner contributions to the agriculture sector have come from major donors such as USAID, EU, DANIDA etc. For example, for the period 2023-2024, DANIDA committed US$ 24 million for green transformation and climate initiatives in Uganda with the main beneficiaries being smallholder farmers and small and medium-sized enterprises within agribusiness, including refugees and their host communities[3]. USAID has been a long-standing partner of Uganda supporting agriculture and other growth sectors through various initiatives, such as Feed the Future Inclusive Agricultural Markets Activity (US$ 35 million) and Feed the Future Strategic Investments Activity (US$ 19 million).

The shortcoming with development partner financing is that the support is mostly channeled through projects rather than programmes. Additionally, these project financing are short-term in nature and act in a silo approach targeting specific value chains or nodes along value chains that may not be key priorities.

(d) **Private sector credit to agriculture:** According

3 https://uganda.um.dk/en/danida-en/sustainable-and-inclusive-growth-of-the-economy-2023-2028 (Accessed on 2 Nov 2024)

to MoFPED (2024), private sector credit increased from UGX 20.47 trillion in April 2023 to UGX 21.54 trillion in April 2024, an increase of 5.2 percent. There has also been slight increase in the share of credit going to productive areas of the economy. For example, the share of credit going to agriculture increased slightly to 11.3 percent by April 2024 from 11.1 percent in April 2023, while the share of credit to manufacturing remained the same at 13.4 percent (MOFPED, 2024). Despite the slight improvement in private sector credit to the agriculture sector, the credit is characterized by high interest rates, high collateral requirements, and short-term nature.

It is also a reality of development financing that 19 percent of the adult population in Uganda are financially excluded (FSDU, 2023). Thus, urgent improvements in access to affordable long- and short-term credit are required for the transformation of the agriculture sector.

### 2.4.3 Performance of Selected Blended Finance Facilities in Uganda

In general, sustainable financing of the agriculture sector will continue to hinge on private sector credit blended with Government and development partner financing programmes aimed at catalyzing the flow of private sector credit to the agricultural sector as highlighted above. Blending finance is intended to provide incentives for the private sector to make available capital for risky ventures. The effectiveness of this blending is best evidenced by review of the performance of some the initiatives currently being implemented in the country.

#### 2.4.3.1 FSDU's Micro and Small Enterprises Recovery Fund

The Micro and Small Enterprises (MSE) Recovery Fund is a 5-year US$ 22 million initiative under the Young Africa Works (YAW) program jointly established by the Mastercard Foundation and Financial Sector Deepening (FSD) Uganda, to jumpstart economic livelihoods of entrepreneurs and secure and create job opportunities for young women and men in Uganda. The fund that was launched in February 2022 aims to facilitate access to finance for a target 50,000 MSEs (at least 40 percent women and 30 percent youth) over a 5-year period.

The major objectives of the Fund are to: (i) shorten the recovery trajectory of youth and women-owned, operated, or employed businesses from the effects of the COVID-19 pandemic by providing them with much-needed capital funding; and (ii) build back the resilience of micro and small enterprises that employ millions of people in the country and were set back by the pandemic. The plan is to provide interest free credit facility to up to 25 Tier 3 and Tier 4 financial institutions who are to then avail investment credit to MSEs and eligible borrowers.

#### *Performance of the MSE recovery fund*

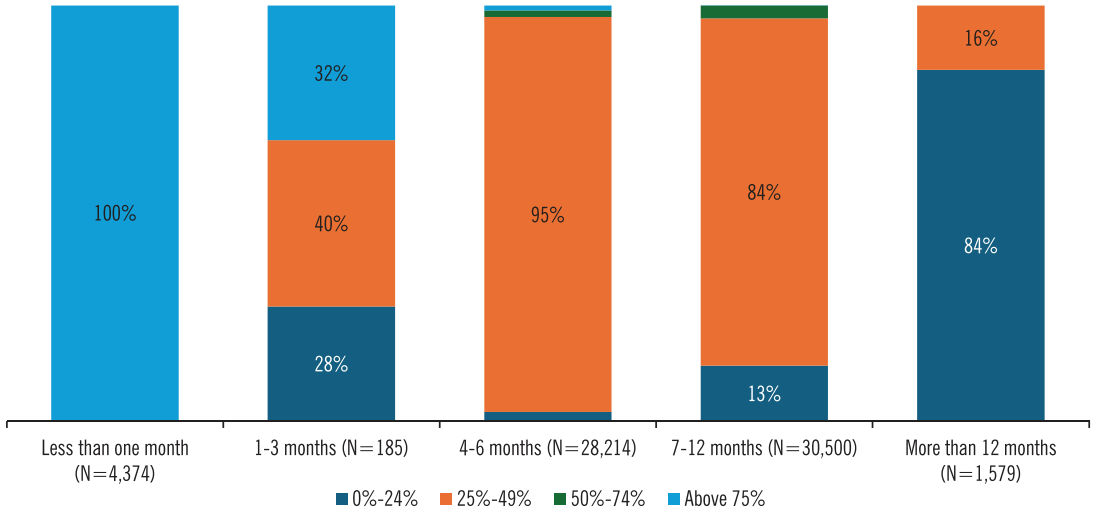
The MSE Recovery Fund has made tremendous progress that on average far exceeded its annual performance targets for the two years of its operations, with over 90 percent of the 3-year target already achieved in just two years of implementation (Table 6).

**Table 6: Summary of the Fund Performance as of May 2024**

| Key Performance Indicators | 3-Year Target | Progress To-Date | Performance (%) |
|---|---|---|---|
| Funds Disbursed to PFIs | UGX 70.6 Bn | UGX 64.6 Bn | 91 |
| Number of PFIs | 25 | 23 | 92 |
| Funds lent out to MSEs | | UGX 135 Bn | |
| No. of MSEs accessing the Fund | 42,000 | 76,704 | 183 |
| Borrower Demographics | 40% Women<br>30% Youth | 71% Women<br>45% Youth | 178% Women<br>150% Youth |

Source: Authors compilation based MSE Recovery Fund Monthly Reports, May 2024

**Figure 15. The cost of credit by the duration of the loan facility, 2024**

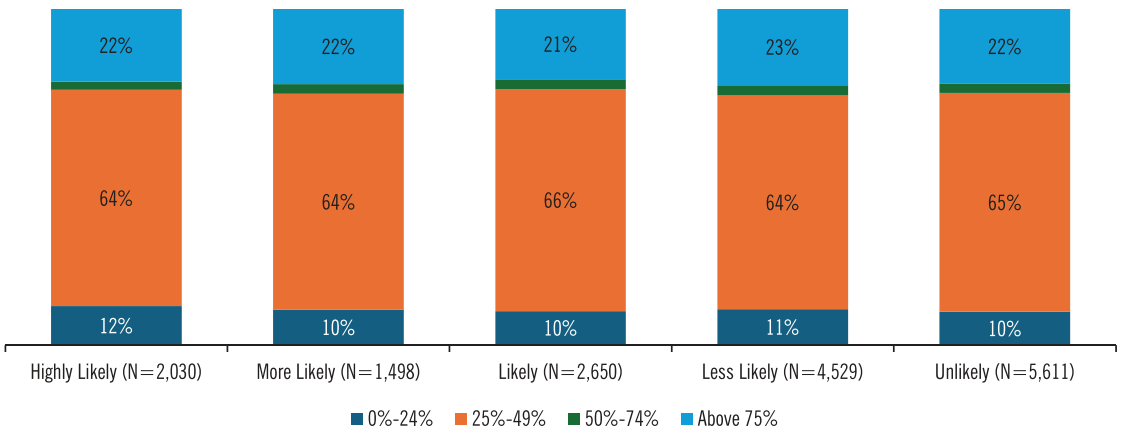



Source: Authors construction based on data from the MSERF Portfolio Monitoring Tool, May 2024

Despite the extensive outreach of the MSERF, the cost of credit remains high even after the PFIs received interest-free loans from the MSERF (Figure 15); largely due to the high operational costs of the financial institutions. The MSERF interest rates range from as low as 16 percent to as high as 133 percent, with the average rate being 32 percent which is above the industry average of 18 percent. For any business to thrive with such high interest rates, their returns on capital need to far exceed the cost of capital. This is difficult in practice and, as such, it is critical to tackle the high operational costs of the participating financial institutions for the high interest rates to come down.

The cost of credit remains especially high for short-term loans (above 75 percent per annum for loans of less than one month duration) compared to the longer-term loans (0 – 24 percent per annum for majority of loans of more than 12 months tenure) (Figure 16). This is partially because the lenders seek to mitigate the risk of lending over a shorter term given that short term loans are disbursed quickly and with less stringent approval and security criteria. In contrast, long-term loans are typically associated with lower interest rates that are still more cost-effective because amounts borrowed are larger and interests accumulate over longer periods (years).

**Figure 16. Likelihood of loan repayment default due to cost of credit**




Source: Authors construction based on data from MSERF Portfolio Monitoring Tool, May 2024

Besides the high interest rates highlighted above, records further reveal that borrowers who pay high interest rates are more likely to default on their existing loans (Figure 16). Analysis of available data also show that over 60 percent of the borrowers across the different credit risk profiles (i.e. with varying likelihood of default) are within the same interest rate band of 25 – 49 percent per annum (Figure 16). This is indicative of the fact that the financial institutions have not yet adopted a risk-based approach to credit decisions.

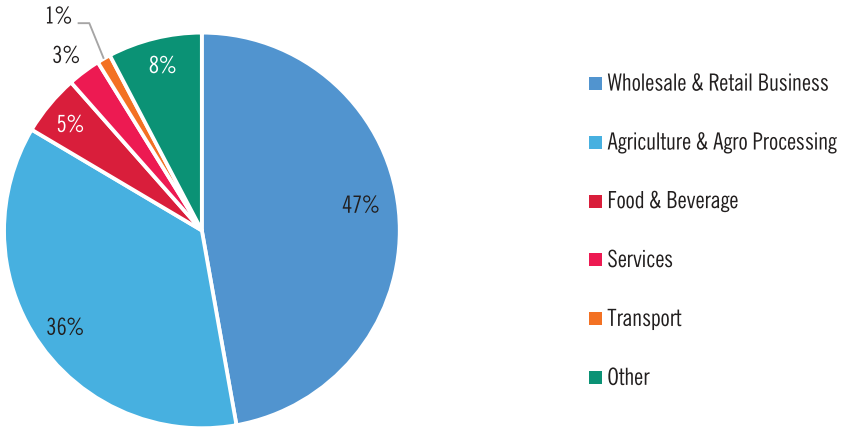
### *Sector distribution of credit under the MSERF*

The Fund has primarily extended its lending activities to the retail and wholesale sectors, with a notable focus on the agriculture sector. The retail and wholesale sector (47 percent) maintains its dominance as the preferred sector for most MSEs to run enterprises, followed by agriculture and agro processing (36 percent) as shown in the Figure 17.

### *Sector distribution of credit by financial institution*

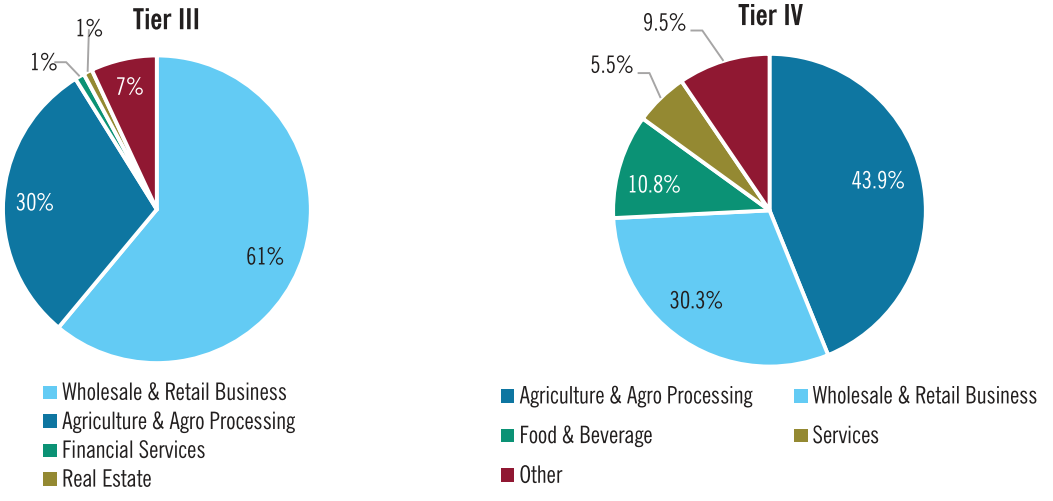
A review of the MSERF portfolio (Figure 18) reveals that Tier III institutions put a noteworthy emphasis on lending within the retail and wholesale sectors (61 percent), with significant focus on agriculture and agro-processing (30 percent). On the other hand, Tier IV institutions primarily engaged in lending to agriculture and agro-processing (43.9 percent). This inclination is attributed to the micro-scale operations characteristic of most agricultural

**Figure 17. MSERF Fund distribution across sectors**




Source: Authors construction based on MSERF Annual Report 2023

**Figure 18. MSEs credit distribution across the sectors by financial institutions**




Source: Authors construction based on MSERF Annual Report 2023

MSMEs.

Consequently, a strategic emphasis on supporting Tier IV institutions holds the potential to significantly influence and strengthen the agriculture based MSEs, thus creating a direct and impactful connection to Uganda's rural communities. The above evidence justifies the choice of Tier III and Tier IV institutions as the best vehicles for implementation of the MSERF.

### 2.4.3.2 Bank of Uganda's Agricultural Credit Facility

The Agricultural Credit Facility (ACF) was established in 2009 as a public-private partnership between the Government of Uganda (GoU) and Participating Financial Institutions (PFIs), with the goal of bridging the financing gap and supporting the efforts of commercializing and modernizing the agricultural sector (BOU, 2020). The ACF targets Commercial Banks, Microfinance Deposit-Taking Institutions (MDIs), Credit Institutions (CIs) and Uganda Development Bank Limited (UDBL). The Bank of Uganda manages the ACF on behalf of the Government of Uganda. The ACF operates on a refinance basis, where the PFIs in the ACF submit the whole loan amount to the beneficiary of the fund and thereafter apply for 50 percent of the loan amount from government (BoU, 2023). The interest rate charged on this facility is set to not exceed 12 percent per annum, with government contribution to the fund advanced to the PFI at zero interest rate to enable the PFI recover the return foregone by charging an interest rate lower than the market rate.

#### *Performance of the ACF*

Over the 13 years of operation of the ACF, a total of 3,744 loans have been disbursed valued at UGX 840 billion (US$ 226 million) (Figure 19). This represents an average annual disbursement of UGX 244 million (BoU, 2023). The government has so far invested UGX 276 billion which the banks have equally matched to have an estimated total investment of UGX 552 billion.

Considering disbursement type, evidence in Table 8 reveals that six out of every ten projects financed through the ACF is a small project valued at less than UGX 20 million. Lending to these small projects are mainly unsecured loans for the micro borrowers accessed under the Block Allocation arrangement. However, 84 percent of the value of loans is disbursed to large borrowers (Table 9).

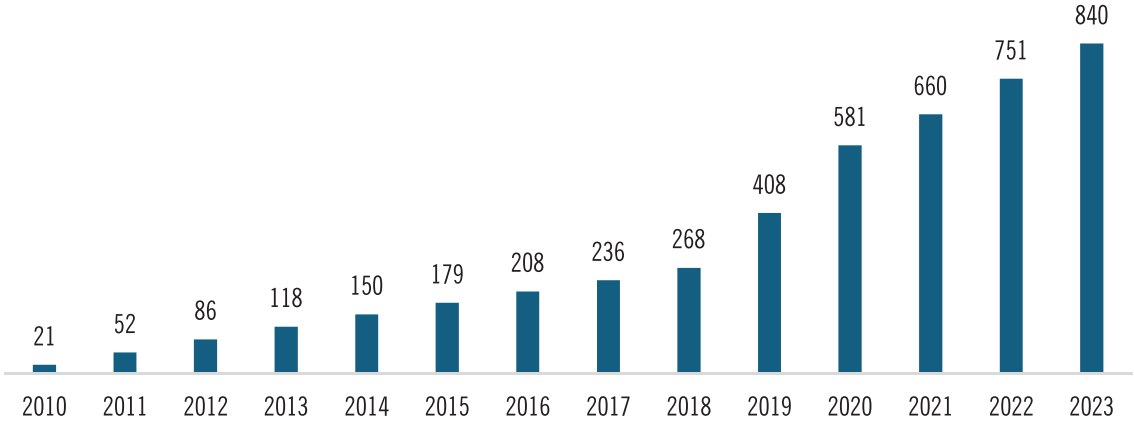
**Table 7. Salient Features of the Agricultural Credit Facility (ACF)**

| | Focus Areas | |
|---|---|---|
| **Feature** | **Capital Expenditure and Other Agricultural Projects** | **Grain Trade Facility** |
| Max. loan amount (UGX Billion)[4] | 2.1 | 10 |
| Max. loan period (years) | 8 | 2 |
| Max. grace period (years) | 3 | 0 |
| Min. loan period (months) | 6 | 0 |
| Max. interest rate (percent) | 12 | 15 |
| Facilities Fees (percent) | 0.5 | 0.5 |
| Contribution (percent) | 50%:50% (Tier 1); 70%:30% (Tier 2&3) | 50%:50% (Tier 1) |

Source: Author's presentation based on ACF quarterly reports from BoU website

4 The maximum loan cap can be lifted on a case-by-case basis depending on the contribution of the project to the economy in terms of employment, foreign exchange earnings, taxes paid, etc.

**Figure 19. Trends in the ACF Disbursements (UGX Billions)**




Source: Author's presentation based on ACF Quarterly Reports from BoU website

**Table 8. Distribution of ACF loans by number of projects, 2023**

| Loan Thresholds (UGX millions) | No. of Projects | Percent | Cumulative (%) |
|---|---|---|---|
| 0-20 | 2,349 | 63 | 63 |
| 20-50 | 230 | 6 | 69 |
| 50-100 | 437 | 12 | 81 |
| 100-300 | 412 | 11 | 92 |
| ≥300 | 316 | 8 | 100 |
| **Total** | **3,744** | **100** | |

Source: Authors compilation based on ACF Quarterly Report, Sept 2023

It is also evident from Table 9 that most (84 percent) of the ACF disbursements is going towards large borrowers with only 2 percent benefiting the small borrowers. Considering that smallholder farmers dominate the agricultural sector, for the ACF to be truly transformative it must target to reach the smallholder farmers.

**Table 9. Distribution of ACF loans by value of disbursed loans**

| Loan Thresholds (UGX millions) | Amount Disbursed (UGX Bn) | Percent | Cumm (Percent) | Average Disbursed (UGX) |
|---|---|---|---|---|
| 0-20 | 14.8 | 2 | 2 | 6,300,553 |
| 20-50 | 9.4 | 1 | 3 | 40,869,565 |
| 50-100 | 35.5 | 4 | 7 | 81,235,698 |
| 100-300 | 76.3 | 9 | 16 | 185,194,175 |
| ≥300 | 704.9 | 84 | 100 | 2,230,696,203 |
| **Total** | **840.9** | **100** | | **224,599,359** |

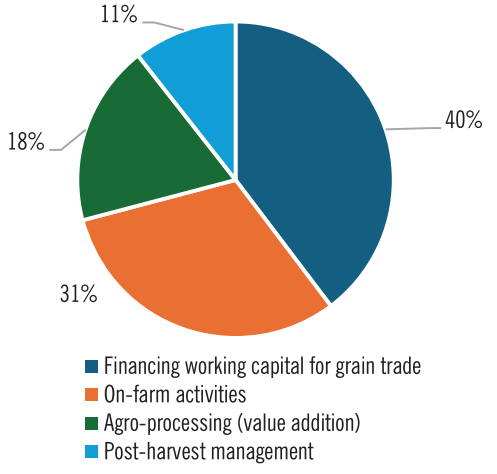
Source: Authors compilation based on ACF Quarterly Report, Sept 2023

### *Distribution of ACF loans by purpose of loan*

Most of the ACF financing has been channelled towards working capital for grain trade and on-farm activities, and they account for 40 percent and 31 percent of the total loans disbursed respectively (Figure 20). Grain trade attracts high loan amounts due to grain traders' need for high financing requirements to be able to purchase at fair prices the huge volumes grain that flood the market during harvest periods. The ease of lending for grain trade limit funds allocation to other activities within the agricultural value chain, particularly agricultural production that is considered risky by several lenders.

On the other hand, ACF financing for on-farm activities is dominated by Micro, Small and Medium Enterprises (MSMEs). The financing needs of farmers in this category include farm expansion and improvement, excavation of valley dams, acquisition of irrigation equipment, land opening (green fields), and purchase of inputs for primary production, among others.

**Figure 20. Distribution of ACF loans by purpose, 2023**




Source: Authors construction based on ACF Quarterly Reports

Against the above evidence, Government should consider introducing a separate fund within the ACF framework to provide working capital for the grain trade. This is because grain trade has a more stable functional environment and is currently disproportionately competing for ACF funds that would go towards agricultural production, mechanisation and value addition that are the original objectives for establishment of the ACF. The separate funding for produce trade would thus ensure that credit needs for other ACF objectives are not underfunded.

### *ACF fund allocation by participating financial institution*

A review of the portfolio of the ACF as at September 2023 shows that the bulk of the funds is disbursed through Tier 1 commercial banks (Figure 21). The top 5 banks in terms of disbursements for the ACF are: Stanbic Bank (23 percent), DFCU (22 percent), Bank of Baroda (9 percent), Uganda Development Bank Ltd (9 percent), and PostBank (8 percent). Total disbursements for the top 5 banks are 71 percent of the total ACF funds. However, commercial banks have limited rural outreach and are therefore not suitable avenues for reaching the rural smallholder farmers.

The above assertion is corroborated by the FinScope Uganda 2023 survey that indicates that the reasons for not using commercial banks stems from factors such as: the intimidating environment of banks, lack of awareness, distance, and lack of sufficient funds. Sserunjogi (2022) asserts that Tier 1 commercial banks target large farms and agribusinesses involved in commodity processing, have stringent loan requirements and limited rural outreach. These banks also find processes of dealing with many small borrowers too cumbersome, and personnel requirements and overheads related to their borrowing too costly.

On the other hand, more than 60 percent of Ugandans borrow from SACCOs implying that SACCOs could be better vehicles if the ACF is to reach the last mile borrowers. From the FinScope Uganda Survey 2023, financial inclusion continues to be driven by mobile money, and Village Savings and Loan Associations (VSLAs)/Rotating Savings and Credit Associations (ROSCAs). The proportion of Ugandans accessing VSLAs was about 36.4 percent in 2023, while SACCOs uptake stood at 14 percent.

Also, while the ACF block allocation was introduced between July 2011 and February 2013 to enable financing of micro, small and medium enterprises engaged in agriculture, participating Tier 1 commercial banks

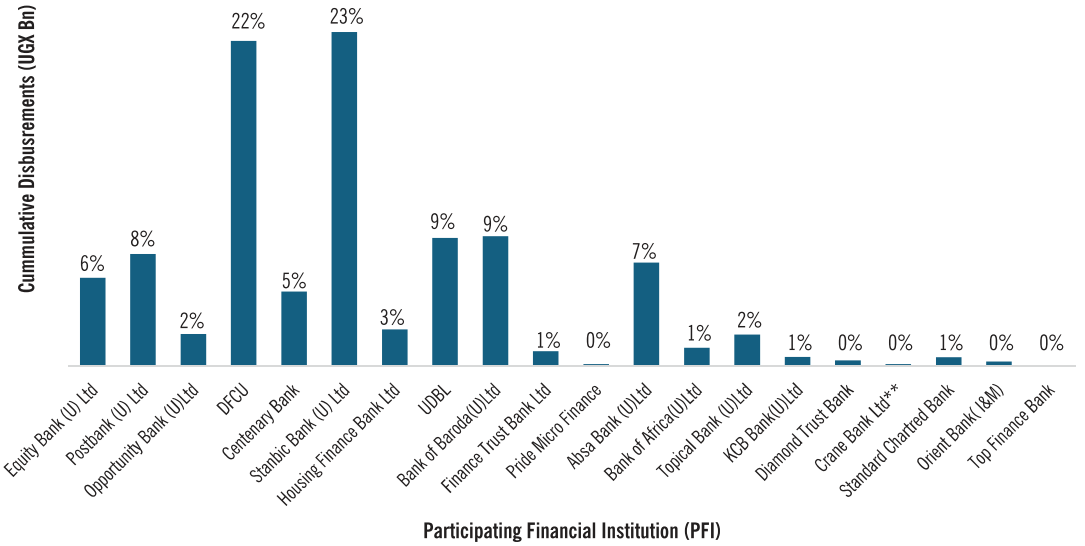
embraced its implementation with reluctance and caution. It is therefore recommended that commercial banks develop working arrangements with lower Tier institutions such as SACCOs and VSLAs to deliver the ACF to the last mile borrowers.

### 2.4.3.3 Small Business Recovery Fund

The Small Business Recovery Fund (SBRF) was established in 2021, with Bank of Uganda as the Fund Administrator, to facilitate the provision of loans to small businesses that suffered financial distress arising from the effects of the COVID–19 pandemic (BoU, 2023). The scheme operates as a public-private partnership between the Government of Uganda (GoU) and supervised financial institutions as the Participating Financial Institutions (PFIs). These include Commercial banks, Micro deposit-taking institutions (MDIs), and Credit Institutions (CIs).

For every loan disbursed to a borrower, a PFI contributes 50 per cent in line with the risk-sharing mechanism under the SBRF – Memorandum of Agreement. The SRBF was set up with UGX 200 billion (US$ 56 Million) as the total pool of loanable funds. There are currently eight PFIs active on the scheme out of the 33 supervised Financial Institutions (BoU, 2023).

**Figure 21. Cumulative ACF loan disbursements by PFI**




Source: Author's construction based on ACF Quarterly Report, September 2023

### *Performance of the SBRF*

As of 30th September 2023, UGX 16 billion (US$ 4 Million) was loaned to 1,365 eligible projects (Table 10) (BoU, 2023). The projects that benefitted from the SBRF are from four main sectors.

**Table 10. Amounts disbursed under the SBRF, 2023**

| Participating Financial Institution (PFI) | No. of Projects | Total Amount Disbursed (UGX Bn) | Average Disbursed (UGX) |
|---|---|---|---|
| Opportunity Bank | 1,162 | 10.4 | 8,950,086 |
| Postbank (U) Ltd | 51 | 1.45 | 28,431,373 |
| Pride Microfinance | 115 | 1.8 | 15,652,174 |
| Finance Trust Bank | 23 | 1.2 | 52,173,913 |
| Housing Finance Bank | 1 | 0.10 | 100,000,000 |
| Diamond Trust Bank | 9 | 0.65 | 72,222,222 |
| Centenary Bank | 1 | 0.024 | 24,000,000 |
| DFCU Bank | 3 | 0.24 | 80,000,000 |
| **Total** | **1,365** | **15.9** | **11,648,352** |

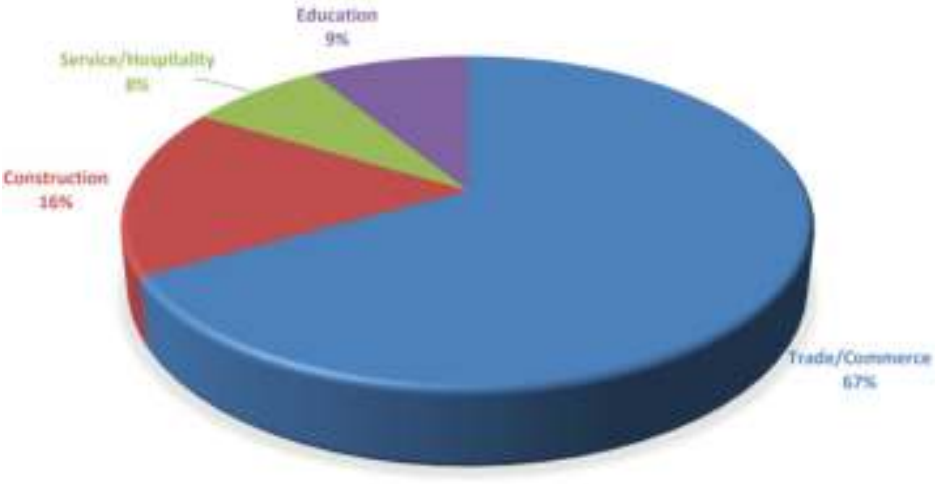
Source: Authors construction based on SBRF Quarterly Report, Sept 2023

The sectors are trade and commerce which utilised UGX 10.70 billion accounting for 67 percent; construction UGX 2.65 billion (17 percent); service/hospitality with UGX 1.22 billion an equivalent of 7 percent; and education sector that had UGX 1.43 billion, accounting for 9 percent of the total funds disbursed (Figure 22). The businesses that have benefitted include hotels and lodges, transport, salons, bars, schools, carpentry, hardware operators, retail traders, motor garage operators, among others. Figure 22 highlights the uptake of SBRF funds per sector as of 30th September 2023.

### *Distribution of the SBRF disbursements by enterprise size*

The beneficiaries of the SBRF have been categorised under micro, small and medium enterprises. Micro enterprises had the highest number of beneficiaries (831), accounting for 92 per cent of the total number of beneficiaries with the corresponding total loan amount of UGX 6.8 billion (Table 11). Loans in this category ranged in value from UGX 1 million to UGX 20 million, and these are largely beneficiaries under the Block allocation arrangement. There were 43 beneficiaries accounting for 5 per cent of

**Figure 22. Sectoral distribution of SBRF disbursements**




Source: Authors construction based on SBRF Quarterly Report, Sept 2023

the number of beneficiaries that utilised UGX 1.6 billion, while medium enterprises beneficiaries were 25 in number, constituting 3 per cent of the beneficiaries and utilised UGX 2.1 billion.

These levels of utilisation are consistent with the objective of the SBRF which is to extend financial support to small businesses that were affected by the COVID-19 pandemic and constitute most of the business community in Uganda.

**Table 11: Distribution of SBRF disbursements by enterprise size**

| Enterprise Size | Loan Amount (UGX Bn) | Percent (%) | Disbursement Size (UGX) | No. of Beneficiaries |
|---|---|---|---|---|
| **Micro** | 6.8 | 92 | 1-20 Mn | 831 |
| **Small** | 1.6 | 5 | | 43 |
| **Medium** | 2.1 | 3 | | 25 |
| **TOTAL** | **10.5** | **100** | | **899** |

Source: SBRF Quarterly Report, Sept 2023

Whereas the SBRF was a timely intervention, its uptake has been slow due to a number of factors, namely: eligibility criteria were initially too stringent e.g. annual sales and asset turnover of UGX 10 million – UGX 100 million; and employees ranging between 5-49, loan duration not less than six months. Additionally, some PFIs have liquidity constraints and therefore were not able to match the 50 percent Government of Uganda contribution. The cost of serving the targeted customers was high, and yet the interest rate was capped at 10 percent per annum by the Government. These constraining factors need further consideration.

### 2.4.4 Key Lessons Learnt Thus Far

The three blended finance initiatives discussed present critical lessons that can help shape policy, agricultural development initiatives and financial industry practices. Some of the key lessons drawn from the review of the blended finance initiatives are summarized below.

(i) **Increased access but limited transformation:** Blended finance initiatives are critical to increasing access to financial services for the underserved and unserved market segments as the setting of targeted funding terms ensure that marginalised clients are reached and served. This is achieved through concessional interest rates and affirmative selection criteria targeted at marginalised customers. In all the three case studies, the concessional terms for the targeted customers catalysed and increased access to credit by the targeted customers, i.e. young women operating micro and small businesses in the case of the MSERF; agriculture and agri-businesses in the case of the ACF; and small and medium businesses in the case of the SBRF.

However, except for the ACF which has much longer loan tenures, the MSERF and SBRF have only had short-term recovery goals to get businesses back on course rather than placing them on track for transformation. Thus, there is risk of losing short-term gains achieved by the recovery funds if they are not complemented by technical support to tackle the underlying supply and demand side structural and behavioural bottlenecks that these market segments grapple with; reason, in the case of the MSERF, the cost of credit remains very high despite the concessional funding. Even in the case of the ACF and the SBRF where the interest rates are fixed, it is not possible for the PFIs to maintain the same rates in the absence of the interest-free government contribution.

The gaps identified therefore calls for an integrated approach for future interventions where technical support is provided from both the supply-side and demand-side actors, together with enhanced business environment for operation, for such blended finance initiatives to have sustainable impact. Providing liquidity to financial institutions and cheaper credit to their customers without addressing the structural and behavioural challenges they face will only be addressing symptoms rather than the root causes of the financial inclusion challenge.

(ii) **Intentionality delivers greater impact:** When

designing programme interventions such as the MSE Recovery Fund, the ACF and the SBRF, it is critical that the promoters and designers are intentional in their objectives and goals in ensuring that the programme support gets to the intended beneficiaries as were the cases for these three initiatives. The MSERF focused on women and youth and this focus was integrated in all the processes of the Fund right from on-boarding of the Participating Financial Institutions (PFIs) to monitoring the loan disbursements.

As part of the on-boarding exercise, the MSERF carried out due diligence on each of the PFIs to, among other things, to ensure the PFIs that were to be selected not only had appropriate business models and products for the target customers but they also had substantial proportions of their loan portfolios with the types of customers the MSERF was targeting. The PFIs had to also demonstrate that they could monitor and track all the monitoring and impact indicators that would enable the MSERF track progress against performance indicators. The intentionality of the MSERF extended to even how much liquidity was availed to the PFIs to ensure that the PFIs with the greatest capacity to reach the target customers and with robust risk management systems got the most liquidity to maximise the impact of the fund.

In the case of both the ACF and SBRF, however, the levels of intentionality have not been as strong as for the MSERF, especially in selecting the PFIs to deliver credit to the agricultural sector. The ACF and the SBRF were made available to all licensed banking institutions irrespective of the focus of their business models which has resulted in mixed results. Several of the licensed banking institutions do not have appetite for agricultural lending or even lending to small businesses.

(iii) **A customised approach is key in selecting financial institutions:** We have also learnt from the MSE Recovery Fund that when engaging the financial institutions, it is more efficient and effective to take a customised approach rather than a one-size-fits-all approach. The Fund negotiated terms and conditions specific to each Participating Financial Institution (PFI). This took into consideration the different business models, products, cost structures and customer profiles of the different PFIs. This not only allows the Fund to reach out to diverse financial institutions but also a much diverse customer base. The interest rates of the PFIs in the MSE Recovery Fund range from as low as 16 percent to as high as 146 percent per annum that will meet the needs of diverse marginalised groups, including rural and urban youth, slum communities, refugee and host communities.

Much as both the ACF and SBRF have adopted the approach taken by the MSERF, in the case of the ACF, writing off bad loans requires parliamentary approval under the Public Finance Management Act. This is a lengthy and cumbersome process that negatively impacts the performance of the fund. This frustrates the PFIs, yet ACF is a risk-shared facility and only provides partial guarantee where government bears 50 percent of outstanding loss in default.

(iv) **A risk-based approach to pricing and terms of lending is yet to be adopted by financial institutions in Uganda:** In addition to providing liquidity, the MSE Recovery Fund also required that the PFIs which did not have Credit Reference Bureau Services (CRB) adopt the same and none of their customers would receive credit from the Fund without a CRB report. CRB services present opportunity for financial institutions to adopt a risk-based approach to lending where customers with a good credit score can access much more credit at a much lower interest rate and with less stringent requirements. The reverse should be true for customers with much lower credit scores. So far, however, this is not the case with the MSERF. Despite the very low Portfolio at Risk (PAR) rates across all PFIs and customer segments, the interest rates remain high irrespective of the risk profile of a customer.

Even in cases of customers who can access credit reference bureau services, there is no correlation between their credit scores and the cost and terms of credit. To this end, therefore, MSERF has set aside funds for provision of technical assistance to at least two PFIs to test and pilot risk-based lending approach to lending from both financial institution and customer perspectives. The wide gap between the interest rates the PFIs charge and the very low PARs is either an indication of the operational inefficiency of the financial institutions or the limited competition in the financial sector that allows the financial institutions to charge very high interest rates irrespective of the very low risk exposure from their customers.

(v) **Adopt of technology-enabled financial services remains key in delivering finances to last mile borrowers:** Technology has been critical in the successful implementation of the MSERF. In the design of the MSERF, automation of business operations was a prerequisite for selection of PFIs. This was not a challenge for the Micro-Deposit Taking Institutions (MDIs) that are regulated by the Central Bank, but was a challenge for the Tier 4 financial institutions most of which are community based financial cooperatives and micro-finance institutions. However, for the PFIs which managed to qualify for the Fund it was much easier for them and the Fund itself to monitor the quality and performance of their loan portfolios with the Fund, and to capture the impact and learnings from the Fund. Technology allows for high level of transparency critical to efficient operation and the integrity of the Fund.

(vi) **Sector-distribution of credit:** The MSERF has also shown that different financial institutions specialise in advancing credit to different sectors. The Micro-Deposit Taking Institutions (MDIs) in the MSE Recovery Fund advance more credit to the Trade sector compared to the Savings and Credit Cooperatives Organisations (SACCOs) that advance more credit to the agriculture sector. This could be explained by the less stringent regulatory capital provisioning requirements for advancing credit among SACCOs which allows them to be more accommodating to the unique characteristics of agriculture. Therefore, sector specific blended finance funds such as the Agricultural Credit Facility (ACF) need to take into consideration the specialisation and competences of the different financial institutions.

(vii) **A robust and comprehensive monitoring and evaluation framework:** When designing blended finance programmes, it is important to include robust and comprehensive monitoring and evaluation (M&E) frameworks. This will enable programmes to track their progress against defined performance indicators and targets which is critical to guaranteeing success of the initiatives. This framework not only enables blended finance initiatives evaluate their impacts, but also monitor implementation of the programmes with the flexibility to adapt and respond to unforeseen circumstances that may affect performances.

In this regard, both the programme implementors and the PFIs must have M&E capabilities, and this should be integrated within the due diligence process of the PFIs at the on-boarding stage. Of the three case studies, it is only the MSERF that has fairly robust M&E framework with clear performance targets making it much easier to evaluate its performance. Much as both the ACF and the SBRF have registered tremendous progress in reaching their intended target customers, without clear M&E indicators and performance targets it is difficult to arrive at the conclusion as to whether the two funds have excelled or underperformed. The reverse is true for the MSERF which has exceeded almost all the initially set performance targets just halfway the project life, and it is possible to attest to this as the MSERF has clear performance indicators and targets.

### 2.4.5 Conclusion and Emerging Policy Options

The study of the three blended finance funds- MSERF, ACF and SBRF- showed that blended finance can indeed have catalytic impacts on access to formal financial services.

However, the cost of finance remains high even where the financial service providers received capital at zero interest rate like is the case with the MSE Recovery Fund. For the ACF and SBRF where interest rates to the final borrowers are fixed by the Government, its sustainability is uncertain without the continual interest-free government contribution. For sustainable impact to be achieved by such initiatives, therefore, an integrated approach that combines technical support and blended finance to address both the supply-side and demand-side structural and behavioural bottlenecks is critical.

From the review of the blended finance initiative being implemented in the country, the following are emerging policy options that can be taken up to attract private sector credit to the agriculture sector.

i) **Government should adopt a customised and flexible approach for blended finance funds**. Lessons from the MSE Recovery Fund show that a customised approach rather than a one-size-fits-all approach is more efficient and effective. On the other hand, for the ACF and SBRF that have had interest rates fixed by government, uptake has been slower with financial institutions preferring to market their own products instead of the ACF or SBRF. Government should therefore pursue a flexible approach specific to each Participating Financial Institution (PFI), taking into consideration the different business models, products, cost structures and customer profiles. This will not only allow the Fund to reach out to diverse financial institutions (including lower Tier Financial Institutions), but will also ensure embrace of much more diverse customer base.

ii) **Bank of Uganda should nudge the financial services sector to adopt a risk-based approach to pricing and terms of lending**. This will optimise the use of CRB services in the financial services sector and cause a change in practices and behaviour at the financial institution level as well as at the customer level ultimately contributing to the reduction of the non-performing loans in the sector. CRB services present an opportunity for financial institutions to adopt a risk-based approach to lending where customers with a good credit score can access much more credit at a much lower interest rate and with less stringent requirements. The reverse should be true for customers with much lower credit scores. Adoption of a risk-based approach to pricing and terms of lending would benefit both the financial institutions as well as empower the customers to negotiate more favourable terms.

iii) **Technology-Enabled Financial Services**. Technology plays critical roles in increasing efficiency of operations and enabling quick decision-making. Government should support the development of requisite infrastructure that will enable efficient operation of financial service providers and reduce operational costs.

iv) The Ministry of Finance, Planning and Economic Development through its Budget Monitoring and Advocacy Unit should put in place a robust and comprehensive Monitoring and Evaluation Framework to track performance of blended finance funds such as the ACF and SBRF.

v) Specifically, for the ACF which long process for writing off bad loans include mandatory parliamentary approval under the Public Finance Management Act, Government should issue a statutory instrument to enable quick write-off of ACF loans to avoid discouraging Financial Institutions from disbursing ACF funds.

While the above lessons when implemented will enhance the operations and effectiveness of the blended finance initiatives currently being implemented, the same lessons can and should also be applied to other current and planned initiatives to support agricultural and rural economic transformation in Uganda.

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# 2.5 IMPLEMENTING THE SMALL BUSINESS RECOVERY FUND: LESSONS FOR FUTURE FINANCING OF RECOVERY OF AGRIBUSINESSES

Winfred Muliisa[1]

## 2.5.1 Background

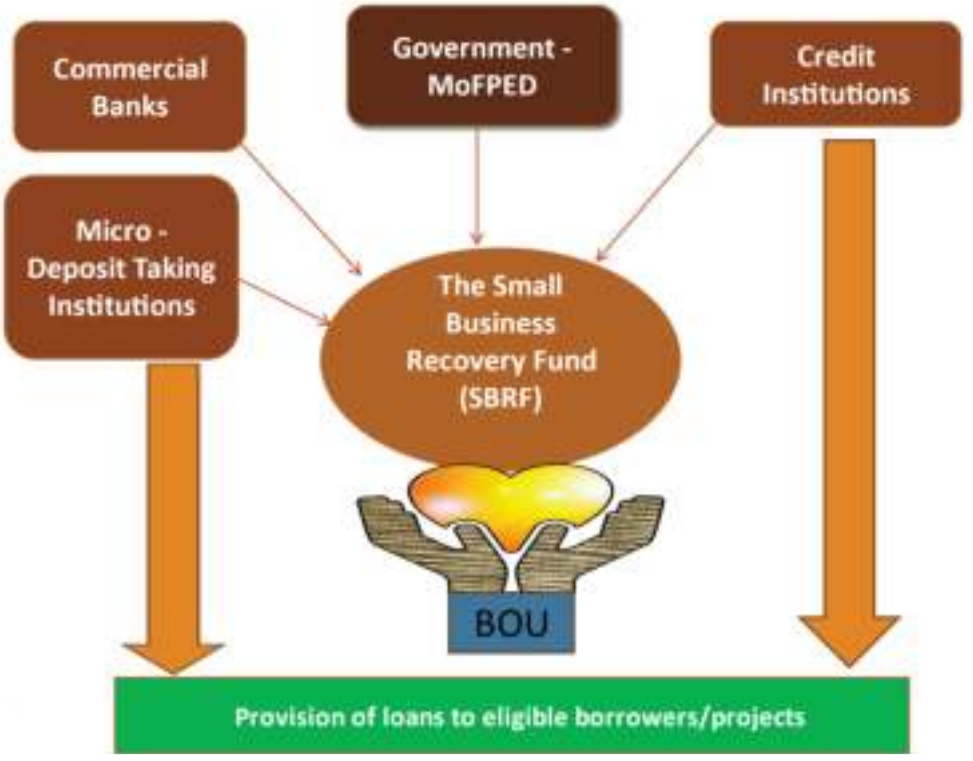
Following outbreak of the COVID-19 global pandemic in 2019, countries instituted containment measuresto slow down the spread of the disease. The result of these lock down measures was severe contraction in economic activity and its subsequent impact on economic growth in Uganda. The micro, small and medium enterprises (MSMEs) experienced larger decline in business activities, yet they constitute 90 per cent of the private sector that drives the country's economy.

The economic impact of the pandemic on MSMEs may be categorised as supply shocks, demand shocks and financial shocks (UNCDF,2022)[2]. On the supply side, MSMEs experienced reduction in the supply of raw materials and labour due to quarantines, lockdowns, restriction on movement, and supply chain disruptions with shortages of intermediate goods. On the demand side, COVID-19 control measures negatively impacted access to goods and services while the drop in personal incomes suppressed aggregate demand, particularly for non-food goods and other services. The loss of demand and revenue for MSMEs caused severe liquidity challenges that was heightened by reduction in spending and consumption that arose from contraction of disposable incomes.

In 2021, therefore, the Government of Uganda (GoU) instituted a COVID-19 Recovery Fund- the "Small Business Recovery Fund" (SBRF)- as a stimulus package for distressed MSMEs which could show prospects for recovery. The funds under the SRBF are used primarily to provide credit facilities to small businesses that suffered financial distress during the COVID-19 lock down. The businesses targeted include all small businesses except those eligible under the Agricultural Credit Facility (ACF). The businesses should also be operated by individuals, groups, partnerships and companies, employ 2-49 people, and with annual turnover of UGX 10 million - UGX 300 million. Funds under the SBRF can only be accessed once by any single borrower and or related party. Given the above background, in this article, evaluation is made of the modalities of implementation of the SBRF to identify areas for improvement and to highlight implementation gaps and lessons for future financing interventions targeting recovery of agribusinesses".

1 Agriculture and Other Credit Schemes Department, Bank of Uganda
2 UNCDF, 2022: Impact of COVID-19 on Ugandan MSMEs: Informal sector

**Figure 23: Structure of the SBRF**



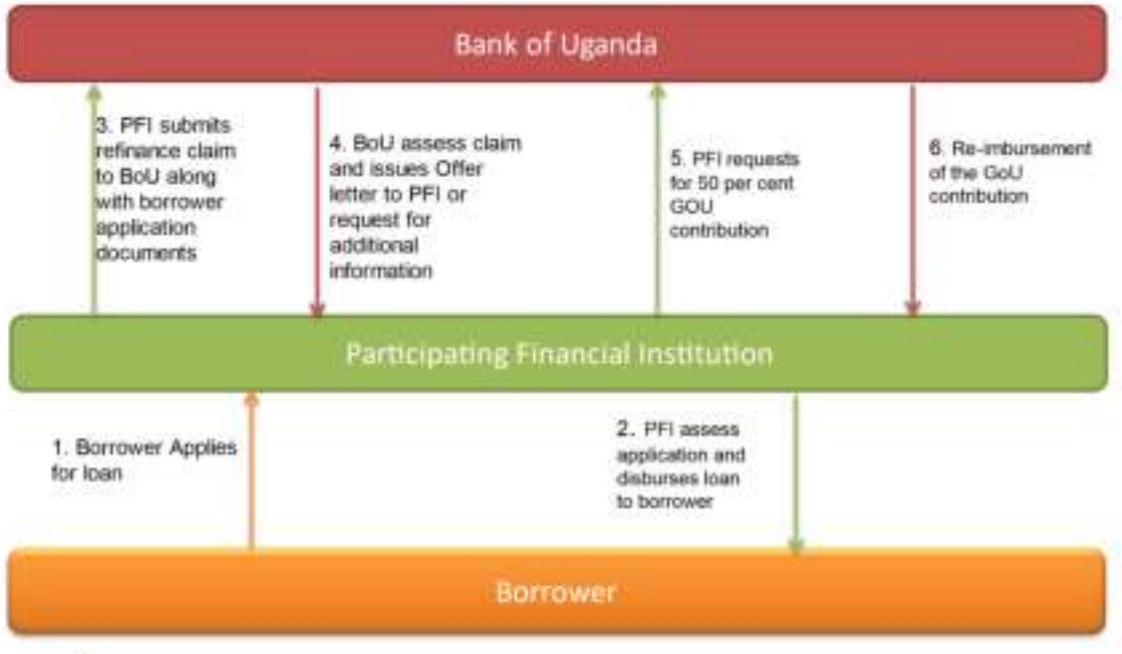

Source: SBRF progress report,2024

### 2.5.2 Structure and Operation of the SBRF

The SBRF is a public-private partnership between the Government of Uganda (GoU) and supervised financial institutions collectively referred to as Participating Financial Institutions (PFIs) that include commercial banks, micro-deposit-taking institutions (MDIs) and credit institutions (CIs). The scheme's operations are governed by a Memorandum of Agreement (MoA) signed in November 2021 and amended in November 2022 with Bank of Uganda (BoU) as the Fund Administrator. On October 22, 2021, GoU capitalised the Fund with UGX 100 billion and the PFIs are required to match the GoU contribution with an additional UGX 100 billion to bring the total pool of loanable funds to UGX 200 billion. Thus, for every loan disbursed to a borrower, a PFI contributes 50 percent of the loan in line with the risk-sharing mechanism under the SBRF-MoA. The structure of the SBRF is summarized in Figure 23.

The SBRF operates as a refinance scheme where PFIs appraise eligible beneficiaries and thereafter disburse loans to them before claiming reimbursement from BoU (Figure 24). The Fund is open to all PFIs supervised by BoU but, although this was aimed at enabling all eligible borrowers to access funds through the PFIs, not all the PFIs are interested in lending these low-cost loans. In addition, the target segment (MSMEs) is considered very high risk because the majority are not formally registered, have no business records and possess no collateral to secure these loans. Because of their informal nature, most MSMEs would best be access financing through micro finance institutions and SACCOs, but these are not eligible to participate under the SBRF. This closes out very many small businesses from accessing funds that they desperately require.

**Figure 24: Process flow of the SBRF**




Source: SBRF progress report,2024

As is the case with ACF, under SBRF, the PFIs are the first contacts for the potential borrowers, and borrowers apply for loans directly to the PFIs. However, these institutions have not significantly engaged their customers in promoting the fund, which has contributed to the limited visibility of the fund among small businesses.

Unlike the ACF where Tier II and Tier III institutions contribute 30 per cent of the loan to an eligible borrower and GoU contributes 70 percent, the contribution under the SBRF is 50 percent for both GoU and the PFIs. This arrangement limits the participation of Micro Deposit Institutions (MDIs) and Credit Institutions (CIs) that are not well capitalized. In addition, the applicable interest rate under the SBRF is 10 percent per annum compared to the 12 percent for the ACF, with PFIs only allowed to charge up to 0.5 percent for loan processing. While this is aimed at minimizing cost of credit for the small businesses, the PFIs argue that lending to MSMEs is risky and therefore requires high administrative costs. Moreover, the loan period under the SBRF is only up to 4 years which makes the SBRF unattractive.

The SBRF was also designed as a short-term intervention to avail MSMEs working capital for sustaining their businesses. As such, a borrower is allowed to access the Fund only once; unlike under the ACF where borrowers who have demonstrated capacity to service their loans can access additional funding (loan top ups). The fact that borrowers can only access funding once disadvantages eligible borrowers who may require additional working capital at concessional terms but are constrained to do so. Compared to ACF where the maximum loan amount is up to UGX 2.1 billion[3], the maximum loan amount under SBRF that can be accessed by a borrower or related party is UGX 200 million. This is considered too low, given the fact that a large part of the disbursed SBRF funds is normally borrowed by businesses for offsetting existing

3 The amount can be increased depending on the business requirements and economic impact of that business

non-performing loans which leaves very little as working capital to support a business.

### 2.5.3 Business Qualification Requirement for the SBRF Loan

The SBRF targets formally registered small businesses that were affected by the COVID-19 pandemic and can demonstrate potential for recovery. This has presented challenges for MSMEs as many were affected by the pandemic and lack cashflow, making it difficult to demonstrate this potential. In addition, the SBRF qualification criteria further requires that qualifying businesses must have annual sales turnover not exceeding UGX 300 million, and must have been in existence before 2020. This condition has excluded many businesses that were started during the pandemic or even after the lockdown was lifted in 2021. Several MSMEs are also excluded due to the qualification requirement of sales turnovers as many do not potentially make sales above the set target.

In the same vein, availability of collateral is a key requirement for access to finance under the SBRF. Although this is aimed at cushioning the risk in the event of default, it is one of the biggest barriers to accessing the fund. Majority of PFIs continue to demand for land or buildings as security for the loans, yet this requirement locks out many potential beneficiaries, especially women-owned and micro businesses, from accessing the funds.

Access to the SBRF also requires that a business should be formally registered with business records, yet most micro and small businesses do not keep records and are not registered. Many MSMEs are opposed to formalisation of their businesses because registration requirements are cumbersome, and businesses are further discouraged by taxation implications for registered enterprises. The structuring of the SBRF therefore seems to have disadvantaged the MSMEs from the onset, given the inherently weak nature of management of these enterprises.

### 2.5.4 Uptake of the SBRF Loans

Success or weakness in uptake of the SBRF loans may be considered in terms of total SBRF disbursements, disbursement by PFIs, and the types and numbers of businesses that have obtained funding. Analyses of these provide valuable lessons.

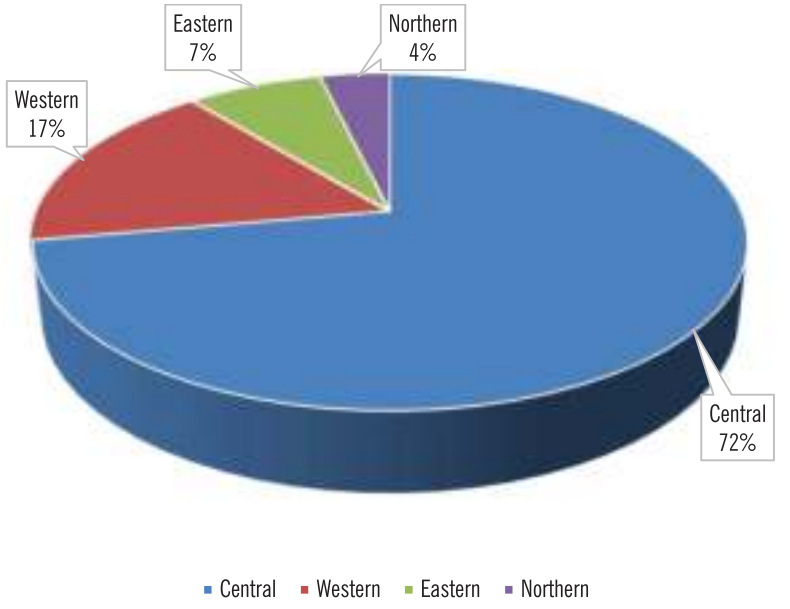
#### 2.5.4.1. Total SBRF disbursements

By June 30, 2024, BoU had cumulatively received a total of 3,086 applications from nine (9) PFIs worth UGX 62.4 billion. The PFIs were given delegated authority to appraise eligible borrowers, disburse the loans, and thereafter submit refinance their claims to BoU. Effectively, therefore, the applications received at BoU represent total uptake under the SBRF. On the other hand, BoU had assessed and disbursed loans amounting to UGX 27.5 billion in respect of refinance claims from the PFIs of which the corresponding GoU contribution was UGX 13.7 billion.

#### 2.5.4.2 Regional Uptake of the SBRF Loans

Regarding regional uptake of the SBF loans (Figure 25), the Central Region dominated SBRF loan uptake, with UGX 19.3 billion extended to 1,368 beneficiaries which accounted for 72.2 percent of the total beneficiaries as at 30 June 2024. This was followed by the Western Region that received UGX 5.2 billion with 318 beneficiaries; while the Eastern and Northern Regions utilised UGX 1.9 billion with 137 beneficiaries and UGX 1.03 million with 71 beneficiaries, respectively.

**Figure 25. Regional uptake of SBRF loans**



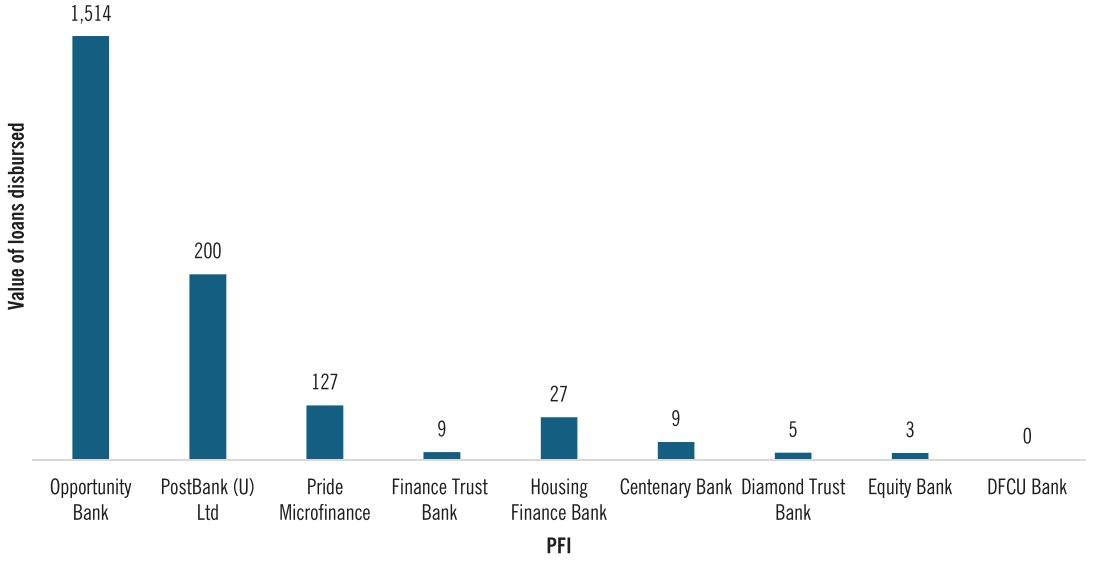

Source: SBRF progress Report, June 2024

The observed regional disparities in SBRF uptake could be attributed to the fact that most banks are concentrated in the Central Region that includes Kampala City, with easy proximity to the small businesses that enjoy greater exposure than those in other Regions. Also, most businesses in the Central Region are engaged in trade which banks consider less risky as opposed to upcountry businesses that are mostly involved in agriculture and agribusinesses that are considered high risk by the banks.

### 2.5.4.3 Disbursement by SBRF Participating Financial Institutions

Considering disbursement by Financial Institutions, Opportunity Bank (U) Limited had the highest number of beneficiaries, totalling 2,217 and accounting for 72 percent of the total loans disbursed by the PFIs followed by Post Bank (U) Limited with 622 (20 percent) beneficiaries (Figure 26). Despite having a lower number

**Figure 26: Cumulative performance of the SBRF as at June 30, 2024.**




Source: SBRF progress report,2024

of beneficiaries, Post Bank performed relatively better in terms of the amount disbursed from the Fund. As at June 30, 2024, it disbursed loans amounting to UGX 27.9 billion (45 percent) compared to UGX 25.6 (41 percent) disbursed by Opportunity Bank.

In contrast, the other PFIs lagged far behind. As at 30 June 2024, for example, Pride Micro Finance and Housing Finance Bank disbursed only 4 percent and 3 percent of the loans, respectively. The reasons for the low disbursement are varied. First, as already stated, PFIs consider MSMEs to be largely informal, highly risky, and operationally very costly for the banks. In addition, some PFIs see the SBRF as a competing product, given that they have their own loan products that have high average market rates of 30 percent per year.

### 2.5.4.4 Enterprises financed under the SBRF

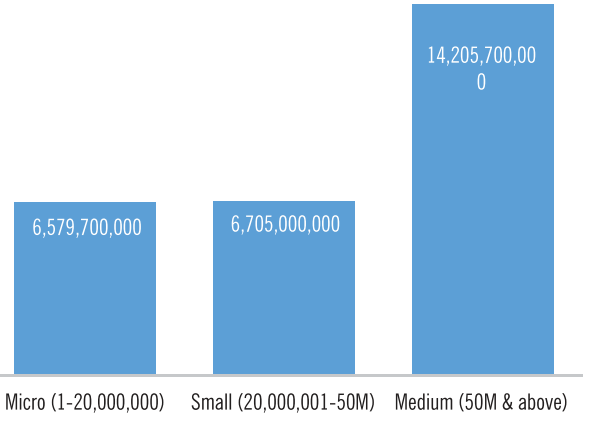
The cumulative disbursement to PFIs by BoU are categorized into five sub-sectors: trade and commerce, construction, education, hospitality, and health services. Based on SBRF disbursements by type of enterprises (Figure 27), most of the funds were disbursed for trade and commerce that took UGX 18.2 billion and accounted for 66.1 percent of all loans.

The construction and real estate sector utilized UGX 4.7 billion, equivalent to 17.1 percent of loans disbursed; the education sector received UGX 2.8 billion that accounted for 10.2 percent of the loans; the service/hospitality sector utilized UGX 1.7 billion representing 6.23 per cent of the loans; while the health sector utilized UGX 90 million accounting for 0.33 per cent of the total funds disbursed under the scheme.

### 2.5.4.5 Uptake by loan size

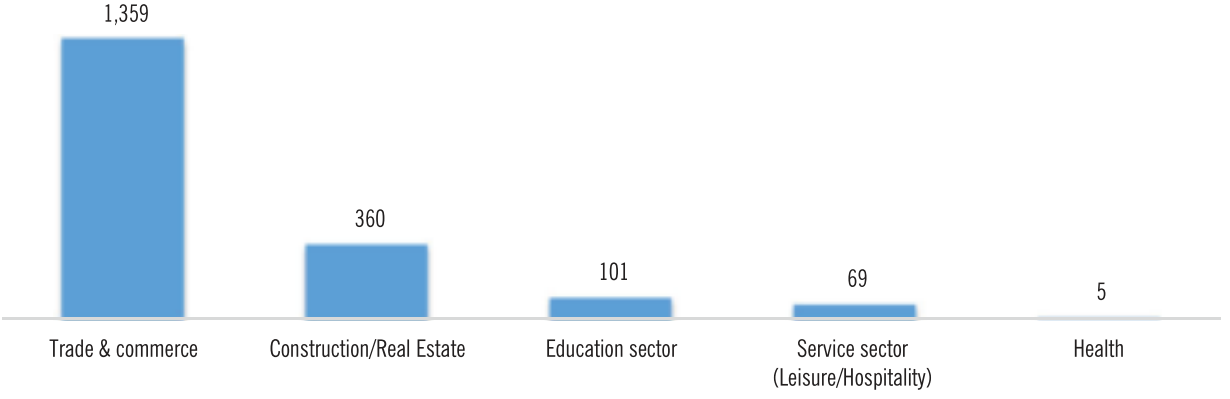
Analysis of uptake in respect the size or amount of loans received by the businesses (Figure 28), shows that concentration of loans granted is mainly under the medium sized businesses that borrowed loan amount of at least UGX 50 million. This corroborates the earlier stated challenges that micro and small enterprises face in accessing finance in Uganda, where the low-end and most needy businesses do not easily access such loans on account of their high levels of risk of failure and default.

**Figure 28: Uptake of SBRF by Loan Size as at June 30, 2024**




Source: SBRF progress Report, June 2024

**Figure 27. SBRF Loan disbursement by sector (June 2024)**




Source: SBRF progress Report, June 2024

### 2.5.5 Lessons from SBRF Operation for Future Financing of Business Recoveries

As has already been highlighted, SBRF has had low uptake despite the fact that many MSMEs are struggling to remain in business. The low uptake is attributed to a number of factors from which key lessons outlined below can be utilized to make adjustments in ongoing financing initiatives, and to inform the design of future initiatives.

(i) **Prohibitive eligibility criteria:** The criteria to access funding under the SBRF is restricted to businesses that can prove that they existed before COVID-19; are employing 2-49 people, have annual sales and asset turnover of between UGX 10 million to UGX 300 million; and are not engaged in agribusiness. Many MSMEs, especially those in rural areas are engaged in agro value chain activities, including agricultural commodity trade not covered under the ACF, and are therefore unable to access funding under both interventions. In addition, the impact of the pandemic extends beyond pre-existing businesses, yet the current eligibility criteria accommodate only those businesses that were in operation before the pandemic. There is therefore need to review the eligibility criteria of this initiative so as to include support for post-pandemic businesses.

(ii) **The need to be deliberate while designing financial interventions:** SBRF as is the case with ACF is a risk sharing facility open to participation in by all financial institutions supervised by BoU. However, as has been highlighted, not all these PFIs lend SBRF funds as they prefer to lend their own funds. This leads to poor performance of such schemes, and undermines Government efforts to reach the desired objectives of the SBRF. Selecting and working with those PFIs that are interested in achieving the intended objectives should be a consideration, given especially that banks have different business priority areas and capacities to deliver credit to MSMEs and the agriculture sector.

(iii) **An attractive incentive structure is key in leveraging private sector credit.** The risk sharing model under the SBRF and ACF have proven to be effective in unlocking access to credit for critical underserved sectors such as the MSMEs in the informal and agriculture sectors. Because these sectors are considered high risk and indeed present many bottlenecks to financial institutions, Government should consider providing attractive financing incentives to PFIs to encourage them extend credit to these sectors. Such incentives may include attractive guarantee mechanisms, and interest rebates to borrowers that pay off their loans on schedule. In addition, Government could tag the interest rate to the Central Bank Rate as opposed to capping the interest rate.

(iv) **Instituting and elaborate Monitoring and Evaluation framework is vital in measuring impact.** The SBRF is an intervention targeting small businesses that were impacted by COVID-19, with the target beneficiaries clearly fitting the desired objectives of business recovery, and creation and safeguarding of jobs. Measuring impact of such intervention is likely to be easier. ACF on the other hand does not have any targets as it is accessed by eligible borrowers engaged in agriculture and agro-processing. This presents challenges in measuring its impact on aspects like agribusiness SMEs job creation, extent of value addition, contribution to taxation, growth in SME profit levels, and production and productivity. It is therefore important to such intentional objectives or targets during the design of other similar interventions.

(v) **Consider PFI specialization and target customer segments for greater impactful lending:** While all PFIs are accredited to lend under the ACF and SBRF schemes, it is apparent that these financial institutions differ in their business models and target customers. The highest uptake under the SBRF is by Opportunity Bank and Post Bank that are known to accommodate more of the small holder farmers and SME businesses. These banks understand the nature and challenges of these businesses to which they tailor their business models to the satisfaction of borrowers.

On the other hand, ACF has shown that some banks, such as Stanbic, Bank of Baroda and DFCU, are more inclined to lend to medium and large-scale

enterprises engaged in value addition and trading in grain that have high loan sizes. Accordingly, sector specific blended financing, such as SBRF and ACF, need to consider specialization and competences of different financial institutions they engage in lending, and not just operate on a one size fits all basis.

(vi) **The need to complement financing with technical support:** While the concessional terms under the SBRF and ACF such as subsided interest rate, partial credit guarantee, and long-term repayment period under the ACF have increased access to credit by the MSMEs, uptake of both the SBRF and the ACF is still low. This is largely attributed to the fact that SMEs, just as is the case with the agriculture sector, are dominated by beneficiaries with high illiteracy levels, poor financial record keeping and low credit scores which make them unattractive to lenders. The PFIs also lack capacities to adequately assess such enterprises. As such, for the blended financing to have sustainable impacts, there is need for an integrated approach of both the demand side and supply side, so that technical support is provided on both sides.

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CHAPTER

# 3

# FINANCING AGRICULTURAL VALUE CHAINS

# 3.1 WAREHOUSE RECEIPT SYSTEM ACT 2006: GAPS AND THE AREAS FOR AMENDMENT

Christian Baine[1]

## 3.1.1 Introduction

Warehouse receipts are documents issued by warehouse operators, under the Uganda the Warehouse Receipt System (WRS), as evidence that specified commodities of stated quantity and quality have been deposited at locations by a named depositor. The depositor may be a producer, farmer group, trader, exporter, processor or any individual or body corporate. The WRS is governed and regulated by the *Warehouse Receipt System Act* No. 14 of 2006 and its regulations issued in 2007. *The Warehouse Receipt System Act 2006* established a clear legal framework for agricultural sector credit in Uganda based on warehouse receipts. The legislation was also enacted to ensure that the laws and regulations therein proposed are equitably enforceable by financiers.

It is now almost 20 years since this law was enacted, and eight years since the Uganda Warehouse Receipt System Authority (UWRSA) Board was instituted. Under the WRS law, the warehouse operator holds the stored commodity by way of safe custody, implying he/she is legally liable to make good any value lost through theft or damage by fire and other catastrophes, but has no legal or beneficial interest in it. This system also allows depositors to store their produce in certified warehouses, and to in turn receive a warehouse receipt which can be used to secure loans from financial institutions. In case of liquidation, creditors of the warehouse operators will not be able to seek recourse to the commodities stored since legal title remains with the depositor or *bona fide* holder of the receipt. The only exception is the warehouse operator's lien covering outstanding storage costs. The Warehouse Receipt System is therefore a crucial mechanism in Uganda's agricultural sector, and plays a significant role in agricultural finance.

On 27 March 2024, the Warehouse Receipt System (Amendment) Bill 2024 to rationalize the Warehouse Receipt System (WRS) in the country was tabled before Parliament and later passed. The rationalization dissolved the Uganda Warehouse Receipt System Authority (UWRSA) and transferred its functions to the Ministry of Trade, Industry and Cooperatives. Despite the dissolution of the UWRSA, there exists gaps in the WRS Act 2006 that need to be closed to make Uganda's Warehouse receipt system competitive. This article therefore appraises the

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performance of the existing WRS regulatory framework, and highlights gaps in its structure and operation are affecting the functioning of the WRS. Also examined are possible changes in the existing WRS intended to increase efficiency and effectiveness for market competitiveness and agricultural price stabilization in Uganda.

### 3.1.2 Gaps in the WRS Act Affecting its Implementation

The Food and Agricultural Organization (FAO)[2] observed that the common objective of a reform or introduction of a warehouse receipt legislation should be to enhance access to credit in the agricultural sector. It may also include facilitating farmers' access to post-harvest handling and storage facilities, and fostering the use of grain warehouse receipts to attract private sector investments in the grain sector. A review of the current Warehouse Receipt System Act, No. 14 of 2006 (the Act) reveals the following gaps that need urgent amendment.

**Absence of provisions for electronic receipts**: While financial institutions are increasingly adopting digital technology for their operations the WRS Act does not include provisions for the use of electronic warehouse receipts that are essential for modernizing the system and enhancing efficiency. Electronic warehouse receipt systems facilitate faster negotiation and instant transfers of ownership which eliminates physical handover and reduces the cost of effecting such transfers. They also enhance marketability and trade of receipts; increase efficiency in collateral management for financial institutions; and reduce the risk of documentary fraud.

**Limited scope of commodities covered**: The current WRS law focuses primarily on grain, and does not include other agricultural and non-agricultural commodities that could benefit from the warehouse receipt system. Also excluded are the agricultural commodities that are stored in cold rooms, including fish, dairy products, vegetables and fruits. These exclusions severely limit the scope of financing the agricultural sector in Uganda using the WRS.

**Insufficient provisions for collateral use**: There are no comprehensive guidelines on using the warehouse receipts as collateral for accessing credit, and this is hindering the ability of financial institutions to lend against these receipts. The WRS Regulation 2007 under clause 32 (1) provides that a warehouse receipt is a document of title and shall constitute *prima facie* evidence of the holder's claim to the goods represented on it. The regulation is however silent on any legal designation of the warehouse receipts as financial instruments that can be pledged as collateral for bank loans[3].

**Inadequate penalties for non-compliance**: The WRS law does not provide stringent punitive measures for breaches of its provisions, thus creating challenges in enforcement and compliance. Penalties provided are intended to ensure compliance with the Act and its regulations and proper conduct of business under the WRS by all actors that will build investor confidence and minimize incidences of fraud. Considering that these offences and related penalties were created in 2006, however, they may no longer be commensurate with the magnitude of damage and breaches brought about by the increasing size, commercialization and competitiveness of the sector.

**Lack of a provision on the priority of creditors in the foreclosure and recovery process**: A key objective of the warehouse receipt system is to increase access to credit facilities by farmers and other players in the agricultural sector. It is therefore important to protect a creditor from losses that accrue in the event that the holder of a warehouse receipt defaults in payment of the finances advanced on the security of a receipt, or where the subject matter of the receipt is destroyed or is no longer merchantable. The WRS Act does not provide for this. It is therefore important that legislative protection is given to creditors such that they have priority in payments, as pledgees, in the event of default by the holders of warehouse receipts.

2 Designing warehouse receipt legislation: Regulatory options and recent trends (2015), Food and Agriculture Organization of the United Nations

3 Clause 7 of the memorandum of the Warehouse Receipt System Bill, No. 11 of 2005 intended to provide for a warehouse receipt that offers security to the depositors that can easily be negotiated so as to enable access to credit from financial institutions and provide credibility to the warehouse receipt. This however was not fully reflected in the Act.

**Lack of clear operating procedures**: There is deficiency in detailed operating procedures within the Act, leading to inconsistencies in the application and enforcement of the warehouse receipt system. The lack of procedures by which the various stakeholders, including warehouse operators, depositors, financiers and inspectors, interact and operate has made it very difficult for them to understand and use the system. Indeed, a consultation of stakeholders by the Uganda Law Commission in 2023 revealed that whereas 79.2 percent of the respondents acknowledged that they have ever heard about the WRS, only 41.7 percent had used it. This was attributed to a number of factors including lack of sufficient information on how the WRS works and poor infrastructure[4].

**Unclear priority of claims**: The Act does not clearly define the priority of claims among holders of negotiable warehouse receipts and other creditors, creating uncertainty in the event of defaults. Clarity on this is very important for financiers who must be assured that there are no conflicting interests over the possessory liens they have over the goods.

### 3.1.3 Conclusion and Policy Recommendations

Following the recent rationalization process that led to the passing of the Warehouse Receipt System (Amendment) Act 2024, the functions of the Uganda Warehouse Receipt System Authority reverted to the Ministry responsible for trade. It is now this Ministry that shall be responsible for performing all the functions of the dissolved Uganda Warehouse Receipt System Authority under the Act as amended.

The hope of the various stakeholders is that after the integration process within the Ministry has been completed, those handed the responsibility for the WRS will develop a practical policy implementation strategy that brings together the various stakeholders to review the gaps that have been highlighted in order to increase the efficiency and effectiveness of the warehouse receipt system interventions in Uganda.

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# 3.2 ASSESSMENT OF THE READINESS OF AGRO-INDUSTRIES FOR GREEN FINANCING: A CASE STUDY OF BUKONA AGRO PROCESSORS

Mildred Barungi[1] and Tasha Balunywa[2]

## 3.2.1 Introduction

Agro-industries play a crucial role in cleaning and adding value to raw agricultural products through various mechanical, chemical or biological processes. These industries serve as a vital link between agricultural production and final consumption by converting crops, livestock and other agricultural goods into products such as food, beverages, textiles, biofuels and more. By enhancing the state, nature, quality and value of agricultural outputs, agro-industries significantly contribute to food security, economic growth and employment opportunities in both rural and urban areas (FAO & UNIDO, 2009).

The Government of Uganda has laid a solid foundation for sustainable development through several key policy initiatives, most notably the Uganda Green Growth Development Strategy (UGGDS) and the Green Manufacturing Strategy. These frameworks are central to driving the country's green growth agenda and mobilizing green finance to support sustainable development. The UGGDS outlines a vision for inclusive, low-emission economic growth, with a focus on mobilizing approximately USD 1.8 billion annually. This funding is expected to come from various sources, including public sector allocations, environmental fiscal reforms and international grants.

The aim of the UGGDS is to channel these funds into investments in natural capital, infrastructure, green energy, and innovation to foster a greener and more resilient economy (NPA, 2017). In tandem, the Green Manufacturing Strategy seeks to boost access to green finance for manufacturing enterprises by availing fiscal incentives for industries committed to sustainability, and building the capacity of financial institutions to offer green financing products. The Ministry of Trade, Industry and Cooperatives (2021) asserts that facilitating access to green finance will enable manufacturing enterprises to adopt cleaner technologies and more sustainable production practices. Together, these strategies create a comprehensive framework for encouraging green investments and promoting sustainable economic growth in Uganda.

Despite these government-led efforts to promote

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sustainable development, agro-industries continue to face significant financing barriers. One of the key challenges is the high-risk nature of agriculture-based industries that are heavily dependent on agricultural outputs and are vulnerable to factors such as Climate Change, erratic weather patterns and commodity price volatility. These uncertainties make it difficult for financial institutions to quantify risks, leading to their reluctance to provide affordable, long-term loans these industries. Additionally, many agro-industrial enterprises in Uganda, especially small ones, lack sufficient collateral and face stringent requirements from commercial banks, making access to credit even more challenging for them (FSD Uganda, 2020).

Compounding these issues are high interest rates, often exceeding 20 percent, which further elevate the cost of borrowing. Additionally, the seasonality of agricultural production combined with inadequate infrastructure—such as unreliable electricity and poor road networks—adds to the financial challenges, making it difficult for enterprises to maintain consistent production and repay loans on time. Added to this, traditional commercial banks tend to favour short-term lending due to their focus on liquidity and risk management; yet agro-industries typically require long-term financing to invest in essential infrastructure, equipment and technology needed for growth and sustainability (FSD Uganda, 2020). All these factors contribute to a complex landscape for agro-industries that seek affordable credit from commercial banks. Without addressing these barriers, the potential for growth and resilience in Uganda's agro-industrial sector remains constrained.

While conventional financing primarily emphasizes profitability and immediate returns, it frequently overlooks agro-industrial initiatives aimed at enhancing sustainability, such as implementing resource-efficient technologies, adopting renewable energy and establishing waste reduction systems. In contrast, green financing is tailored to support projects that minimize environmental impacts, including efforts to improve water use efficiency, promote organic farming, and reduce greenhouse gas emissions—all of which are crucial for sustainable agro-industrial development (Azhgaliyeva, Kapoor, & Liu, 2019).

Clearly, green financing can effectively address financing gaps left by conventional finance entities by targeting specific needs of environmentally sustainable projects that otherwise remain unsupported by traditional financial models. Green financing often provides more flexible terms and concessional rates for businesses that demonstrate sustainable practices, making it easier for these firms to secure the capital necessary for green investments (Akomea-Frimpong, Adeabah, Ofosu, & Tenakwah, 2022).

Recognizing the crucial role that green finance can play in Uganda's agro-industrial development, evaluation was made of how agro-industries can effectively position themselves to access these funds. To achieve this and draw valuable lessons, an in-depth qualitative analysis was made of Bukona Agro Processors, as a single case study, by examining the company's experiences, challenges, opportunities and potential solutions for securing green finance.

### 3.2.2 Criteria for Assessing Suitability for Green Financing

Based on the interview with the Uganda Development Bank Limited (UDBL), and review of the basic green finance reference guide (IFC, 2020), several common themes emerge regarding the criteria for accessing green finance by companies. These criteria that were adapted for the case study of Bukona Agro Processors are broadly categorized below.

a) **Contribution to Renewable Energy Production:** Evaluates the company's ability to actively generate or support the generation of energy from renewable sources such as solar, wind, biomass or hydropower that leads to reduced reliance on fossil fuels.

b) **Compliance with Laws and Regulations:** Assesses the extent to which the company adheres to relevant national and international laws and regulations, particularly those related to Climate Change, environmental protection and sustainability.

c) **Coherence and Alignment with National Priorities:** Examines whether the project or business aligns with the strategic development goals and policies of the country. Green finance is aimed at supporting not only environmental objectives but also contributing to broader socio-economic priorities, and ensuring long-term success, government support and sustainable impacts.

d) **Stakeholder Engagement:** Evaluates whether the company engages in inclusive and representative stakeholder consultations. This includes efforts in knowledge transfer, capacity building, and ensuring that the interests of affected communities and key stakeholders are considered in decision-making processes.

e) **Impact Potential (Adaptation, Mitigation, Socio-Economic and Environmental):** Assesses the likelihood that the proposed interventions will generate measurable outcomes in terms of climate adaptation and mitigation, while effectively addressing socio-economic and environmental challenges such as reducing emissions and enhancing community resilience.

f) **Sustainability:** Evaluates whether the project can sustain its positive environmental and socio-economic impacts over time while minimizing any negative consequences. The focus is on ensuring that the investments will deliver long-lasting benefits for both society and the environment, without depleting resources or causing harm.

g) **Scalability and Replicability:** Assesses the company's potential to expand its impact by scaling up its interventions, or the company and others replicating such ventures in other locations or sectors. This ensures that green finance investments can grow, reach broader audiences, and inspire similar sustainable projects beyond the initial scope.

### 3.2.3 Case Study of Bukona Agro Processors

Bukona Agro Processors Ltd (Bukona) is a private limited liability company incorporated under the laws of Uganda (Companies Act, 2012), with its registered office in Lapem village, Koch-Goma Subcounty, Nwoya District, Acholi Subregion. The government, through the Uganda Development Corporation (UDC), invested in Bukona via equity participation. It holds 40.5 percent share in the company, and has also provided to it a shareholder loan. The factory extracts ethanol from various crops, including cassava, maize and sorghum, through a distillation process. With an installed capacity of 40,000 liters of ethanol per year, Bukona Agro Processors commenced commercial operations in 2021. The ethanol is sold both locally and in the East African Community (EAC) countries. Additionally, the company assembles ethanol cook stoves, that are sold locally to create and sustain demand for ethanol.

#### 3.2.3.1 Critical challenge faced by the firm

The use of ethanol for cooking in Uganda is still in its nascent stages, but is showing strong potential for growth due to government promotion and strategic investment. The government is working with international developers on ethanol-related projects, and has established standards for denatured ethanol that is paving the way for wider adoption. The country's robust sugar industry provides a sustainable source of locally available raw material (molasses) for ethanol production. Additionally, the government's investment in companies like Bukona Agro Processors reflects a commitment to scaling up ethanol production and positioning it as a key element in clean cooking solutions that can reduce reliance on traditional biomass wood and charcoal fuels to ensure sustenance of the environment (International Energy Agency, 2023).

Domestically, the demand for cooking ethanol is increasing as household embrace this cleaner and more convenient energy source. Local demand is expected to grow further with the enactment of *The Biofuels Act 2020*, which mandates the blending of ethanol with petrol. Local petroleum companies, such as TotalEnergies Uganda, plan to source ethanol locally, positioning Bukona Agro among the leading suppliers.

Additionally, the company has received growing interest from countries within the East African Community (EAC),

particularly Tanzania and Rwanda, which recently placed export orders for neutral alcohol (highly purified ethanol) that the company has successfully fulfilled. To capitalize on this demand, Bukona Agro plans to establish a new plant dedicated to the production of ethanol for petrol blending. However, the company faces several critical challenges that, if not addressed, may hinder the company's ability to meet the increasing demand for ethanol.

Notably, while ethanol production generates significant amounts of waste, particularly liquid waste from fermentation that must be managed sustainably, Bukona Agro does not have a modern effluent treatment plant for the proper disposal of distillery waste. Currently, the company manages this liquid waste using lagoons, but this approach presents several challenges. During periods of excessive rain, lagoons overflow, contaminating nearby water sources. They also emit unpleasant odors and attract pests, causing discomfort for local communities. Additionally, the cost of lagoon maintenance is high, as regular removal and disposal of sludge are necessary and require significant land to construct for large-scale processing.

Recognizing the issues associated with the current waste management system, the long-term goal of Bukona Agro is to achieve a zero-discharge level by installing an evaporator and dryer that will convert solid waste into animal feed once financing is obtained.

### 3.2.3.2 Bukona Agro's investment need

As a company keen on strengthening its operations, Bukona Agro has identified three factory elements outlined below that it plans to acquire as soon as possible.

a) **Evaporator**: Evaporator reduces the volume of waste by removing excess water and concentrating the waste into a solid mass. For every 1 liter of ethanol produced, 10 liters of waste are generated. When the factory operates at full capacity—producing 10 million liters of ethanol annually—this results in 100 million liters of waste.

b) **Dryer:** The dryer processes the concentrated mass of waste into dry animal feed, creating an additional revenue stream. There is significant demand for animal feed, and the company estimates that, with proper waste management, it could generate between 10 and 12 million shillings per day from this source. This potential revenue is currently being lost by Bukona Agro due to the lack of equipment to transform waste into animal feed.

c) **Plant for Production of Petrol-Blending Ethanol:** The existing plant currently produces ethanol for cooking and is being modified to also produce ethanol suitable for blending with petrol. However, the modified plant will have limited capacity if the company receives consistent and substantial orders for ethanol from TotalEnergies. To address this, Bukona Agro plans to establish a new facility dedicated to the production of ethanol for petrol blending. It is common practice to blend ethanol with a purity of 100 percent with petrol to create a cleaner-burning fuel. Ethanol-blended petrol generates very low levels of air pollutants, thereby enhancing air quality. *The Biofuels Act 2020* supports the E20 fuel blending (i.e., 20% ethanol and 80% petrol). The operationalization of this Act will ensure a guaranteed market for ethanol that will incentivize Bukona Agro Processors and other private sector players.

Green financing, particularly green equity, is recommended for Bukona Agro Processors given that the project and proposed investments focus on environmental sustainability, renewable energy production, and eco-friendly technologies. The plan by Bukona to increase the production and promote utilization of ethanol directly contributes to the government's goal of having renewable energy account for at least 60 percent of Uganda's total energy consumption.

It is important to note that while the Board and Management of Bukona Agro are aware of green financing and the financial institutions that provide it, they have not yet pursued such financing due to the instability of the ethanol market. Previously, Bukona Agro secured export orders from Vivo Energy in Kenya but Kenya shifted to cheaper ethanol imports from Brazil and the United States. Following this disruption, the company has taken steps to

grow local demand for ethanol that is currently still very low. In the absence of stable and significant off-takers for ethanol, Bukona Agro faces constraints in making further capital investments through debt, and green financing and similar concessional credit sources remain its best option.

### 3.2.4 Assessing Bukona Agro Processor's Readiness for Green Financing

The readiness of Bukona Agro Processor to access the green equity finance is based on the standard the Green Climate Fund eligibility criteria that Uganda Development Bank (UDB) as one of the financial institutions that offer green finance products currently uses in the country. The following are adapted criteria that Bukona Agro must meet: (i) Contribution to Renewable Energy Production; (ii) Compliance with relevant Laws and Regulations; (iii) Coherence and Alignment with National Priorities; (iv) Stakeholder Engagement, Impact Potential (including adaptation, mitigation, socio-economic and environmental aspects); (v) Sustainability, Scalability and Replicability; and (vi) Monitoring and Evaluation.

#### 3.2.4.1 Contribution to production of renewable energy

Bukona Agro is actively contributing to the production of renewable energy by producing ethanol cooking fuel with purity level of 94 percent and bio-stoves under the brand name "**GREENERGY**". There has been increase in the adoption of ethanol cooking stoves that driving demand for ethanol. To date, the company has sold 1,967 stoves (731 single burners and 1,236 double burners), 1,990 pressure cookers, and 41,683 liters of ethanol to customers across Uganda.

The Bukona Agro plant has an annual production capacity of 10 million liters of ethanol, but current capacity utilization stands at only 30 percent. This significant underutilization is primarily due to low local demand and limited access to external markets. Plans are also under way to produce ethanol to be used for vehicle biofuel. In line with this, Bukona Agro plans to establish a new facility dedicated to the production of ethanol for petrol blending.

#### 3.2.4.2 Compliance with laws and regulations

Bukona Agro Processors complies with all relevant laws and regulations in Uganda. The company holds the necessary permits and approvals to operate its business, all of which remain valid. These include the NSSF Clearance Certificate, Tax Clearance Certificate, Certificate of Approval for Environmental and Social Impact Assessment, Wastewater Discharge Permit, and Surface Water Abstraction Permit, among others.

Additionally, the company's products—ethanol and bio stoves—are certified by the Uganda National Bureau of Standards (UNBS) and the Centre for Research in Energy and Energy Conservation (CREEC), with assurance that they meet industry standards. The product brand "GREENERGY" is also registered with the Uganda Registration Services Bureau (URSB), and the brand is a valuable asset that has enhanced the company's credibility and trustworthiness.

#### 3.2.4.3 Coherence and alignment with national priorities

The ethanol production business at Bukona Agro Processors aligns with government priorities outlined in various policies, strategies and Acts, including *The Biofuels Act 2020*, which regulates the production, storage and transportation of biofuels as well as their blending with petroleum products. It also supports the Uganda Green Growth Development Strategy (2017/18 – 2030/31), the National Development Plan III (NDP III), the National Climate Change Policy, and the National Adaptation Programme of Action, among others.

#### 3.2.4.4 Stakeholder Engagement

Bukona Agro Processors has several value chain stakeholders, among which are shareholders (notably Government and Uganda Development Corporation); suppliers of raw materials and other inputs; the local community; and product buyers. The company engages with these stakeholders to varying degrees, as illustrated by the following examples:

*a)* ***Clients*****:** Bukona has established a system that

brings ethanol closer to customers, offering delivery to workplaces or directly to homes. Follow-up calls are made to clients to ensure the functionality of the stoves, and the company provides maintenance and other after-sales services. Bukona has also created and widely disseminated instructional videos to guide users on the efficient operation and maintenance of ethanol cook stoves.

b) ***Government***: Bukona Agro Processors actively engages with the Ministry of Energy and Mineral Development (MEMD) to secure reliable markets for ethanol used in petrol blending.

c) ***Farmers***: The company sources its raw materials from farmers. However, it does not actively promote sustainable land management practices including climate-smart agriculture among these farmers.

d) ***Development Partners***: Bukona has partnered with GIZ through the Private Sector Foundation Uganda (PSFU) to implement a four-year subsidy programme for ethanol cook stoves. Under this programme, eligible beneficiaries pay only 33 percent of the total cost of the stove and starter ethanol pack, with the remaining 67 percent covered by the subsidy. This initiative has significantly increased demand for the stoves and boosted the sale of the ethanol it produces.

### 3.2.4.5 Impact potential: adaptation, mitigation, socioeconomic and environmental

The broad impact that Bukona Agro Processors generates from the production and local use of its ethanol is savings in wood and charcoal use with great impact on biodiversity protection. There are, however, numerous benefits that arise from its industrial activities, including:

a) *Employment Creation:* Bukona Agro Processors directly employs 194 individuals, the majority (189) of whom are Ugandans. The company actively recruits, trains and equips local workers with the skills needed to operate in the factory, thereby creating job opportunities even for those with limited formal education. For instance, some women who were previously housemaids now work in the laboratory and stove assembly, earning up to UGX 800,000 per month.

b) *Market Access for Farmers:* The company provides a stable and reliable market for cassava and grains, such as maize and sorghum, and annually purchases over 8,600 metric tons of produce from farmers. This significantly contributes to improving household incomes for local agricultural communities.

c) *Boosting Export Revenue:* Bukona Agro Processors contributes over US$ 1.65 million annually to Uganda's export earnings through the export of ethanol.

d) *Government Revenue Contribution:* The company contributes about UGX 42 million annually to government revenue, primarily through Pay as You Earn (PAYE) remittances to the Uganda Revenue Authority (URA).

e) *Energy Efficiency and Cost Savings:* Bukona's "**GREENERGY**" ethanol cook stoves reduce fuel consumption and cooking time as compared to other energy sources. Preliminary internal tests show that one litre of ethanol can power a stove for 4 to 5 hours, making it more cost-effective than LPG and charcoal. Additionally, ethanol stoves reduce cooking time by half compared to charcoal stoves. These results, once verified by the Centre for Research in Energy and Energy Conservation (CREEC) as the Competent Authority, will become part of the reference highlights of the company.

### 3.2.4.6 Sustainability

Bukona Agro Processors has adopted several sustainability practices in its operations. For example, the company secured a dedicated power line to reduce reliance on diesel generators, which are less environmentally friendly than grid electricity. The factory primarily runs on hydroelectricity, with diesel generators used only when electricity supply is unstable. The company mainly uses bagasse, a bi-product from sugar factories, and off-cuts from logs for its boilers and rarely uses full tree logs. This approach supports forest conservation by minimizing logging of trees for fuel wood.

In the long term, Bukona recognizes bamboo as a more sustainable option for fueling its boilers. Bamboo is highly

renewable, with short maturity periods (3–5 years) and faster regrowth compared to conventional woods like eucalyptus. However, the company has not yet fully engaged farmers to promote bamboo cultivation, which could enhance sustainability.

On the downside, Bukona's current waste management system that relies on lagoons is not environment friendly. During the rainy season, the lagoons overflow, with need for excess waste to be disposed on company-owned farmland. The open lagoons also emit unpleasant odors, especially on windy days. To address this, Bukona plans to invest in an evaporator and dryer system to reduce waste volume and convert waste into animal feed. The need for this waste system is reason the company is, among others focusing on possibilities in Green Finance.

#### 3.2.4.7 Scalability and Replicability

Bukona Agro is making significant efforts to boost local demand for ethanol by promoting the widespread adoption of ethanol-powered bio stoves. Their key strategy focuses on ensuring the affordability of these stoves through several price reduction initiatives:

a) *Local Assembly of Bio Stoves*: Instead of importing fully assembled stoves, Bukona assembles them locally. This approach reduces costs because, unlike fully assembled stoves, unassembled stove components are exempt from customs duties.

b) *VAT Exemption*: Bukona successfully secured a Value Added Tax (VAT) exemption on bio stoves, effective from July 15, 2024. The company plans to use the savings from this exemption to finance sales agents and further drive affordability.

c) *Participation in Subsidy Programs*: Bukona is involved in a subsidy program initiated by the Private Sector Foundation Uganda (PSFU) in partnership with GIZ's Energizing Development (EnDev) Uganda. Under this four-year initiative, eligible beneficiaries pay only 33 percent of the total cost of an ethanol stove and starter ethanol pack. This programme, currently running in the Kiryandongo Refugee Settlement and Nyowa district, has significantly boosted demand for the stoves and, by extension, ethanol.

d) *Bank Partnerships for Stove Financing*: Bukona is collaborating with Centenary Rural Development Bank in Gulu to offer loans specifically for purchasing ethanol cook stoves and ethanol. The bank plans to expand this arrangement to other districts, making stoves more accessible to potential buyers.

e) *Carbon Credit Capture:* Bukona developed a system to capture carbon credits, and hired a World Bank consultant to verify them. The company plans to trade these credits and use the proceeds to further reduce the price of its ethanol cooking stoves.

Despite these efforts, Bukona Agro Processors has not yet secured a large and stable market for its ethanol. The previous supply agreement in Kenya with Vivo Energy has not been regained, and the new markets in Tanzania and Rwanda, and even Uganda, remain small. As a result, the company is operating below capacity as current demand cannot sustain higher production.

### 3.2.5 Conclusions and Policy Options

The Government of Uganda, through the Uganda Development Corporation, partnered with Bukona Agro Processors Limited to establish a plant for producing ethanol from cassava, maize, sorghum and sugarcane molasses. Bukona commenced commercial ethanol production in 2021, and has since expanded into production of ethanol cook stoves, with plans to expand and engage in biofuel and bi-product animal feed. The company, however, needs affordable financing and market expansion to implement its expansion plans.

From this case study, Bukona Agro largely meets the necessary requirements for Green Finance support. The company also faces several challenges, including inadequate supply of raw materials, underutilization of its production capacity, and lack of an effluent treatment plant that require access to affordable financing. Considering the long-term nature of Bukona's planned investment in green development, and Uganda's overall goal of agricultural and rural transformation and sustainable development, green equity is the most suitable financing option for the company.

To secure such financing, Bukona Agro needs to address challenges in areas where it is relatively weak as revealed in this study. Following are the identified challenges and actions required from Bukona Agro and the Government of Uganda who are strategic partners in this initiative.

**(i) Bukona Agro Processors**

a) Finalize the business plan, develop and implement a comprehensive monitoring and evaluation framework, and restructure the investment to create fiscal space for attracting new investors.

b) Expedite the verification of controlled cooking tests to obtain carbon credit certification, which will help generate additional revenue.

c) Strengthen stakeholder engagement with farmers to promote the cultivation of target crops using sustainable land management technologies and practices. Additionally, encourage farmers to grow bamboo for future supply to the factory.

d) Implement an efficient waste management system to improve waste disposal and generate additional income by producing animal feed from waste byproducts.

e) Enhance market research efforts to secure long-term contracts and expand sales of ethanol and cook stoves both locally and regionally.

**(ii) Government of Uganda**

a) The Ministry of Energy and Mineral Development should accelerate implementation of the ethanol-petrol blending initiative to establish a stable and sustainable market for domestically produced ethanol.

b) Provide green finance incentives, such as tax breaks and subsidies, to improve access to green financing for businesses.

c) Provide support for farmers to adopt climate-smart agricultural technologies and sustainable farming practices.

d) Foster stronger collaboration between the government and the private sector to promote and implement green projects.

The above recommendations if quickly implemented will open the eyes of other investors to the possibilities that Uganda offers in agriculture-based climate smart investments. It will also stimulate household production and participation sustainable agro value chain activities.

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# 3.3 FINANCING AND DEVELOPING UGANDA'S SMALL-SCALE CROSS BORDER AGRICULTURAL COMMODITY TRADE

Paul Basudde[1]

## 3.3.1 Introduction

Small-scale cross-border trade (SSCBT) may be defined as an informal form of trade unrecorded in official statistics that is carried out by small businesses across borders of countries that neighbour one another (IMF, n.d.). This trade significantly supports subsistence households and is a source of employment for the vulnerable, especially poorly educated youth and women.

In the East African Community (EAC) and the Common Market for Eastern and Southern Africa (COMESA), this segment of trade is catered for under the Simplified Trade Regime (STR). Under this system, traders carrying consignments of goods that are on a common list between two contiguous countries valued at or below USD 2,000 are accorded special facilitation measures to expedite clearance and reduce cost of crossing the border, in addition to enjoyment of preferential tariff treatment. This arrangement is intended to enhance businesses of small-scale traders, and lead to poverty reduction and economic development of their countries.

Much of the small-scale cross-border trade is termed as informal cross-border trade (ICBT) and involves trading goods across borders for self-employment, wealth creation and poverty reduction. Small-scale cross-border trade is mainly dominated by small individual transactions which when amalgamated adds up to sizable volumes that sometimes exceed official customs recorded trade across entire categories of goods. This is why the participation of traders in this form of trade is important.

At the continental level, it is estimated that small-scale cross-border trade contributes 40 percent of total intraregional trade in the COMESA region (IOM, 2022). For Uganda, small-scale cross-border trade has been reported to account for about 18 percent of total exports to the COMESA region, with an export value of US$ 508 million in 2023 (Bank of Uganda, 2024). This article therefore examines the key elements at Uganda's border points that constrain informal cross-border trade in agricultural commodities. It specifically highlights areas that government needs to invest in to facilitate cross-border trade for small-scale agricultural traders.

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### 3.3.2 Trade Flows and Destinations of Uganda's Small-scale Cross-border Trade

Statistics from the Bank of Uganda indicate that Uganda is a net exporter concerning informal cross-border trade. In the last ten years (2014-2023), Uganda exported ICBT products worth an annual average of US$ 475 million against ICBT imports of US$ 146 million (Bank of Uganda, 2024). Between 2016 and 2019, Uganda's ICBT exports drastically increased by 31 percent and hovered above the US$ 500 million mark for three consecutive years (2017-2018) before slumping by 41 percent to US$ 313 million in 2020. The slump was due to trade disruptions caused by the emergence of the COVID-19 pandemic. Nonetheless, since the reopening of the global economy in 2021, ICBT exports have recovered; and the end of the COVID-19 pandemic restrictions saw Uganda recording phenomenal recovery and growth in cross-border trade.

Regarding the directions of the ICBT exports, the Democratic Republic of Congo (DRC) was Uganda's largest destination for exports and accounted for over 55 percent of Uganda's ICBT exports in 2023 (Figure 29). Indeed, between 2014 and 2019, ICBT exports to the DRC increased greatly, from US$ 139 million in 2014 to US$ 330 million in 2019. However, in the subsequent COVID-19 years, ICBT exports to DRC declined by 84 percent but have since recovered to their pre-COVID lockdown levels.

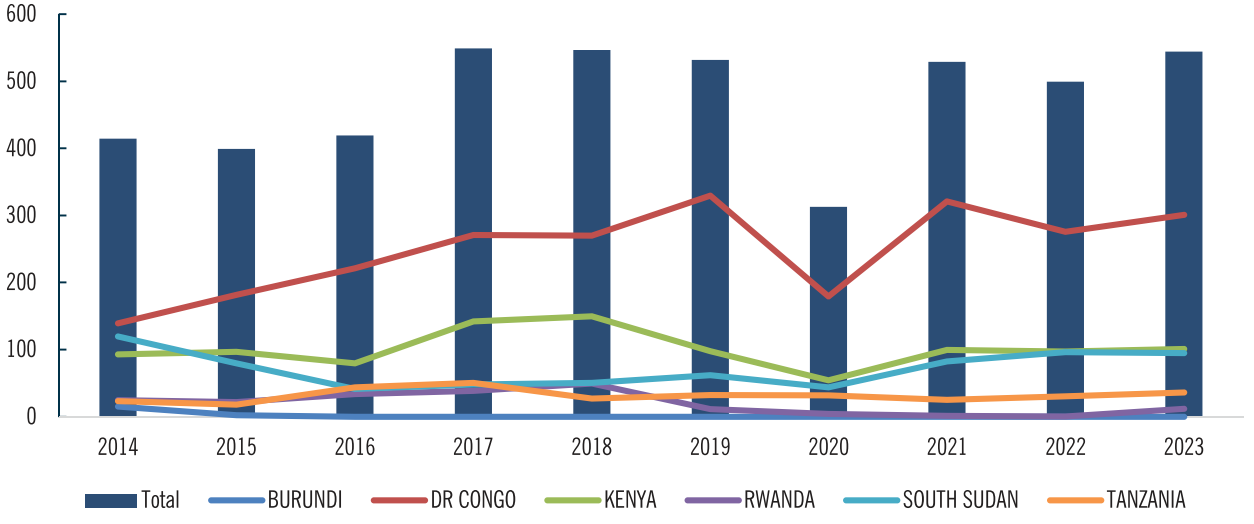
Kenya and South Sudan follow the DRC in terms of ICBT exports from Uganda, while those to Tanzania, Rwanda and Burundi remain small in volume (Figure 29). The weak performance of ICBT between these countries is partly due to existing non-tariff barriers (NTBs) that need to be fully addressed both domestically and at the EAC level.

### 3.3.3 The Institutional Framework for Facilitating Small-scale Cross Border Trade

The Government of Uganda has put in place a framework to facilitate small-scale cross-border trade, whereby several issues are handled across several government ministries, departments and agencies (MDAs) as well the private sector. However, there are policy, institutional, legal and regulatory gaps that currently limit small-scale agricultural cross-border trade and require urgent actions to address. The key gaps include the following:

i. **Limited awareness, operationalization, and domestication of the Simplified Trade Regime (STR) provisions for small-scale cross-border traders and government agencies stifle cross-border trade**: Although small-scale traders are aware of trade agreements and protocols, lack of quick reference sources, such as specific publications (e.g. leaflets, fliers, internet posts), on the Simplified Trade Regime and the range of goods agreed to by Partner States to benefit from the STR

**Figure 29. Trends in Uganda informal cross border exports**




Source: Author's construction based on Bank of Uganda database, 2024

are likely greatly delaying and even impeding the participation of agricultural small-scale traders in cross border trade.

ii. **Limited availability of trade infrastructure that respond to the needs of vulnerable persons slows cross-border trade:** The most important element required by the traders if the agricultural small-scale cross-border trade is to be improved is developed infrastructure. Among the agricultural small-scale cross-border traders, the particular needs are repair of the damaged roads, and widening roads to reduce traffic jam, ease flow of goods and enhance trade. Other required interventions are availing storage facilities for holding perishable items such as fish and fruits; building modern fish markets at the cross-border points; introduce pay-way systems at one-stop border posts; and construction of modern holding and storage facilities for grains and other produce.

iii. **Significant insecurity at the border posts:** The most serious risk that the small-scale agricultural cross-border traders face is the theft of their properties by all types of parties; right from security teams that masquerade as keepers of order to burglars and the petty thieves. Effective systems (secure holding points; camera monitors and recorders etc.) should be established at all cross-border points to ease these risks and worries of traders.

iv. **Cross-border facilitating services remain centralized while human resources and government agencies are inadequate:** Some border points operate partially, and support agencies such as Ministry of Agriculture, Animal Industry and Fisheries (MAAIF) as well as UNBS do not have offices at every border point. Traders also previously reported that the current system of issuing export permits remains centralized and requires travelling to Kampala. A case in point is the issuing of export permits remaining a preserve of only the Uganda National Chamber of Commerce and Industry (UNCCI) and the URA. Therefore, as is the case in Tanzania, the Uganda Government should consider decentralizing the export permit issuance to facilitate the export process and reduce trade costs.

#### 3.3.3.1 Simplified Trade Regime (STR) as facilitator of ICBT in agricultural commodities

The Simplified Trade Regime (STR) policy was launched by the East African Community countries in 2010 to ease cross border trade among member states. The policy was founded on the principle of a free trade regime based on simplified procedures that facilitate easy access of small-scale traders to documentation and processes that open them to duty-free trade across the East African Region (EAC, 2019).

The introduction of the STR policy sought was a response to delays faced by micro, small and medium enterprises (MSMEs) within the East African borders because of the challenges of dealing with multiple border agencies. For a trader to take advantage of the STR, the following elements and requirements must be met; yet, as outlined below, challenges remain.

i. **A common list of products specifying goods that enjoy preferential treatment under this regime.** This list, however, places small-scale traders at a disadvantage as they would not obtain preferences for those products that are not on the Common List even though the products have originating status. As such, the STR Common List of eligible products, which is negotiated and agreed between two contiguous countries, requires updating from time to time to address the dynamics of trade and consumer tastes, as well as the imperative to include new products that may be produced in the countries making up the Regional Economic Community.

ii. **A threshold for the value of consignment of US$ 2000.** The East African Business Council (EABC) previously urged that the maximum cargo value threshold under the EAC simplified trade regime, which is US$ 2,000, be raised to US$ 5,000 so that more trade can take place. The current limit denies many traders the opportunity to easily export commodities to countries in need.

iii. **A Simplified Certificate of Origin (SCO) that is signed and stamped by a customs official of the exporting country.** The East African Business Council (EABC) public-private dialogue with trade facilitation agencies of single border crossings previously registered requests from cross-border women traders for the scrapping of Issuance Fees for the EAC Simplified Certificate of Origin to facilitate their daily work.

iv. **A simplified customs document used by traders to declare goods that appear on the common list and duty not charged on the declared goods.** The simplified customs documentation helps to speed up processing time in terms of trade facilitation at border crossings. For instance, although the Port of Mombasa is in Kenya, the trade facilitation there through the simplified customs document benefits all countries whose goods transit through the port.

Accordingly, the STR has, to some extent, helped formalize and improved the performance of Informal Cross Border Traders and, more importantly, enabled them to benefit from the regional preferential treatment when importing or exporting goods within the region. However, the poor implementation of the STR has mainly been attributed to inadequate awareness of both the traders and some of the policy implementation officers at the different border points.

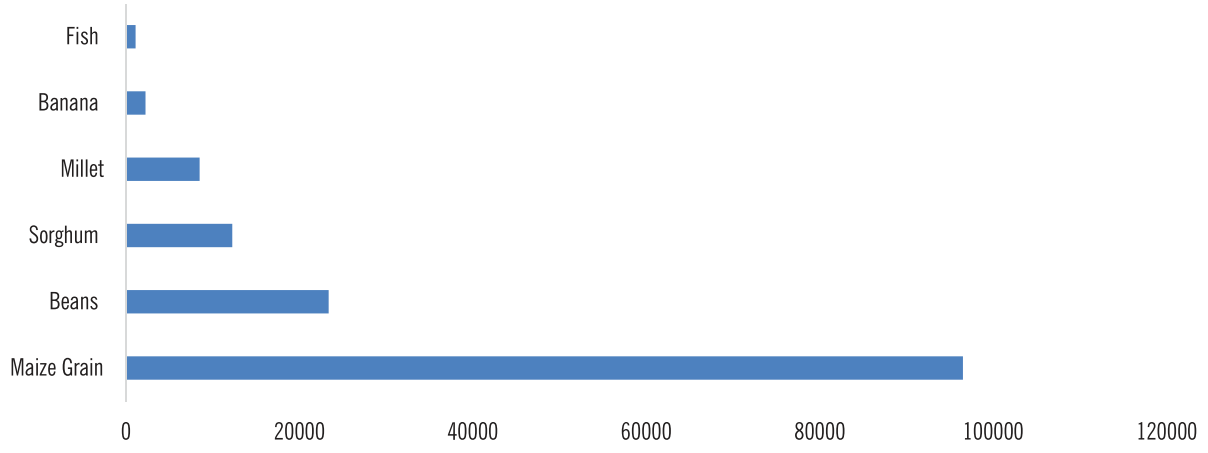
### 3.3.4 Small-scale Informal Trade in Agricultural Commodities

In spite its limited commercialization, agriculture is a sector that Uganda holds huge comparative advantage over countries that neighbour it. Cross border agricultural commodity trade therefore is key to rural livelihood transformation in the country. A review of the status and management of this trade is therefore essential to defining options for improvement and the best ways forward for the country.

#### 3.3.4.1 Informal Cross Border agricultural commodities

Available records show that Uganda's informal cross border trade (ICBT) is dominated by trade in agricultural commodities (Figure 30 & 31). In 2023, the country's top ICBT agricultural exports were maize, beans and sorghum; with export of maize grains reaching over 96,000 MT worth US$ 47 million (Figure 30). Maize is the largest ICBT agricultural export because it is largely available in surplus, given Uganda's annual two production seasons, compared to our neighbours who consider it a staple commodity. Deliberate harnessing of maize abundance during harvests could ensure dominance of Uganda in the region's agricultural produce trade. However, the high level of trade informality, accompanied by poor quality of produce, partly explains the low competitiveness of Uganda's agricultural produce.

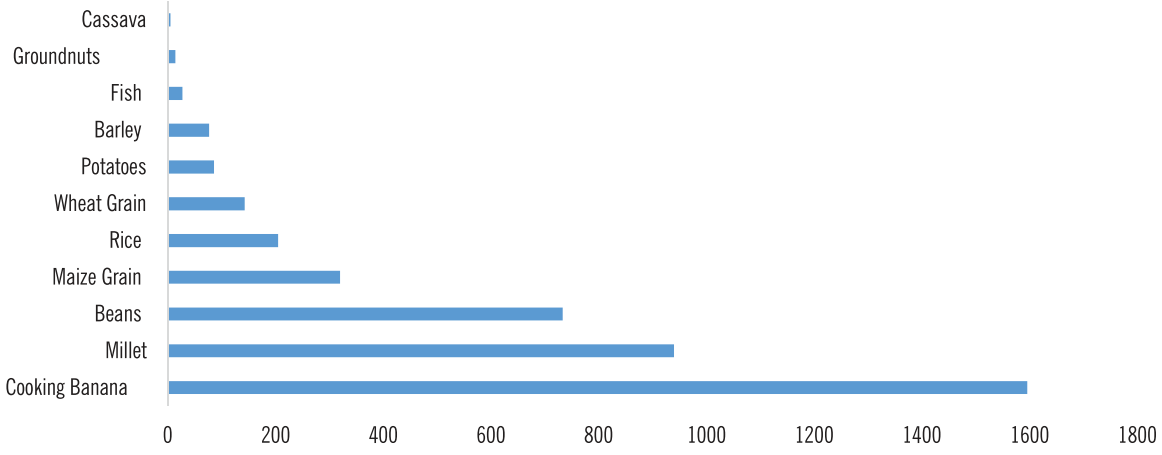
**Figure 30. Top informal agricultural commodities export (2023) (tons)**




Source: Author's construction based on FEWS NET database, 2024

**Note:** It was not possible to include chickens, goats and sheep in the above figure since they are captured in the data as individual items. The chickens were 651, the goats were 168 and the sheep were 95.

**Figure 31. Top informal agricultural commodities import (2023) (tons)**




Source: Author's construction based on FEWS NET database, 2024

For maize, poor quality translates into lower prices being offered, with Uganda's maize often branded as "chicken feed" by Kenyan buyers; and mainly associated with high levels of aflatoxins, high moisture content and foreign matter. Yet demand in Kenya remains high, and they often blend it with high quality and expensive maize from other countries. At the country level, Uganda needs to focus on quality improvement, including regular country-wide surveillance for aflatoxins complemented with field testing and building laboratory diagnostic capacity to increase the export value of maize.

Besides exports, Uganda also registered a large amount of ICBT agricultural imports (Figure 31), with the top imports for 2023 being cooking bananas, millet and beans. The country imported approximately 1600 MT, 940 MT and 733 MT of those commodities respectively. Although the largest producer of bananas in the region, Uganda so happens to have the highest per capita banana consumption in the world at 0.70 kg per person daily (Keya and Rubaihayo, 2013). Millet and beans are also key staple foods of national importance, with beans as the most popular pulse providing the much-needed proteins in the diets of most households in the country, while millet has excellent shelf life and can be stored for long periods.

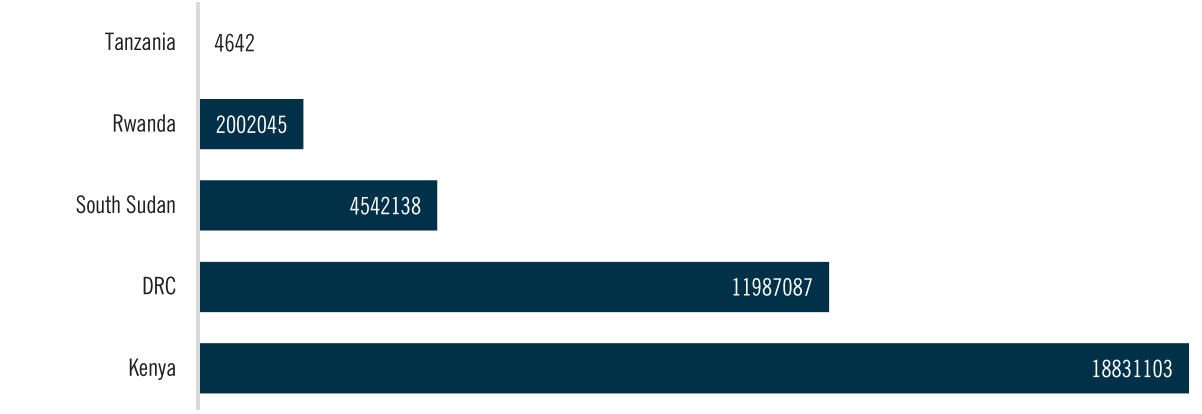
### 3.3.4.2 ICBT agriculture commodity trade partners

In respect to trade destinations, Uganda mainly trades in agricultural products with Kenya, South Sudan, DRC, Tanzania, Rwanda and Burundi (Figure 32 & 33). All these EAC countries are part of COMESA save for Tanzania. The small-scale agricultural cross-border trade is mainly in food items such as maize, beans, cassava, bananas, groundnuts, barley, potatoes, wheat grain, rice, chicken, cattle, goats, sheep, pigs, cowpeas, soybean, millet and fish. In terms of exports, Kenya was Uganda's largest destination for ICBT agricultural trade, followed by Democratic Republic of Congo (DRC) and South Sudan (Figure 32); while terms of importation, Kenya was Uganda's largest origin for ICBT agricultural, trade followed by Tanzania and DRC (Figure 33).

### 3.3.4.3 ICBT agriculture commodities by key border posts

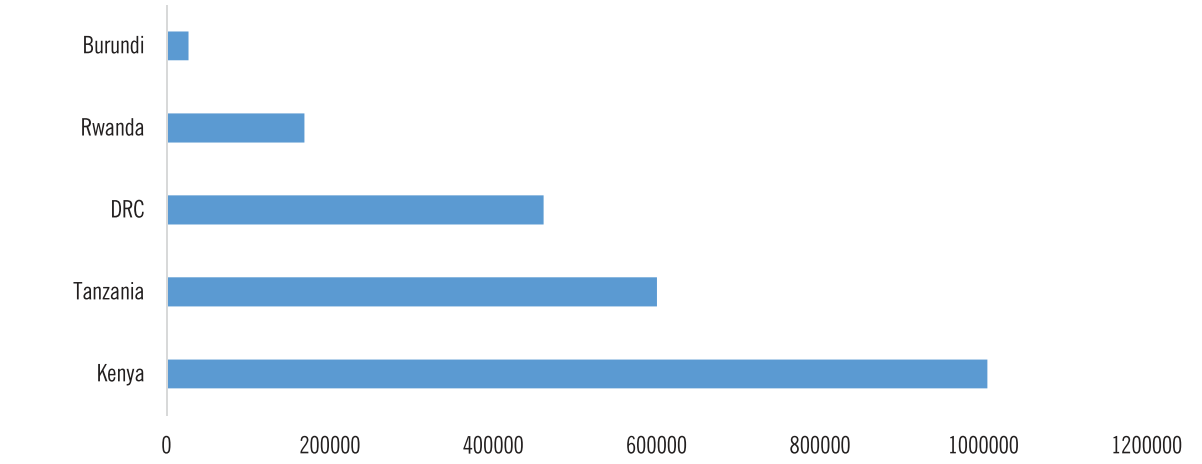
Considering ICBT agricultural trade by border posts, Busia and Suam were the busiest ports in handling Uganda's agricultural commodity exports (Figure 34). The Busia border crossing, in particular, is where high informal cross-border trade occurs, partly because of the presence of established local satellite towns, and also because surrounding areas produce and easily access staple foods traded by the poor. During 2023, a total of 137,000MT of ICBT agricultural commodities was exported through

**Figure 32. Top informal agricultural commodities export destinations (2023) (tons)**




Source: Author's construction based on Uganda Revenue Authority (URA) data

**Figure 33. Import origins of top informal agricultural commodities (2023)**



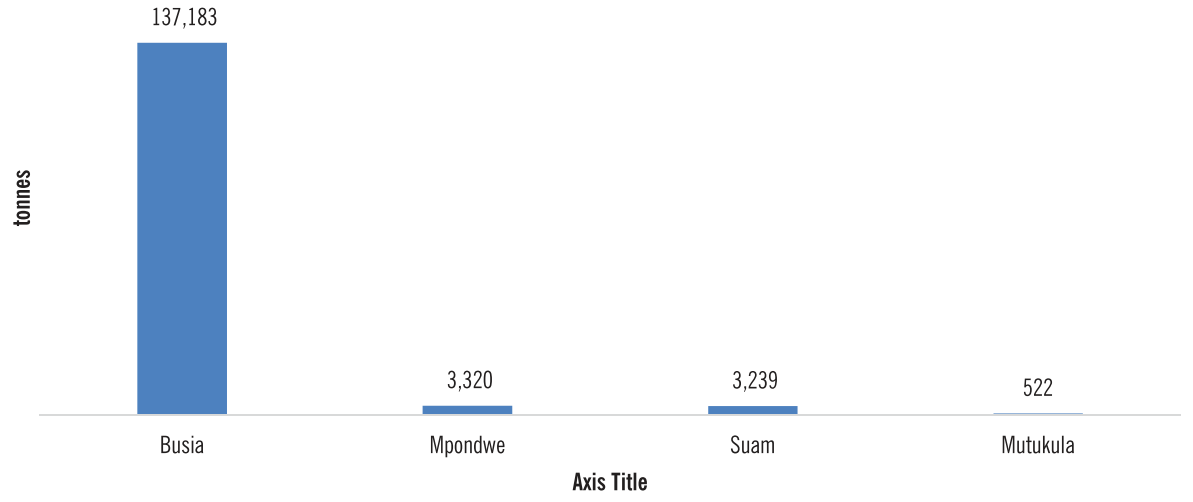

Source: Author's construction based on Uganda Revenue Authority (URA) data

Busia with the key agricultural commodities handled being maize grain (36,106 MT worth US$ 3,429,419); beans (24,476 MT worth US$ 2,532,109); sorghum (4906 MT worth US$ 456,794); and millet (235 MT worth US$ 25,588).

In terms of informal agricultural commodity imports, Mpondwe was the busiest followed by Busia and Mutukula (Figure 4B). Mpondwe has an established market structure where informal traders, most of whom being women, operate their businesses. The market is an important outlet for purchase of external food commodities, and it operates daily but with some days commonly known as border market days.

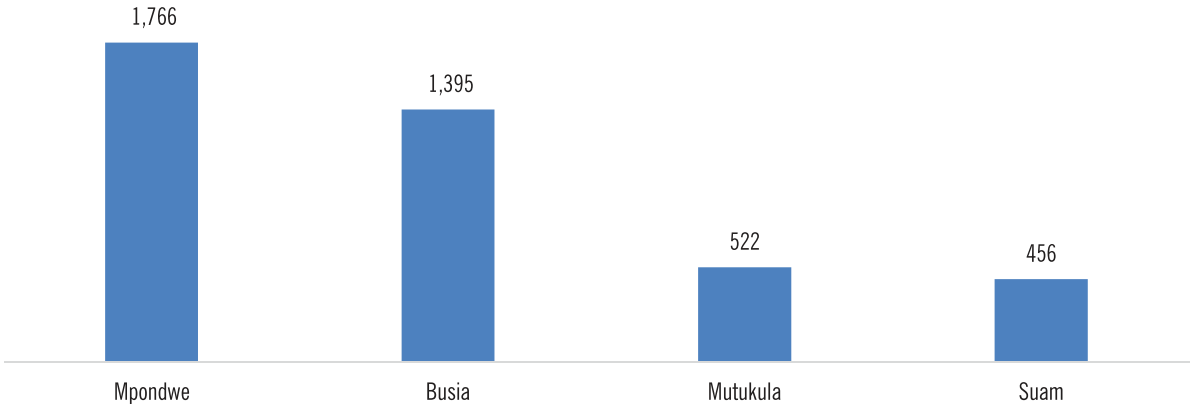
Despite handling large export volumes, the Busia border post has the challenge of limited availability of border infrastructure that corresponds to the needs of vulnerable traders as earlier discussed. For instance, border facilities at Busia remain insensitive to the needs of small cross-border traders with disabilities as well as pregnant women. As for import trade, several pending border challenges affect ICBT at Uganda's Mpondwe border post. The first challenge is the persisting threat of insecurity caused by ongoing conflict and rebel activities in the DRC now afflicting Mpondwe post where traders and border communities often cross districts and national borders with frequent suspension of border operations. There is also the language barrier that the Congolese often take advantage of to cheat Ugandans.

**Figure 34. Agricultural commodity exports handled by key border posts in 2023**




Source: Author's construction based on FEWS NET database, 2024.
Note: The Busia border post majorly handled beans, maize grain, millet and sorghum.

**Figure 35. Agricultural commodity imports handled at key border posts in 2023**




Source: Author's construction based on FEWS NET database, 2024
Note: Mpondwe border post majorly handled beans, maize grain, cassava, bananas, fish and potatoes while the Busia border post majorly handled beans and millet.

### 3.3.5 Current Challenges to Informal Small-scale Agricultural Commodity Trade

Despite the milestones registered in promoting small-scale informal cross border agricultural commodity trade, there still exist glaring gaps. First is insufficient infrastructure such as the limited truck parking space at Busia border point. The parking shortage is on the Kenyan side of the Busia border point but also affects business on the Ugandan side. The Government of Uganda should therefore gazette space and construct export parking space on the Ugandan side of the border. Second, there are loopholes in border access, with smuggling of goods across the border being a menace to trade and a key source of illegal, fake, counterfeit and substandard agro-inputs that must be curtailed and eliminated. Accordingly, border officials and security agencies of the respective Partner States should enhance cross border patrols and electronic surveillance to deter smuggling of goods.

Third, is mishandling of small-scale informal traders in the form of persistent demand for bribes and harassment by cross border agency teams that mainly arise from informal border crossings. Accordingly, all measures must be taken to ease and facilitate the use of authentic border

crossing routes and points that make illegal crossings and smuggling unnecessary risks for all businesses. This includes elimination of current delays at Uganda's border posts that disrupt small scale agricultural trade logistics, impact transport costs and prices, and ultimately undermine Uganda's trade competitiveness.

To improve the efficiency of border crossings in East Africa, the EAC resolved to convert the main border crossings into OSBPs in which all border agencies from the two sides of the border coordinate their interventions, thus reducing documentation processing time. Shorter border crossing times means that trucks reach their destinations faster, allowing traders to handle goods in time and save costs. This will also allow inventory and trucking enterprises to accomplish more round trips per year, with increase in their revenues enabling reduction in transport charges.

For the small-scale cross border trade to grow, therefore, the cross-border agencies together with relevant Government Ministries and the EAC Secretariat need to utilize the Cross Border Management committee and Joint Border Committees that periodically meet to check border operations and enforce solutions to the current challenges at Uganda's border posts. There should also be periodic sensitization initiatives for the small-scale cross border traders to keep them informed of processes and their obligations and rights, all in a bid to ensure business efficiency and growth at all Uganda's border posts.

### 3.3.6 Conclusion and Emerging Policy Options

This review of the informal cross border trade in agricultural products aimed to identify the key bottlenecks at Uganda's borders that are impeding progress in developing agricultural ICBT. To achieve this, broad examination was made of the functioning and challenges of small-scale trade in Uganda; small scale trade in agricultural commodities; the policy environment to promote small-scale informal trade; and pending issues of small-scale agricultural commodity trade.

It is important to note that restrictions in border crossing times in East Africa have been a long-standing constraint to smooth travel and trade flows, more so for regional trade. Delays at Uganda's border posts disrupt efficient small scale agricultural trade logistics with impacts on the transport costs and prices and, ultimately, on trade competitiveness.

Also, although small scale traders are aware of trade agreements and protocols, difficulties in access and use of specific document guideline and procedures, for example on the simplified trade regime (STR) and the agreed list of goods to benefit from the STR, greatly impede the participation of small-scale agricultural traders in cross border trade. Moreover, some border points also operate partially and support agencies such as Ministry of Agriculture, Animal Industry and Fisheries (MAAIF) as well as UNBS do not have offices at every border point.

Against the above review and identified challenges, Government is strongly urged to consider the emergent policy options outlined below.

i. **Deployment of requisite staff at the borders.** Given that food safety is an issue, there is need to deploy MAAIF and UNBS staff at border points to help traders to comply with standards (technical regulations as well as Sanitary and Phytosanitary standards). This implies that the required infrastructure should also be put in place.
ii. **Domestication of the STR policy.** The STR with all good intentions is not optimally realized partly because of limited information among the key stakeholders who should undertake its implementation. There is a need to ensure that information is disseminated among traders, and URA, customs and other border officials and relevant government entities. Deliberate action must be taken to create awareness, especially among the URA staff, to incorporate the STR provisions in their daily work.
iii. **Mobilization of resources for infrastructural development.** The required infrastructure development at border points is riddled with delays due to resource constraints. Whereas the Ministry of Finance, Planning and Economic Development (MoFPED) should continue mobilizing public and

donor funds as planned, there should be deliberate effort and action to engage and incentivize the private sector to get involved.

Agriculture being Uganda's key economic sector on which rural livelihoods is hinged, and given the current commitment of the Government to transform and modernize the sector, informal cross border trade in agricultural produce offers a huge opportunity to build a sustainable development pull factor. This is particularly opportune in light of the increasing food deficiencies in neighbouring countries, and the growing adverse effects of Climate Change on agricultural productivity and outputs. Mobilization of resources to address the challenges identified and uplift cross border agricultural commodity trade is therefore a worthy and urgent matter.

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# 3.4 THE COST OF NON-ENFORCEMENT OF EAST AFRICA GRAIN QUALITY STANDARDS IN UGANDA: THE CASE OF MAIZE COMMODITY

Emmanuel Erem[1] and Sheila Christine Nakkazi[1]

## 3.4.1 Introduction

Grains, such as maize, millet, sorghum, rice and wheat, are staple foods in Uganda and East Africa. Maize is the most important grain in Uganda, produced by about 1.8 million farmers who are mostly smallholders growing less than 2 hectares (Ha) each for household food security as well as source of income (Kilimo Trust, 2022). According to the Annual Agriculture Survey Report (2020) published by UBOS, the total production of maize in 2020 was estimated at 3.5 million MT from an estimated planted area of 2.0 million Ha with an average yield of 2.61 MT per hectare.

Maize is produced in all the regions of Uganda, with production dominated by the Eastern and Western regions that contribute 75 percent of national production (FEWS NET, 2017). On average, 60 percent of Uganda's maize is consumed domestically, while 40 percent is exported in primary grain form (SARC, 2022). In 2023, Uganda exported maize to Kenya valued at US$ 59 million, and worth US$ 55 million to Rwanda and US$ 11 million to Tanzania (ITC Trade Map database). Despite Uganda's growing maize exports, shipments are often rejected due to aflatoxin contamination.

In June 2023, 65 of 450 trucks transporting maize from Uganda to South Sudan were impounded by the South Sudan National Bureau of Standards (SSNBS) at the Nimule-Elegu border post supposedly because the quality of some of the maize had been compromised. The SSNBS claimed that the maize contained aflatoxins of over 10 parts per billion (ppb), a value deemed too high and unsafe for human consumption (Karugaba, 2023). Earlier in March 2021, Kenya's Agriculture and Food Authority had banned Uganda's maize exports, claiming the maize lots were contaminated with cancer-causing aflatoxins. During the same period, Kenya also banned maize imports from Tanzania over the same concerns, rendering maize trade in East Africa problematic with losses and price volatilities that hurt production and threatened food security in the region (Kazibwe, 2023).

The issue of aflatoxin in maize and other quality parameters partly results from limited access of farmers to agricultural extension services, leaving them to struggle

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with basic agronomic and post-harvest practices that lead to contamination. Other issues of concern regarding grain quality include grain colour, fullness and maturity levels; presence of toxic weed seeds plant residues and inorganic particles (soil, sand, stones etc.); grain moisture content, appearance and smell; breakage, rotting and disease blisters on grains; insect or vermin damaged and infestation. Violation of these standards by exporters undermine the worthiness and acceptance of Uganda's maize and other grains for consumption and export. Accordingly, review is made in this article of the East African grain export quality specification and the losses that Uganda suffers from poor enforcement of quality standards for maize produced and exported from the country.

### 3.4.2 The EAC Quality Standard for Maize Commodity

Maize standards are a set of guidelines and specifications established to ensure the quality, safety, and marketability of maize grains. The East African Standard applies to maize (corn) for direct human consumption, i.e. ready for its intended use as human food, presented in packaged form or sold loose from the package directly to the consumer. The standard specifies requirements for whole grain, shelled dent maize, shelled flint maize or their hybrids, and grains of all colour types. The parameters covered by this standard and highlighted in Table 12 include quality, contaminants, hygiene, packaging, marking and methods of sampling (EAS, 2011).

**Table 12: EAC quality standard for maize**

| Category | Requirement |
|---|---|
| **General requirements** | • Maize may be presented as yellow (which may contain up to 5.0% by weight of maize of other colors), white (which may contain up to 2.0% by weight of maize of other colors), red (which may contain up to 5.0% by weight of maize of other colors), or a mixture of these colors (mixed maize includes maize not falling into the classes of white, yellow, or red maize)<br>• Maize shall be free from foreign odors, molds, live pests, rat droppings, toxic or harmful weed seeds, and other injurious contaminants, as determined from representative lot samples<br>• Maize shall also be reasonably uniform in color according to type, whole, and clean. |
| **Grades** | Maize grains graded into Grades 1, 2, and 3 based on limits for foreign matter, inorganic matter, broken kernels, pest damage, disease, discoloration, and moisture (see example of Specific maximum limits). |
| **Specific maximum limits** | • Grade 1: Foreign matter 0.5%, Inorganic matter 0.25%, Moisture 13%,<br>• Grade 2: Foreign matter 1.0%, Inorganic matter 0.5%, Moisture 13%<br>• Grade 3: Foreign matter 1.5%, Inorganic matter 0.75%, Moisture 13%<br>• Total Aflatoxins, ppb (for all grades): 10 |
| **Contaminants** | Meets Codex Alimentarius Commission standards for toxic metals, pesticide residues and mycotoxin. |
| **Hygiene** | Produced, prepared and handled as per sections of EAS 39; free from microorganisms and parasites. |
| **Microbiological Limits** | Yeasts and moulds (limit: $10^4$/g); S. Aureus, E. Coli, and Salmonella (limits not detectable). Test method- EAS 217 |
| **Packaging** | • Packed in clean, food-grade material, free from insects, fungal infestation, and contaminants.<br>• Each package contains maize grains of uniform type and grade. |
| **Labeling** | Labels include product name, grade, producer information, lot number, net weight, declaration "Food for Human Consumption," storage instructions, packing date and country of origin |
| **Sampling** | Sampling shall be done in accordance with the EAS 79/ISO 13690. |

Source: East African Standard, Maize grains – Specification, Third Edition 2011

Maize quality standards and specifications are important because they safeguard health safety, nutritional value, and the worth of maize in the market. Quality of maize is judged by overall appearance, and quality diminishes if some of the grains are damaged by insects or rodents, or are discolored, moldy, broken or contaminated by non-grain matter of organic or inorganic origin.

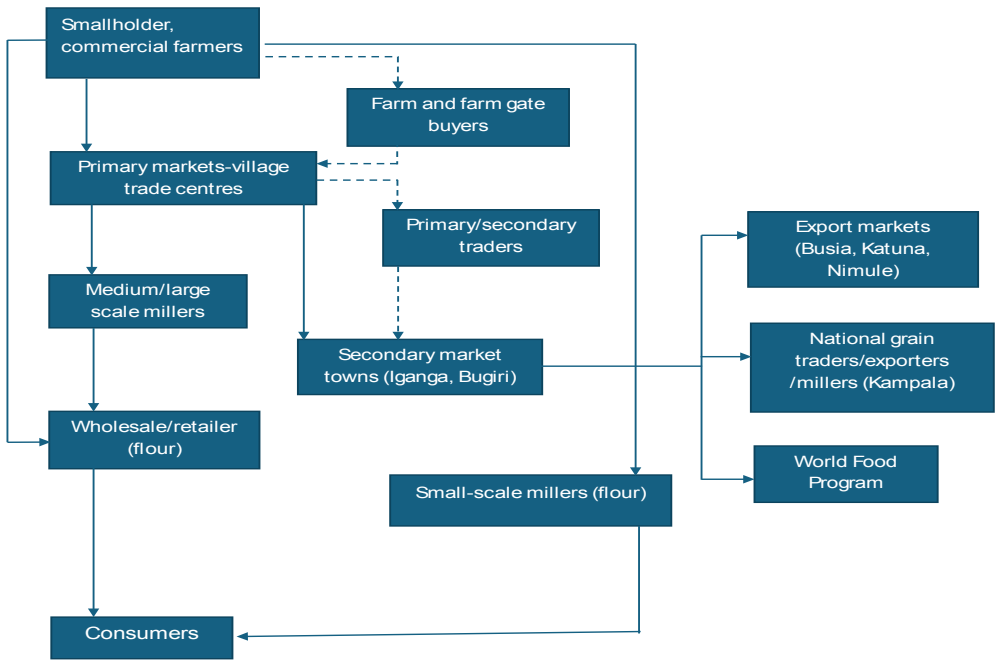
Uganda struggles to meet East African Standards because there is insufficient government action in promoting, testing and enforcing these standards throughout the value chain, and limited consumer awareness of food standards and safety and price sensitivity. The maize value chain remains weak, with the crop typically traded through networks of village agents, retail traders and wholesalers who sell to processors. These intermediaries lack the ability to assess maize quality, leaving farmers with little motivation to invest in higher-quality inputs. Farmers also face finance constraints and significant post-harvest losses (22-30 percent of total production); while inadequate drying practices, with maize often harvested at high moisture levels (20-25 percent), further undermine grain quality which restrict access to regional markets (Daly *et al.*, 2017).

### 3.4.3 Current Maize Grain Procurement Practices and Key Players Across the EAC Region

Uganda has maize standards along the maize value chain to promote trade and transparency and protect farmers, traders, processors and consumers from exploitation (Mutungi *et al.*, 2020). The major channels for maize flow along the supply chain are summarized in Figure 36. Maize procurement value chain starts from farmers (farm gate) and moves to agents, traders and village markets in rural areas. From rural markets, it extends to secondary markets in regional towns, such as Iganga, Bugiri and Sironko, and to urban markets and buying centres to export markets.

Uganda has overly liberalized domestic grain procurement, allowing traders from Kenya, Tanzania and other neighboring countries to buy grains directly from even the most remote farmers and trading centers in Uganda. These traders then export the grain across borders without restrictions or adherence to EAC grain standards and requirements. The buyers of this unprocessed maize then add value to it in their home processing plants; leaving

**Figure 36: The maize supply chain in Uganda**




Source: Adopted from FAO (2014), USAID (2010), PMA (2009) and World Bank (2009)

Ugandan producers earning only meager amounts at farm gates, and to job losses for processors from exported maize. Furthermore, traders with large storage capacities buy and store maize when it is in plenty and prices are low and sell it throughout the offseason as prices keep rising, thus earning big profits compared to the meagre amounts paid to primary producers at time of maize harvest (Key Informant Interview, 2024).

#### 3.4.3.1 Procurement practices across other EAC countries

To appreciate the above gaps in Uganda's management of the maize production, marketing, processing and export activities, and the upholding and enforcement of required standards, a brief review is made below of the situation in Tanzania and Kenya that are the largest maize producers in East Africa.

(a) **Tanzania.** Tanzania has four recognized grain marketing channels: (i) small-scale farmers who sell to local traders and millers mainly in rural areas and nearby cities; (ii) medium-sized grain traders and millers who serve rural and urban centres; (iii) well-established, large-scale millers and traders based in Dar es Salaam who operate in both national and export markets; and (iv) institutional buyers, including the National Food Reserve Agency (NFRA), the World Food Programme (WFP), prisons, the armed forces, hospitals and schools (Wilson and Lewis, 2015).

In 2022, Tanzania introduced a string of rules that, among others, require foreign traders to register their companies in Tanzania to ensure smooth flow of grain across borders. Tanzania restricts foreign traders from buying produce from villages and trading centers to buy produce; and only allow them to purchase maize grain from registered processing facilities that provide requisite documentation. Millers are issued with one-off permit for maize exports, and are required to apply for new permits each time they intend to ship maize out of the country. In addition, exporters are required to locally register their entities with the Business Registration and Licensing Agency (BRELA) and to obtain trading permits (Business Daily Africa, 2022). The fact that the country requires registration of millers and exporters ensures that higher returns on produce remain in the country.

(b) **Kenya.** According to Kang'ethe *et al.* (2020), the maize value chain in Kenya is complex and involves many players, including input suppliers, farmers, marketeers and consumers, and numerous sub-players that integrate either horizontally or vertically. This integration complicates food safety along the value chain due to varied practices among the players.

In terms of maize grain trade, Kenya's National Cereals and Produce Board (NCPB) serves as the primary agency for purchasing, marketing and regulating cereal prices, and ensuring year-round supply of cereals for the country. The NCPB buys maize from large-scale farmers, cooperatives and wholesalers, and offers advanced storage facilities for rent to farmers. It as provides aflatoxin testing and pest control services, among others (Kirimi *et al.*, 2011). Through its testing role along the value chain, the NCPB minimizes losses along supply chains and ensures compliance with EAC/Kenyan standards.

The grain trade framework and statuses in Kenya and Tanzania contrast starkly with the weak system in Uganda that predisposes producers and maize and produce traders to quality deficits and losses along produce value chains.

### 3.4.4 Losses Along Maize Value Chain in Uganda and Impact on Export of Maize

Maize quality and demand losses that culminate in the competitiveness of Ugandan maize in the EAC market starts with harvest and subsequent handling until the final consumer products. These constitute the challenges for maize that Uganda must address, the first of which is postharvest losses, to ensure the competitiveness of the country's maize in the export markets.

#### 3.4.4.1 Post-harvest losses

Post-harvest loss refers to the food loss that occurs throughout the supply chain, from the point of harvest to final consumption. Losses generally include weight loss from spoilage, quality degradation, reduction in

nutritional value, loss of seed viability, and commercial losses (Kumar and Kalita, 2017). These losses increase food insecurity and reduce real income, especially for smallholder farmers with limited knowledge and assets (Zorya *et al.*, 2011).

Post-harvest losses disproportionately affect women who handle much of the post-harvest activities, and this has significant nutritional, health and financial consequences (WFP, 2022). In Uganda, poor storage methods invite pests, such as weevils, that degrade maize quality, making processed products less competitive domestically and internationally. Another major concern is the development of aflatoxins on produce that are very harmful to humans and livestock. In Kenya, aflatoxin contamination one time reached alarming level of up to 46,400 $\mu$g/kg, reportedly due prolonged drought followed by off-season rains that created ideal conditions for aflatoxigenic fungi to develop in stored maize (Nyangi *et al.*, 2016).

In Uganda, maize is also often harvested at moisture levels between 20-25 percent, against set standard of 13.5 percent, which leaves such maize vulnerable to aflatoxin attach and fungal infection and rotting (Daly *et al.*, 2017). Such aflatoxin and fungal attacks are a huge challenge for Uganda, given its far more humid conditions and much longer periods of heavy rains.

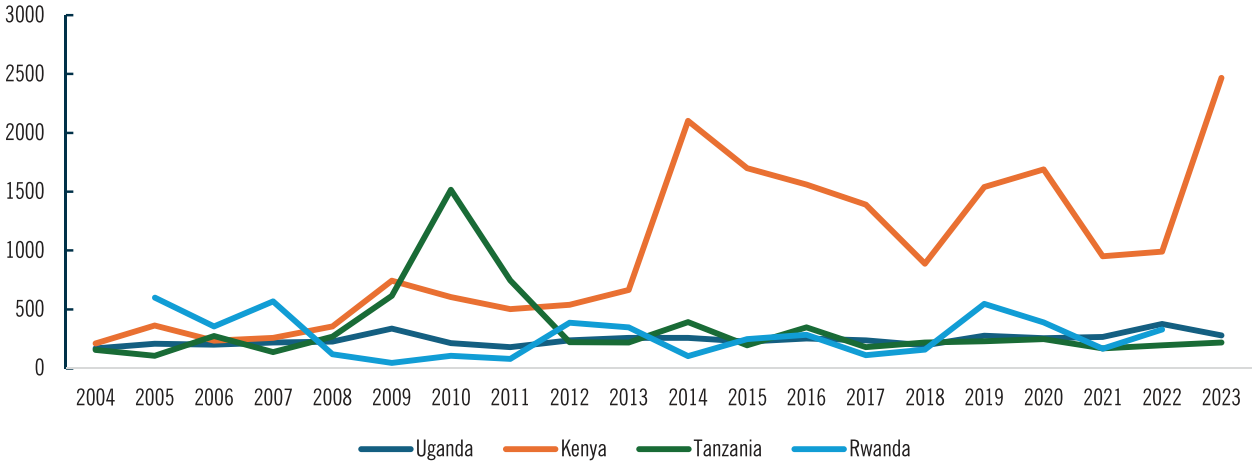
### 3.4.4.2 Incidences of rejection of maize from Uganda

Poor pre- and post-harvest handling of maize often leads to substandard quality, low prices, and even rejection in regional and international markets. As earlier reviewed, there were two major incidences of rejection of Uganda's maize export due to aflatoxin contamination. In 2021, Kenya prohibited the import of maize from Uganda with dramatic drop in maize exports from Uganda, from 94,382 MT in the first quarter of 2021 to just 2,765 MT by the end of the year, marking a 97.1 percent decline. Then in 2023, South Sudan rejected and destroyed over 1,700 MT of maize products due reportedly to very high levels of aflatoxin B1. These highlight impacts that poor post-harvest practices and aflatoxin contamination can have on Uganda's grain exports.

### 3.4.4.3 Trends in export prices for maize

In the Eastern African region, Kenya has the highest price for maize, compared to Uganda, Tanzania and Rwanda (Figure 37). In 2023, Kenyan maize was exported at US$ 2,468 per metric ton (MT), largely due to the value addition applied which significantly boosts its market price. In

**Figure 37. Comparative maize prices per MT across EAC countries**




Source: Author's construction based on ITC Trade Map database

contrast, maize from other countries typically sell at much lower prices since it is largely traded as unprocessed grain. Thus, in the same year, Uganda's maize exports were sold at an average price of just US$ 278/MT awhile that of Tanzania sold at US 219$/MT.

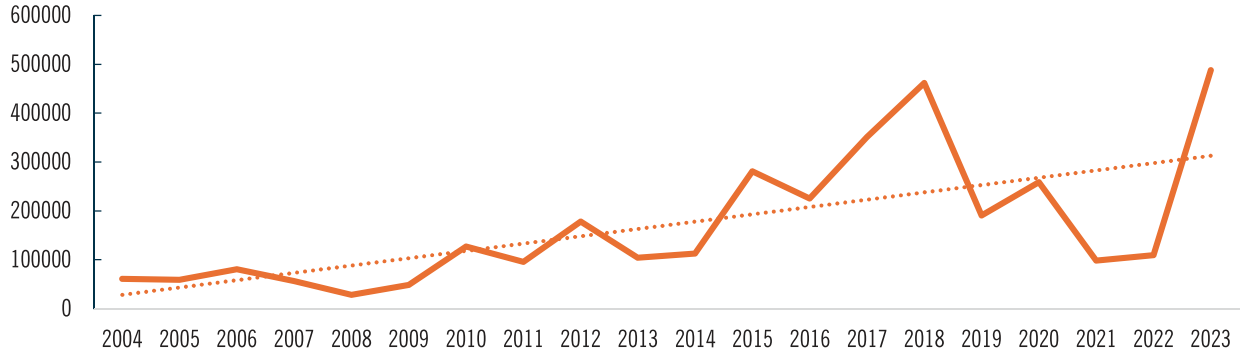
#### 3.4.4.4 Decline in the unit value of Uganda's export maize

Over the recent years, maize exports from Uganda have trended upward with fluctuations for both volume and value (Figure 38 & 39). In 2023, exports reached a peak of 488,392 metric MT and earned US$ 135.98 million. The increase in Ugandan maize exports between 2016 and 2018 was partly driven by severe drought in Rwanda, the worst the country had experienced in six decades. This drought heightened demand for Ugandan maize to help address Rwanda's food security crisis. Despite growth in export volumes, however, the unit value of Ugandan maize has declined, dropping from US$ 378/MT in 2022 to US$ 278/MT in 2023 (Figure 39).

### 3.4.5 Conclusion and Emerging Policy Options

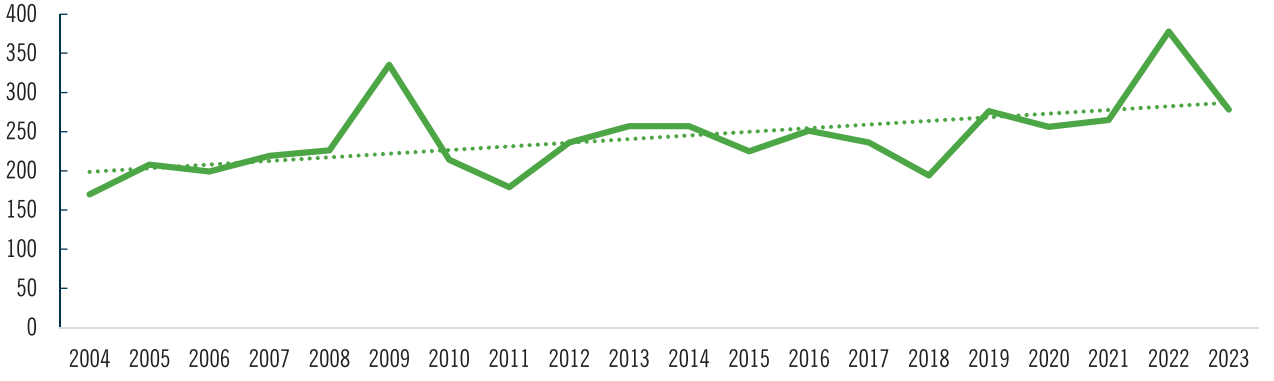
Weak enforcement of the East African Grain Quality Regulations in Uganda, particularly in the maize trade, has led to significant economic loss and stunting of market access. Export maize rejections by regional trading partners like Kenya and South Sudan due to non-compliance with standards, particularly aflatoxin levels and moisture contents, highlight issues in post-harvest value chain handling of maize grains and quality

**Figure 38. Exported quantity (MT) of maize from Uganda**




Source: Author's construction based on ITC Trade Map database

**Figure 39. Trends in unit value of maize exports (US$/)**




Source: Author's construction based on ITC Trade Map databas

control. Failure to meet quality standards not only reduces export volumes and earnings but also erodes the country's competitiveness in the EAC and international maize markets. This is constraining maize production in the country that could otherwise drive agricultural modernization, rural poverty reduction, and national economic growth and transformation.

Ob the basis of the highlighted issues and challenges faced in exporting Ugandan maize to the region and beyond, the following recommendations are made on key steps the Government of Uganda and produce value chain actors in the country must take to enhance production of quality grains and strengthen the country's compliance with the East African Grain Quality Regulations.

i. Despite efforts by the Ministry of Agriculture, Animal Industry and Fisheries (MAAIF) and various stakeholders to educate farmers on pre- and post-harvest practices, such as proper storage, drying, pest control and aflatoxin management, these initiatives need to be scaled up. MAAIF, in collaboration with local governments, must expand these programmes to reach more farmers and ensure widespread adoption of best practices.
ii. Strengthen the enforcement of quality control measures through the Uganda National Bureau of Standards (UNBS) and sector ministries to ensure compliance with regional and international grain standards. UNBS should establish well-equipped laboratories at key border points to facilitate rapid testing and quality checks that will end disputes and minimize the risk of rejection of Uganda's grain exports.
iii. Uganda should adopt Tanzania's model where foreign traders are prohibited from buying maize/grains directly from farmers and villages. Instead, these must be purchased from registered processing facilities to ensure that more value is retained within Uganda, as maize and other grains would undergo certain levels of primary processing before export.
iv. To improve grain quality and retain value, Uganda should must the East African Standards by either requiring Kenyan buyers to establish local processing plants for drying and cleaning maize before exportation, or mandating that all maize exports be sourced from local processors. This would not only enhance product quality but also create jobs that are currently being exported by sending raw maize to Kenya.

As production of maize/grains are primary activities of rural farmers and key sources of household incomes, ensuring competitive grain qualities is a national priority. This aspect of crop production must be a key element of Uganda's drive to modernize its agriculture and be fully prioritized in the Fourth National Development Plan (NDP IV), and The NARO Strategic Plan 2025-2030.

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# 3.5 EXTENT AND IMPLICATIONS OF CHILD LABOUR ON UGANDA'S AGRICULTURAL EXPORTS

Christine Arwata Alum[1]

## 3.5.1 Introduction

Agriculture is a vital sector in Uganda, as about 60 percent of rural households depend on it and contributes over 23 percent of the country's Gross Domestic Product (GDP) (UBoS, 2023). According to the Ministry of Agriculture Animal Industry and Fisheries (MAAIF, 2022), Uganda exports various food commodities worldwide, including coffee, tea, tobacco, dairy and fish products, all of which account for about 31 percent of the country's total exports. According to the Uganda Bureau of Statistics (UBoS, 2023), the European Union (EU) is the second-largest destination for Uganda's exports after the Common Market for Eastern and Southern Africa (COMESA); with key EU export destinations being Italy, Germany, Netherlands and Belgium.

In 2022, coffee was Uganda's top export commodity and accounted for 24 percent of the country's total formal exports, up from 18 percent in 2021 (UBoS, 2023). While the European Union remains a key market for Uganda's coffee, this economic block recently introduced new regulations to ensure supply chains are free from deforestation[2] under the EU Deforestation Regulation (EU-DR), and that they comply with human rights regulations under the Corporate Sustainability Due Diligence Directive (CS3D).

Besides importation of deforestation-free products into the EU, child labour free agricultural supply chains are also a key target for the EU's CS3D regulation. Child labour is a widespread practice in most African countries; and refers to work that is hazardous or exploitative and poses risk to the health, safety, physical growth, and educational and mental development of children (UBoS, 2021).

In Uganda, any labour offered by a person under 18 years of age is regarded as child labour. However, *The Employment Act 2006* defines child labour by different age groups, with child labour being: (i) children between the ages of 5 and 11 involved in any type of economic activity; (ii) children aged 12-13 engaged in work other than light tasks for over 14 hours weekly; and (iii) children aged 14-17 years taking part in hazardous labour or working 43 hours weekly. According to estimates from the National Labour Force Survey, 40 percent of children aged 5-17 years were involved in child labour (UBoS, 2021). This review therefore highlights the extent of the use of child labour in Uganda's agricultural sector, and implications

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2 Its imports are not sourced from countries where trees have been cut to produce the imports

on trade of the country's agricultural commodities with the EU countries.

### 3.5.2 Regulatory Developments on Child Labour in the European Union Market

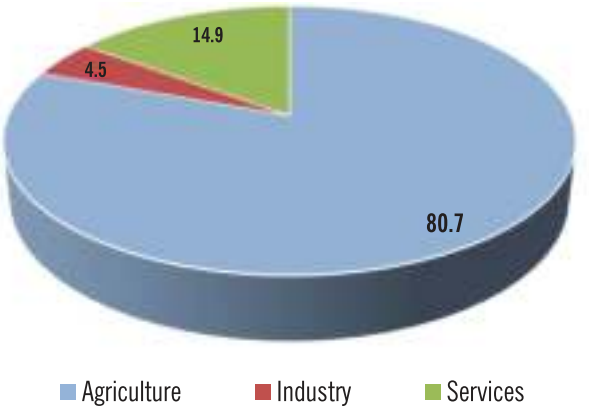
The European Union recently introduced new regulations to promote sustainable and ethical trade practices, including the EU-DR and CS3D. The EU-DR aims to fight global deforestation by eliminating agricultural produce grown on deforested land from global supply chains and encouraging the production and consumption of deforestation-free products (EU, 2023). On the other end, the CS3D established a corporate due diligence obligation for companies to identify and address actual or potential adverse impacts on human rights, within their value chains, such as child labour (EU, 2024). In Uganda where child labour is widespread, particularly in the agricultural value chains, these regulations could help reduce child exploitation by prioritizing the protection from field labour that undermine their human rights, healthy growth and education.

The EU has prioritized respect for human rights, including children's rights, in its trade and cooperation agreements, and has taken measures to address violations. As such, the EU is committed to ensuring that commodities entering its market are not produced using child labour (EU, 2019); and holds the responsibility to address child labour, for example, by using trade preferences. Importantly, child labour can lead to trade restrictions, reducing economic opportunities for farmers and countries like Uganda that supply global markets. A notable instance is when the EU withheld textile trade preferences from Uzbekistan because of their use of child labour in cotton harvesting until the country eliminates the practice (EU, 2019).

### 3.5.3 Extent of Child Labour in Agricultural Value Chains in Uganda

The International Labour Organization (ILO) asserts that child labour is widespread in Uganda's agricultural sector (ILO, 2023), as most rural households involved in agriculture are smallholder farmers that utilize significant amounts of child labour in farming activities. Child labour use in the agricultural sector is most prevalent among children aged 5 to 14 years old (Figure 40), the majority of whom drop out of school. The children are particularly engaged in farming of commercial non-staple crops, such as rice, tea, coffee, tobacco and sugarcane, and in the livestock sectors (ILO, 2023).

**Figure 40. Distribution of child labour across sectors**

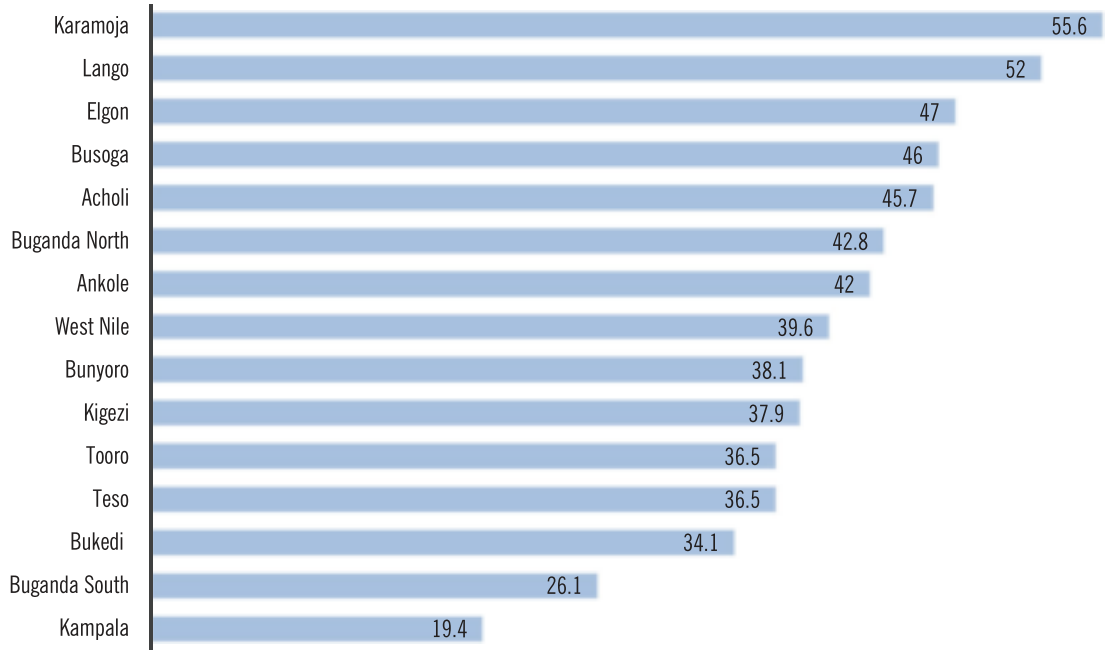



Source: Bureau of international labour affairs, 2023

Several factors are cited as contributing to the prevalence of child labour. Such factors include, poverty, poor enforcement of child labour laws, high cost and poor-quality education, lack of decent work for adults and youth, and community norms and practices (ILO, 2023; Newsom *et al.* 2021). The extent of child labour in Uganda varies across sub-regions (Figure 41) due to differing socio-economic factors. Karamoja, Lango, Elgon, Busoga and Acholi report the highest levels of child labour, while Kampala sub-region has the lowest.

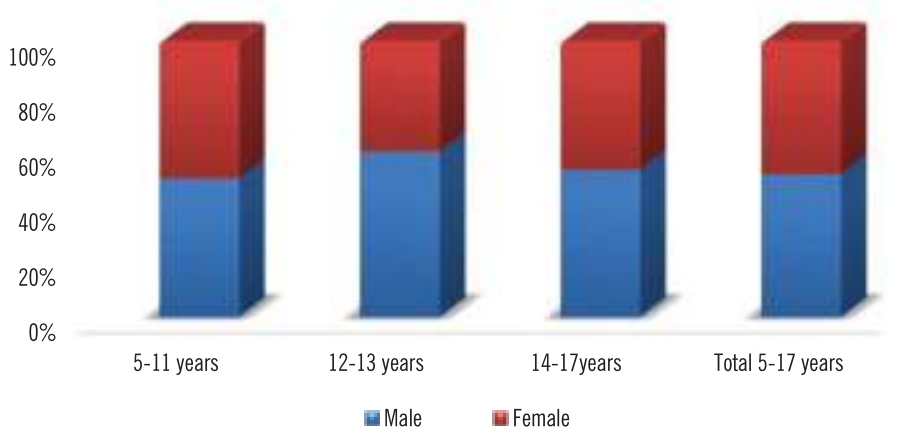
Child labour in Uganda's agricultural sector is closely linked to regional production patterns of key agricultural commodities. In Karamoja, the dominance of livestock keeping as a primary economic activity contributes significantly to child labour. The Lango and Acholi sub-regions, which have the highest levels soybean production (UBoS, 2022), a major export commodity to the EU, also report high levels of child labour. Similarly, the Elgon sub-region has high levels of child labour due to its status as a leading coffee-producing area. Coffee farming requires significant labour, especially for intensive ripe berry picking, and smallholder farmers often turn to child

**Figure 41. Proportion of child labourers across sub-regions**




Source: Author's construction based on NLFS 2021 Report

**Figure 42. Children's involvement in child labour by gender**




Source: Author's illustration based on NLFS 2021 Report

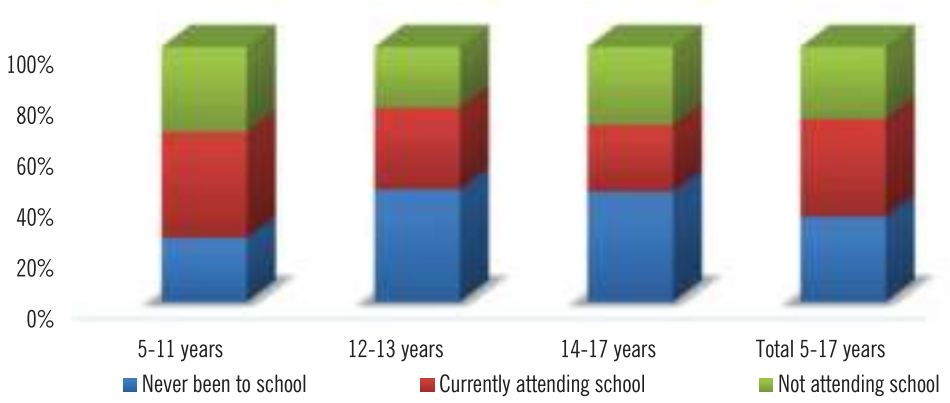
labour to address labour shortages. And in Busoga, the prevalence of child labour is closely linked to the region's extensive sugarcane production.

Child labour remains a significant issue for children aged 5 to 17, with boys being more affected than girls across all age groups (Figure 42)[3]. This could be because girls are more involved in household chores while boys are culturally perceived as better suited for physically demanding tasks, making them more likely to be engaged in labor-intensive agricultural work.

Nearly 48 percent of children aged 5 to 11 engaged in child labour are not attending school, and about 37 percent have never been to school (Figure 43). This situation limits their future access to decent work opportunities. Overall, around 40 percent of child labourers aged 5 to 17 are currently in school, but balancing work and education negatively impacts their learning and school performance, and increases the risk of them dropping out of school.

3 Child labour estimates do not account for children's involvement in household chores

**Figure 43: Children's involvement in child labour by schooling status**




### 3.5.4 National Policy Responses to Reducing Child Labour in Uganda

Uganda has made a strong commitment to combating child labour by ratifying key International Labour Organization (ILO) conventions, including the Minimum Age Convention (C. 138) and the Worst Forms of Child Labour Convention (C. 182). Uganda is also a signatory to the Convention on the Rights of the Child (CRC) (ILO, 2023). Committing to these international agreements demonstrated the commitment of Uganda to protecting children from work that could harm their education, health and well-being. Review of the various international conventions highlights the extent to which some of their provisions have been domesticated in our national laws.

#### 3.5.4.1 International labour conventions

The United Nations (UN) Sustainable Development Goal (SDG) 8.7 seeks to eliminate the worst forms of child labour and ultimately end child labour in all its forms. Accordingly, several international agreements have been established to safeguard children's rights. For example, the UN Convention on the Rights of the Child (CRC) provides that children have the right to be protected from work that is hazardous, interferes with their education or harms their health or development. The International Labour Organization (ILO) has also established standards to prevent child labour, including: (i) Convention No. 138 on Minimum Age to Employment which sets 15 years as the legal working age, and allows children aged 13 or 14 to work provided the work is safe and does not disrupt their education; and (ii) Convention No. 182 on Worst Forms of Child Labour which prohibits hazardous work for anyone under 18, as such work poses risks to a child's mental and physical well-being (ILO and UNICEF, 2021). The conventions guide enactment of related laws in UN member countries.

#### 3.5.4.2 National legislation and policies on child labour

Uganda has implemented several policies and laws to safeguard children's rights, including the National Child Policy (2020), *The Education Act 2008*, the *Employment Act*, and *The Children (Amendment) Act 2016*. The National Child Policy (2020) outlines key strategies and actions for protecting children's rights, such as enhancing the capacity of local governments and community childcare structures to effectively respond to and prevent all forms of child exploitation, including child labour. The *Employment Act* and *Children (Amendment) Act* prohibits deploying children in hazardous work, and established 16 years as the minimum age for employment; while the *Education Act* mandates compulsory education for children up to the age of 13 years.

Several agencies in Uganda, such as the Labour Inspectorate, the Occupational Health and Safety Department under the Ministry of Gender, Labour and Social Development, the Uganda Human Rights Commission, the police and district local government officials, are also legally tasked with the duty of enforcing child labour regulations. These roles include overseeing

labour conditions; removing and protecting children from harmful work; and ensuring that children's rights are upheld.

On its part, the Government of Uganda is dedicated to combating child labour. For example, the National Development Plan (NDP III) 2020/21 – 2024/25 highlighted the prevalence of child labour in the agricultural sector, and prioritized the strengthening of measures to prevent it in the agro-industrial sector (NDP III, 2020). Despite the various efforts, however, the weak enforcement of policies and laws remains a significant challenge in combating child labour in Uganda. In addition, poor coordination among agencies responsible for enforcing child labour laws and budgetary constraints also hinder effective labour inspections and coordinated national response to the challenge of child labour use in the country. Improvements in government response to the child labour challenges and upholding of relevant laws are therefore urgently desired.

### 3.5.5 Conclusion and Emerging Policy Options

Child labour remains a persistent challenge in Uganda, particularly in the agricultural sector where it is driven by socio-economic factors such as poverty, limited access to quality education, and insufficient enforcement of labour laws. The EU's introduction of strict regulations, including the EU Deforestation Regulation (EU-DR) and the Corporate Sustainability Due Diligence Directive (CS3D), derive from the increasing global focus on ethical and sustainable activities related to agricultural supply chains.

While these measures present opportunity to address child labour, they also pose challenges for Uganda's agricultural exports, particularly coffee which is a key commodity in the EU market. Non-compliance with these standards could lead to trade restrictions, which will reduce economic opportunities for Ugandan farmers and the country generally. The country must therefore take these challenges seriously and institute measures to protect the rights of children on whom Uganda depends to sustain progress and assure future stability.

#### 3.5.5.1 Policy options

To address the implications of the new EU regulations on child labour and agricultural exports, Uganda can protect its export market and reduce child labour through implementing the following strategies:

(i) The Ministry of Agriculture, Animal Industry and Fisheries (MAAIF) should introduce child labour free certification and labeling programmes in agricultural supply chains to ensure products meet EU regulatory standards. For example, labeling products to indicate child labour free standards and certification assures buyers that products meet human rights requirements and standards.

(ii) The Ministry of Education and Sports (MoES) should expand access to formal education and skills training, which leads to better future employment opportunities. Furthermore, the ministry should improve education infrastructure in rural areas, which is crucial for retention of children in schools. Just keeping children in schools is longer an effective way of controlling child labour, but granting them effective education that creates capacity for gainful employment and employment creation is.

(iii) The Ministry of Gender, Labour and Social Development (MoGLSD) should ensure enforcement of child labour laws by strengthening labour inspection, especially in the agricultural sector. In addition, the ministry should enhance the capacity of agencies responsible for enforcing child labour laws to do their work promptly and effectively.

(iv) The Ministry of Finance, Planning and Economic Development should allocate sufficient funding for personnel, transport and labour inspection activities to improve compliance monitoring, especially in rural agricultural communities. Additionally, the ministry should invest in rural development programmes in agriculture, such as introducing labour saving technologies. This can help to reduce child labour by boosting productivity and incomes of households engaged in agriculture.

It is fact that, in all farming households, children are deployed in farm work, as need, training or cultural obligations. Some children also run away from homes and schools and seek work as child labourers. Addressing the challenges of child labour in Uganda will therefore take collective responsibility of the State, families and, at large, communities and their social organizations.

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CHAPTER

# 4

# INNOVATIVE FINANCING OF AGRI-BUSINESSES

# 4.1 FINANCING SMALL-SCALE FARMERS THROUGH THE AGRI-CONNECT DIGITAL PLATFORM IN UGANDA: PROGRESS AND LESSONS FROM UGANDA DEVELOPMENT BANK

Daniel Obira and Tonny Odokonyero[1]

## 4.1.1 Introduction

The AgrInvest Initiative funded by the European Union (EU) and the Food and Agriculture Organization of the United Nations (FAO) aims to increase private investment in agriculture and agribusiness. The initiative supports investments aligned with the UN Sustainable Development Goals and anchored to the agenda for "Transformation Towards Sustainable Agri-food Systems'' that contribute to economic growth and employment generation in rural economies.

In Uganda, the initiative is implemented through a FinTech arrangement. FinTechs are start-ups and growth companies heavily dependent on technology to deliver fundamental functions provided by financial services, hence influencing how users store, save, borrow, invest, transfer, pay and protect money (McKinsey, 2023)[2]. Technological progress and innovations have brought FinTechs to the forefront of financial services.

The growth of FinTech has been fast and steady hinged on rapid progress in technology and innovations, coupled with fast-paced world of digitization, and a highly dynamic banking sector and rapidly evolving customer preference (McKinsey, 2023). In the recent decade, FinTechs have, and continue to reshape several areas of financial services with focus on innovative, differentiated and customer-centric value propositions, and building partnerships in business models (*ibid*).

To deliver last mile financing and reach out to smallholder farmers, the Uganda Development Bank (UDB) collaborated with key partners to support farmers through financing under the FinTech arrangement - the Agri-Connect digital platform. Thus, UDB in partnership with AgrInvest, rolled out a digital finance pilot with Ensibuuko Ltd- the FinTech partner in Uganda. Technical and financial support is being provided by UNCDF and FAO, and a credit line provided by UDB. The initiative specifically offers an alternative financing strategy that targets financing of smallholder farmers in a potentially more efficient, low-cost, and low risk arrangement.

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2 McKinsey. (2023). Fintechs: A new paradigm of growth. October 2023.

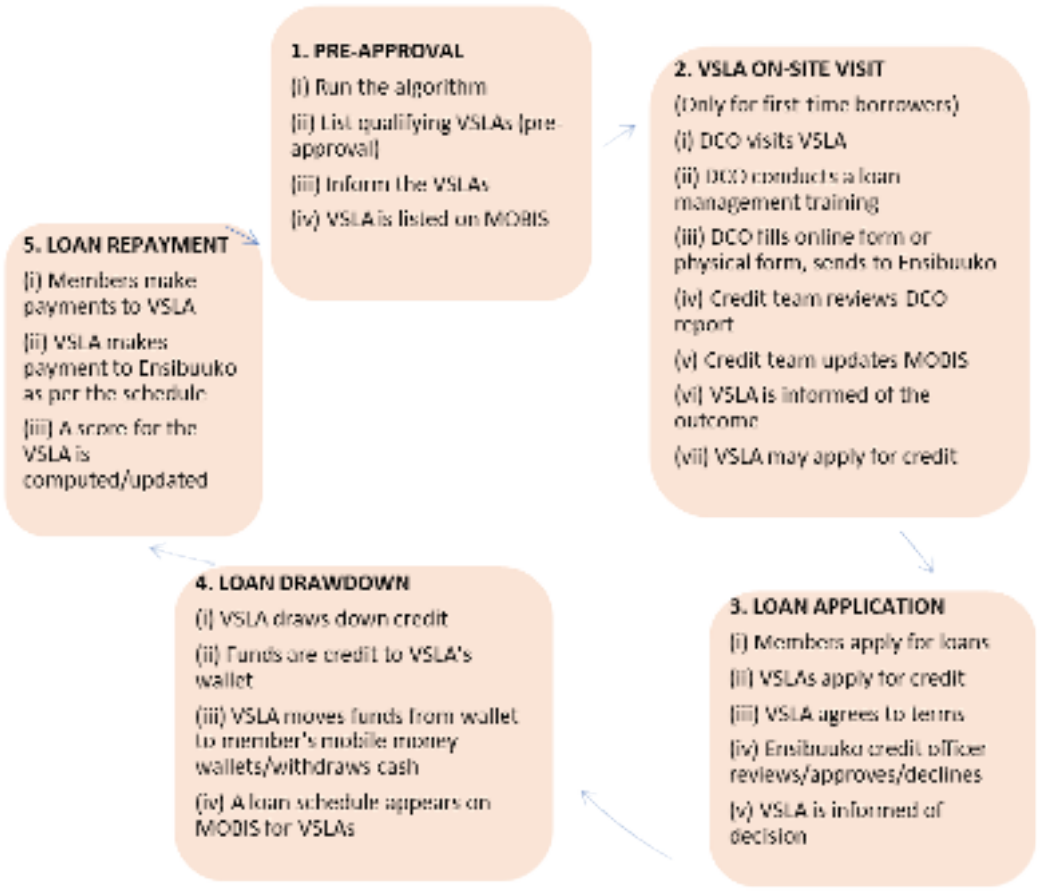
In 2023, UDB started financing Ensibuuko through the intervention dubbed AgriConnect, which is an AgrInvest initiative component funded by the bank to deliver digital agricultural loans to farmers in Northern Uganda organised under Village Savings and Loan Associations (VSLAs). In his Chapter, review is made of how the piloting of the new FinTech solution (AgriConnect) by UDB through Ensibuuko and FAO has progressed.

Specifically, baseline and/or pilot data for the initiative are examined to provide an understanding of the mechanism employed by the FinTech to finance smallholder farmers, and opportunities and lessons from the pilot; with focus on the operation of a typical smallholder-based FinTech initiative using the case of Ensibuuko digital credit application delivered through the MOBIS system, and opportunities and lessons from the initiative that can define improvements required and broader application of such FinTech solutions in Uganda.

### 4.1.2 How the AgriConnect FinTech Works in Supporting Smallholder Farmers

The FinTech digital credit initiative being implemented by UDB uses the MOBIS system as an implementation tool. MOBIS is a mobile application developed by Ensibuuko for use for digital lending to VSLAs. To roll out the digital credit initiative, Ensibuuko provides smart phones to VSLAs with MOBIS application pre-installed in them. Implementation activities are in three cycles, namely: (i) application and pre-disbursement cycle; (ii) disbursement cycle; and (iii) post-disbursement cycle. Each cycle has key steps that, according to design, should be fulfilled before implementing the subsequent ones. Figure 44 provides a summary of the end-to-end process from pre-approval stage to disbursement and post-disbursement; and the cycles, their respective steps and what they entail are highlighted below.

**Figure 44: End-to-end process (pre-approval to post-disbursement)**




Source: Author's drawing based on Ensibuuko digital lending business process.

#### 4.1.2.1 Cycle 1: The application and pre-disbursement cycle

**Credit data**: The first step in this cycle is collection of credit data from VSLAs by using the mobile app to gather the data. When provided with smartphones with MOBIS app installed, the VSLAs input their credit data into MOBIS. The credit data is then used by Ensibuuko to determine the VSLA's credit score.

**Credit scoring:** This second step of VSLA credit scoring is conducted using the credit algorithm. The credit data captured in MOBIS is received by Ensibuuko through the app, which then calculates the credit performance score for each VSLA from the data they sent. The VSLA credit score is calculated based on two core risk parameters – i.e., repayment risk and funding risk.

**Repayment Risk (RR)**: The RR score helps in assessing the likelihood that someone or the group cannot pay the loan back. The credit scoring algorithm computes RR as the ratio of the sum of all loan repayments made by the VSLA members during period (t) to the sum of all loans made by the VSLA during the period (t)- $L_t$. The period can be the VSLA cycle preceding the current one.

**Funding Risk (FR)**: FR assesses how much the VSLAs should be lent, by limiting the amount of the digital loan to a fraction of VSLA's existing loan portfolio. In addition to gauging which VSLAs should receive funding under the digital lending programme, the FR also determines the amount of funding that a VSLA should receive. It is computed through the credit scoring algorithm as the ratio of the amount of funding delivered to the VSLA to $L_t$.

**The pre-approval decision**: This decision is based on the score (S) - a function of the RR and FR, computed as: $S = FR + 2\left(\frac{1}{RR} - 1\right)$. The pre-approval decisions rule provides that the VSLAs with lower S values are preferred and are the ones that are ultimately pre-approved for the digital credit facility. Ensibuuko sets a threshold for comparison with the S value or VSLA score for each VSLA, and scores that fall below the set threshold implies that the VSLA's credit performance is satisfactory, thus qualifying the VSLA for pre-approval.

**Digital credit application**: The VSLAs with satisfactory scores (S) are pre-approved and informed by Ensibuuko via MOBIS push notification or SMS or phone calls from Ensibuuko's Digital Credit Officers (DCOs). At this point, Ensibuuko enables the mobile app and makes the option "Request Loan" available for the VSLAs. This enables the VSLAs to electronically submit their loan application.

At this stage before the final loan approval, Ensibuuko is equipped with the credit scores for each VSLA, obtained after running the credit scoring algorithm and listing all the VSLAs with satisfactory S values (i.e., qualifying VSLAs at pre-approval). As VSLAs are informed about satisfactory pre-approval decision, they are listed on MOBIS.

**Further due diligence**: Ensibuuko conducts another level of due diligence to generate a list of the VSLAs that can proceed to the final approval stage. This involves site visits targeting only VSLAs that are first time borrowers. Ensibuuko's DCOs visit the VSLAs under their areas of operation to assess parameters such as governance structure and group activities among others. After this, VSLAs are taken through a loan management training; and after the training the DCOs fill online or physical forms and send to Ensibuuko office. The credit team in office then review the DCO reports based on the filled forms, and updates MOBIS. After updating MOBIS, the VSLAs are informed about the outcome and those with positive outcome may apply for the digital credit.

**Final loan application and approval**: VSLAs with positive outcomes can have their members apply for the digital credit. This involves members applying for loan and, after, the VSLA applies as a group for a digital credit that covers the total loans applied for by individual members. The VSLAs are provided with the loan terms at this stage; and when they agree to the loan terms, Ensibuuko's credit officers review and approve or decline the loan request. The VSLAs are then informed about the final approval decision.

#### 4.1.2.2 Cycle 2: The disbursement cycle

After loan approval, Cycle 2 is the loan drawdown. The VSLAs draw down credit and funds are credited to each

of the approved VSLA's wallet. After crediting a VSLA's wallet, the VSLA transfers funds from the wallet to VSLA member's mobile money wallets that allow the members to withdraw cash and invest in farming by acquiring critical inputs such as improved seeds, fertilizer and pesticides and funding field operations (ploughing, planting, weeding, harvest etc.). The loan schedule is deigned to appear on the MOBIS system for each of the VSLAs.

#### 4.1.2.3 Cycle 3: The post-disbursement cycle

This Cycle 3 is primarily about loan repayment processes or activities. It begins with the VSLA members (borrowers) making monthly payments to their respective VSLAs based on the digital loan amount they received from Ensibuuko through the VSLA wallet. In the next stage, the VSLAs make payments to Ensibuuko through MOBIS, as per the loan schedule which is normally operated monthly.

### 4.1.3 Opportunities and Lessons from the FinTech Initiative

When this FinTech digital financing initiative was started the expectation of its stakeholders was that this would be an effective way of opening agricultural finance services to Ugandan rural smallholder farmers who lose out on borrowing from regular financial institutions because of the banking environments and the complex requirement and procedures for borrowing. Since start of implementation, the initiative has brought out opportunities and lessons that can inform other agricultural finance initiatives.

#### 4.1.3.1 Opportunities identified

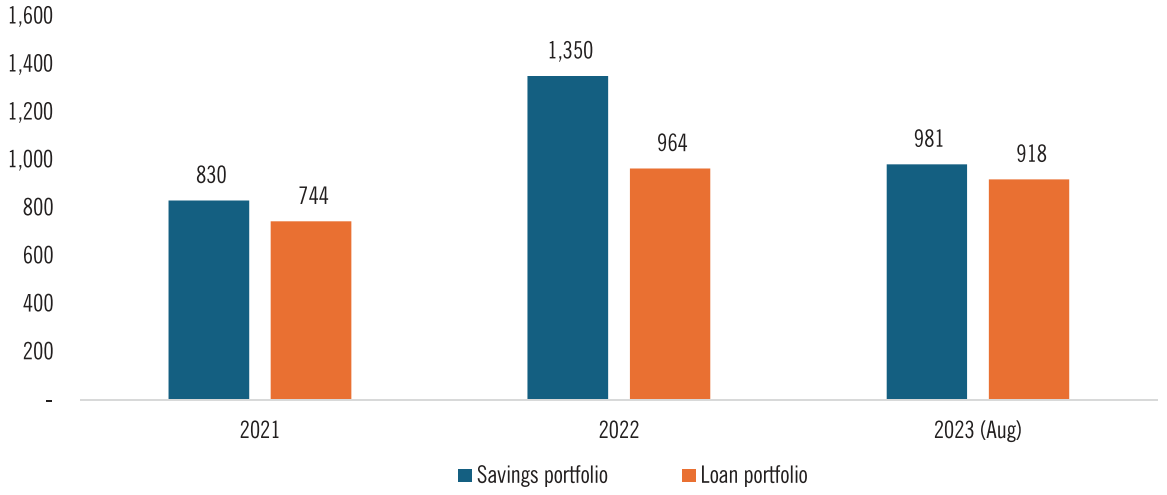
The following are the key opportunities and benefits identified from implementation of the UDB FinTech digital financing of farmers in Northern Uganda.

(a) **High potential to attract more VSLAs or smallholders through MOBIS**. There is high likelihood of attracting more smallholder VSLAs and farmers with the cost-free MOBIS system, including free internet data as reported by VSLA participants. The VSLAs reported the cost-free aspect as a key motivation to partake in the digital lending initiative, hence the scope to marshal smallholders. Attracting more VSLAs and therefore farmers is crucial for the success of digital lending to smallholders, as it makes it increasingly possible to reach out to rural farmers. The attractiveness of MOBIS to VSLAs therefore offers opportunity to mobilize a critical mass of VSLAs and smallholder farmers for uptake of digital financing.

(b) **VSLAs as agents of socio-economic transformation**. The resource mobilization capacity of VSLAs is an opportunity that can be harnessed to accelerate socio-economic transformation. The capacities of VSLAs supported through the digital credit facility can be further built to make them change agents for socio-economic transformation in farming communities. It is an avenue through which smallholder farmers can mobilize more resources for investment and local economic development. Additionally, smallholder farmers can be organized for mass production and supply of agro-based raw materials, and supporting food security efforts.

The high and increasing potential to mobilize financial resources for investments is shown in Figure 45. The VSLA savings and loan portfolios show increase in their ability to mobilize savings or financial resources. In 2021 the total savings portfolio, based on the potential of the savings mobilized by 107 VSLAs, was UGX 830 million while the total loan disbursement was UGX 744 million. The savings and disbursement potentials increased to UGX 1.4 billion and UGX 964 million respectively in 2022. A further increase was expected by end of 2023, as the potential was promising by end of August (Figure 45).

**Figure 45: VSLA savings and loan portfolio under the Agri-connect digital platform (million UGX)**




Source: Computed by Author using the 2023 baseline data extracted from VSLA records.

This evidence on smallholder loan and savings portfolios show the potential of the VSLAs in resource mobilization. It also demonstrates their ability to operate and repay the digital loans which offers insights on continuity and sustainability, as well as capacity to absorb larger amounts of resources through the digital credit that can create bigger impacts going forward.

(c) **Resource persons in VSLAs**. Some VSLA secretaries are potential resource persons that can be used to build capacity of other VSLAs in the use of the digital applications (systems). Some of these secretaries have gained skills to the extent that they are supporting secretaries of other VSLAs in the surrounding areas to fix some of the MOBIS challenges. This can be harnessed as opportunity to operate Fintech solution(s) on far larger scales.

(d) **Opportunity to expand VSLA revenue stream**. Interest on the digital loan is charged monthly, both by Ensibuuko to VSLAs and the VSLAs to its member borrowers. The VSLAs include a margin, by charging a relatively higher rate to gain some profit and meet cost of operation, as well as generate some revenue during the VSLA cycle. The FinTech solution therefore provides opportunity for VSLAs to expand their revenue stream.

(e) **Opportunity to bridge gender gap in financial inclusion**. There is high level of commitment by VSLA members towards weekly savings activities. However, the savings value is higher among female savers (group members) compared to their male counterpart; with total savings mobilized from women nearly doubling those from the men. Females are therefore major drivers of savings in the VSLAs under the FinTech arrangement. As in the case of savings, the largest part of loan disbursements go to females compared to males. This demonstrates the role of VSLAs mobilized under the Fintech as intermediaries through which more women can be reached to access credit, hence creating an important opportunity for reducing gender gaps in digital financial inclusion.

### 4.1.3.2 Lessons from the FinTech implementation

Below are the key lessons drawn from the implementation of the digital wallet credit system in Uganda by the UDB and its implementation partner, Ensibuuko Ltd.

(i) **The digital credit initiative is competitive**. VSLA members label the digital loan as competitive, as it charges relatively lower interest rate (from Ensibuuko to VSLAs at 1.25%, and 3% from VSLAs to members), compared to 10% charged by other lenders in the pilot communities. The initiative is competitive in the micro-lending digital space.

(ii) **Farmers relieved from the burden of brick-and-**

**mortar financial services**. The experience and lessons learnt by farmers from the digital loan is that it relieves them from the burden or difficulties associated with traditional financial services. It is easy to work with the MOBIS system, and farmers do not incur transport cost when dealing with the loan providers (Ensibuuko) during transactions (digital transactions). It is also better and less stressful than the normal group loan, given the relatively low interest rate; and, although the loan amounts are still small, it is still higher than normal group (VSLA) loan amounts.

(iii) **Matching digital loan disbursements to farming season attracts farmers**. Experience of farmer suggest that matching the FinTech lending (i.e. disbursements) to farming seasons is a huge incentive to working with the FinTech arrangement. This timeliness allows farmers to undertake field processes before start of seasons and early purchase and application of fertilizers and pesticides that ensure maximum use of seasons by farmers.

(iv) **VSLA membership variations as an operational challenge**. By design, a VSLA is expected to have 30 members or less. This is the same numbers used to roll out the FinTech digital credit facility. The reality however is that not all VSLAs comprise 30 members as there are large variances, with several VSLAs having more than 30 members and some even 100 members or more which pose challenges in resource planning for lending. In reality therefore, there are VSLAs that require loans to support considerably large numbers of members than anticipated in the digital lending programme, which exert pressure on available resources for lending. In addition, having larger VSLA members means that the VSLAs end up sharing small amounts of money amongst many members which may reduce the effectiveness of the programme with no impact realized from loan use.

(v) **Loan tenure seemingly short but feasible for farmers**. The loan tenure is normally 6 months, which covers crop production period. Harvesting commonly grown crops takes 2-3 months which is accommodated within the 6-month loan tenure. A farmer may even grow a given crop twice within the 6-month period, making the 6-month tenure period adequate for crop farmers.

(vi) **Credit scoring plays a role in driving VSLA performance**. The credit rating used is a good form of assessment because it helps VSLAs to improve their performance by providing signal for the need to improve VSLA performance. Specifically in the case of VSLAs that are not pre-approved based on the score, it helps them appreciate areas of improvement. VSLAs also appreciate the pre-disbursement processes and credit scoring, contending that it ensures that loans are given out objectively based on group capacity.

(vii) **Loan size not consistent with farmer's investment needs**. Several farmers in VSLAs reported that the loan amounts disbursed to them were insufficient and did not meet their farming or investment requirements. There are cases where some farmers fail to plough as planned because the loan amount (e.g., UGX 150,000 – 200,000 shillings) is far below what is required. For other farmers, it was possible to plough as planned but they failed to finance the purchase of other inputs such as improved seeds, insecticides, herbicides, and fertilizer. With current funding levels, it is not feasible for farmers to implement projects that cost more the loans, leading to high likelihood of fund diversion.

(viii) **Repayment period and schedules are favourable but can still be improved**. Although the repayment period is generally more favourable compared to normal VSLA loans, sometimes when there is drought or generally vagrant weather, the repayment period becomes inadequate and requires adjustment (rescheduling). Such circumstances must be taken into consideration in the digital lending.

(ix) **Building trust in the digital credit model requires effective communication and feedback**. Effective communication and transparency in all the digital processes and transactions is key in building trust of VSLAs and farmers. For example, some VSLAs

have a feeling of mistrust just because Ensibuuko does not communicate remaining loan balances every time that the VSLAs make payment at the end of the month.

### 4.1.4 Key Challenges in Use of Digital Credit Financing

Among others, the following two major challenges faced by the smallholder farmers which indicate gaps in the implementation of the digital credit initiative were reported:

***MOBIS technical glitch or network failure***. Sometimes, VSLAs cannot transact due to failure in the MOBIS network. In some instances, VSLAs would make repayments for their monthly instalments but because of MOBIS system technical glitch or network failure, the system did not register that payment had been made. This is a demotivating factor to the VSLAs, their members and farmers.

***Poor loan timing***. Some of the disbursements were delayed for long and did not match with the timing of the farming season. Several farmers in the VSLAs reported receiving money when it was late for planting, or long after planting time had passed. Delays create room for borrowers to divert their loans to other uses, leading to risk of non- production and failure to repay loans.

### 4.1.5 Conclusion and Recommendations

Overall, the FinTech intervention is a promising initiative that can be expanded at to scale up availability of production credit for smallholder farmers. Combining the opportunity presented through the FinTech, including its potentially more efficient, low-cost and low-risk features, with the high potential of the VSLAs to mobilize resources for investments as well as the VSLAs offering potential or opportunity as agents for socio-economic transformation is a low-hanging fruit that can create huge financial gains and socio-economic transformation among smallholder farming communities. In particular, the VSLA-FinTech blend can play a key role in availing credit to smallholder women farmers who are in charge of family nutrition and household food security.

Thus, from this review, it is clear that Fintech digital financing is an initiative with high potential for enhancing credit access and financial inclusion for rural households and smallholder farmers in Uganda. However, effective nationwide implementation of the FinTech initiative requires addressing some of the issues and key lessons that emerged from this assessment and review. Some of these are gaps that can frustrate progress of the programme and, ultimately, the realization of greater impact of such initiative on smallholder farming communities.

The following are some of the key issues that smallholder beneficiaries of the FinTech intervention should address:

(i) Increased efficiency of the digital system.
(ii) Matching digital loan size to farmer's investment needs.
(iii) Matching loan approval and disbursement to the credit scoring results to motivate farmers and build more trust in the credit scoring algorithm.
(iv) Streamlining loan timing by matching disbursement schedules to farming seasons.
(v) Improving feedback mechanism and transparency in the digital financial transactions.
(vi) Increasing access to smartphones among smallholder farmers to support implementation of digital applications.

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# 4.2 MOVEABLE PROPERTY LENDING IN UGANDA: OVERCOMING PERCEIVED RISK BY FINANCIAL INSTITUTIONS

Stella Kakwenzi[1]

## 4.2.1 Introduction[1]

The agriculture sector is the cornerstone of the economy and rural livelihood of Uganda, employing 70 percent of the population and serving as a vital backbone for national development (International Trade Organization, 2023). Not only does agriculture ensure food security and generate significant export revenue, but it also plays a crucial role in rural development, empowering communities and alleviating poverty. In FY 2022/23, agriculture accounted for about 24 percent of GDP and 35 percent of export earnings.

Despite the significant contribution of agriculture to Uganda's economy, access to financing for the sector is still challenging due to its subsistence nature, low market access for agricultural produce, market price fluctuations, and lack of collateral acceptable to formal financial institutions. Since 2009, the Government of Uganda has implemented various agricultural financing initiatives to enhance access to finance and increase productivity. These interventions include: Agricultural Credit Facility (ACF) for medium- and long-term financing of agricultural and agro-processing projects; National Strategy for Financial Literacy to empower farmers with essential financial knowledge; Bank of Uganda mobile money guidelines to broaden access to digital financial services in rural communities; and the *Security Interest in Movable Property Act* Cap 293 which enables farmers to use movable assets as collateral for loans. These initiatives collectively seek to strengthen the agro value chain and improve the livelihoods of those who depend on it.

Traditionally, formal financial institutions prefer physical assets as collateral for loans due to their immovable nature, ease of valuation, and straightforward possession process in an event of borrower default. This preference is a huge disadvantage to many businesses, particularly small and medium enterprises (SMEs) and those in sectors like agriculture, as they often possess significant movable assets - such as farm machinery, inventory, livestock, household items, and produce - that lack substantial real estate values as collaterals. As a result, these businesses struggle to secure financing, highlighting the need for financial institutions to adjust their collateral requirements to accommodate the unique assets of SMEs and agricultural enterprises.

1 Head Chattels Securities Registration, Uganda Registration Services Bureau

The introduction of the Security Interest in Movable Property (SIMPO) registry system marked a transformative advancement in financial systems, as it fully harnesses the potential of movable assets as collaterals. This innovative approach tackles longstanding challenges in access to credit, enhances legal clarity and streamlines procedural efficiency, thus creating a more inclusive financial environment. By facilitating better access to financing, SIMPO not only empowers lenders and businesses but also significantly bolsters economic growth and strengthens agricultural finance, ultimately driving sustainable development across Uganda.

SIMPO was established in 2019 by *The Security Interest in Movable Property Act 2019* (SIMPA, 2019), and is managed by the Uganda Registration Services Bureau. Since its establishment, however, the embrace of movable collateral by formal financial institutions remains poor. In this article, therefore, examination is made of the key issues behind the reluctance of credit institutions to embrace movable collateral as security, and reviews mechanisms that can be implemented to address the perceived risks associated with movable collateral so as to ensure their greater acceptance by financial institutions.

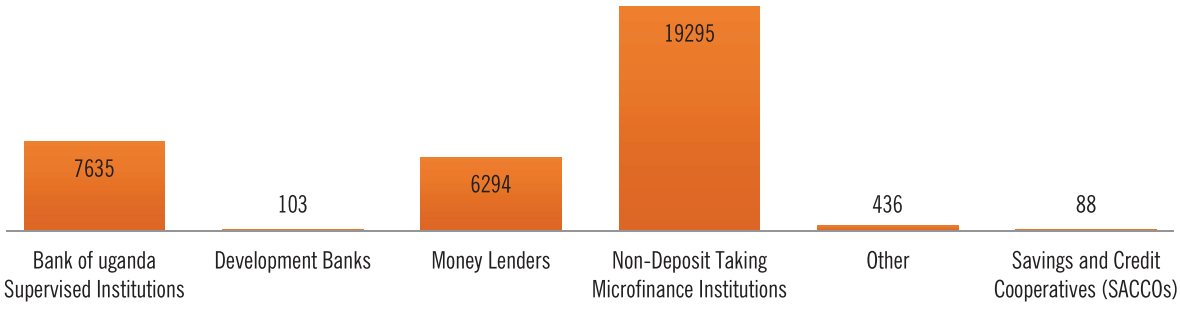
### 4.2.2 Registration of Moveable Property Under SIMPO

SIMPO is an online registry developed to facilitate access to affordable credit by Medium and Small-scale enterprises (MSMEs) using movable assets as collateral for the loan. In the event that the borrower defaults, the lender can recover the loan money by selling off the asset pledged as collateral. The registry enables lenders to register and publicize their interest in the movable assets pledged as collateral. Additionally, SIMPO provides the public with a valuable tool to check for any encumbrances before purchasing second-hand movable assets. This system signifies not just a change but a substantial leap towards a more efficient and inclusive lending environment, mainly benefiting the agricultural sector and small to medium enterprises.

Since the rollout of the SIMPO Registry, various lenders have registered 38,031 Security interest notices. These lenders include commercial banks that account for 17.3 percent of the total registration; Credit Institutions at 1.74 percent; Microfinance Deposit-taking Institutions at 4 percent; Moneylenders at 18.8 percent; non-deposit taking institutions at 56.4 percent; while other lenders account for 1.76 percent.

To appreciate the scale of use of SIMPO Registry in Uganda, a summary of the number of registrations made by all lenders and non-lenders (others) in the country are presented below (Figure 46). The more formally regulated institutions (commercial banks, credit institutions and MDIs) have been relatively slow in adopting the SIMPO Registry, with only about 23 percent of total registrations which reflect their larger market share, more secure

**Figure 46: Number of Security Notices registered by lenders on SIMPO (18th September 2019 to 16th September 2024)**




Source: SIMPO Registry

customer base, and their focus on traditional forms of collateral. On the other hand, lenders regulated by the Uganda Microfinance Regulatory Authority (moneylenders and non-deposit-taking institutions) account for a very high 75.2 percent share of total registrations, indicating their greater reliance on the SIMPO Registry to secure loans and mitigate risks.

### 4.2.3 Challenges of Financial Institutions Accepting Moveable Collateral in Uganda

Based on interactions with financial institutions registering at the Uganda Registration Services Bureau (URSB) under the SIMPO product, the following five major challenges and risks contribute to the reluctance of financial institutions to accept movable property as collateral for loans.

1. **Valuation difficulties**: Accurately assessing the value of movable assets is challenging due to fluctuations in market values, lack of standardized valuation methods for intangible assets like Intellectual property, livestock, household items, farm produce and others; and the potential for rapid depreciation cause uncertainties about the worth of collaterals.
2. **Enforcement issues**: Issues of enforcement pose a significant challenge for financial institutions in use movable property as collateral. Under the *Security Interest in Movable Property Act* Cap 293[2], creditors are legally required to file a default and enforcement notice with the URSB's SIMPO Registry and commence enforcement procedure as provided in the Act. For secured transactions with a contractual value exceeding UGX 10,000,000, obtaining a court order to take possession of the collateral is mandatory.

This legal requirement is often frustrating for lenders due to the lengthy court processes in Uganda which can delay access to collateral and exacerbate financial losses. During this period, the value of movable assets can depreciate significantly, especially for items like vehicles, machinery or perishable properties that are subject to rapid wear and tear. Consequently, potential recovery values may diminish, leaving financial institutions with less assurance that these collaterals will cover outstanding debts. This uncertainty deters lenders from accepting movable assets as collateral, as the risks associated with enforcement can outweigh the benefits of securing loans against these types of assets.

3. **Lack of knowledge about Asset-Based lending products:** Financial institutions may lack familiarity with structuring and offering asset-based lending products which lead to hesitance in developing tailored solutions for their clients based on movable assets.
4. **Inefficiency of existing second-hand markets:** While there are existing second-hand markets in Uganda, such as those where used household items (electronics, appliances, furniture) are sold, these markets often lack the transparency, pricing stability, accessibility and legal security that lenders require for quick and predictable resale. When a lender repossesses an item (e.g. a TV, refrigerator or mobile phone), they need to be able to sell it quickly to recover the value of the loan. However, the lack of well-organized platforms where fair market prices can be determined lead to undervaluation or difficulty in reselling the items. This uncertainty makes it difficult for lenders to project how much can be recovered from sale of such collateral which in turn discourages them from accepting such items as collateral in the first place.
5. **Lack of affordable insurance products and a credit guarantee facility**: The lack of affordable insurance products to mitigate risks associated with lending against movable assets has severely restricted financial institutions from extending credit to micro, small, and medium-sized enterprises (MSMEs). Many small businesses also seek relatively modest loan amounts, and the cost of insurance can significantly increase the overall expense of borrowing. This added financial burden discourages both lenders and borrowers from engaging in movable collateral-based transactions, ultimately limiting access to

2 Security Interest in Movable Property Act, 2019 Cap 293. Part VI-enforcement of security Interest

vital financing and stifling the growth potential of MSMEs in the country.

6. **Absence of a credit guarantee facility:** Credit guarantee facilities provide safety net for lenders by covering portions of the losses incurred in the event of default. Financial institutions are more willing to extend credit against movable assets in markets with such guarantees knowing their risks are buffered. In Uganda, however, the lack of these buffer mechanisms creates perception of high risk to lending against movable collateral, further limiting access to credit for borrowers who rely on these assets for security.

### 4.2.4 Conclusion and Emerging Policy Options

The landscape of movable property lending in Uganda presents both challenges and opportunities. While barriers, such as lack of awareness, inefficiency of existing Second-Hand Markets, inadequate insurance products, valuation difficulties and others, is hindering the growth of this crucial financing avenue, the potential of movable asset lending for economic development through increased access to credit for MSMEs is significant. Learning from successful models in other countries can provide valuable insights into developing a robust system for movable asset financing in Uganda.

Below are some of the strategic approaches that Uganda should adopt to improve the uptake of movable property collateral by financial institutions.

(i) **Develop affordable insurance products**. Collaborating with insurance companies to create affordable and tailored insurance products specifically for movable assets can reduce lenders' perceived risks. The country can take the approach for agricultural insurance to design a movable collateral insurance scheme to cover small business equipment or inventory at low premiums, making use of movable collateral financially feasible for both lenders and borrowers.

(ii) **Establish credit guarantee schemes**. Creating public-private partnerships to fund credit guarantee facilities can effectively mitigate lenders' risks associated with movable asset financing. By guaranteeing loans secured with movable assets, the government or development partners can incentivize banks to extend credit to MSMEs that might otherwise struggle to access financing. Initiatives like the Generating Growth Opportunities and Productivity for Women Enterprises (GROW) project[3] illustrate how banks retain significant power in determining acceptable collateral. As a result, many institutions prefer land as collateral, which disproportionately exclude women borrowers who may not own land or similar property. By establishing a fund to cover portions of lenders' losses in the event of borrower default, this credit guarantee scheme would also encourage banks to accept movable assets as collateral and promote financial inclusion for poor and underserved Ugandans. This approach can help diversify lending portfolios of banks while supporting the growth of MSMEs, particularly among women entrepreneurs who rely on movable assets for their business operations.

Further, using the SIMPO registry to promote transparency, a robust verification process conducted by lenders before granting loans such as verification of existence, ownership and value of collaterals, with regulatory oversight, can mitigate fraud and abuse of the movable asset scheme.

(iii) **Capacity building and training**. Offering training programs for financial institutions on assessing values and risks associated with movable assets can enhance their confidence in accepting these as collateral. Additionally, educating MSMEs on how to leverage their movable assets can empower them to pursue borrowing more effectively.

In Kenya, when the movable property security rights law was enacted establishing a comprehensive framework for registering security interests in movable assets, intense awareness campaigns were launched. In collaboration with financial institutions, the Kenya government launched awareness campaigns to educate lenders and borrowers about movable asset financing. At the

3 https://grow.go.ug/

same time training programs and workshops for banks, such as those conducted by the Kenya Bankers Association (KBA) helped demystify asset-based lending for MSMEs. The KBA also released a comprehensive guide, "*Unlocking Credit: A Guide to Movable Asset Financing*," which outlines the legal framework, benefits and processes involved. These initiatives have significantly enhanced understanding among MSMEs, leading to increased access to credit and business growth.

(iv) **Promote secondary market development**. Initiatives to develop secondary markets for movable assets can enhance liquidity and recovery options for lenders. For instance, establishing online platforms for buying and selling repossessed movable assets can facilitate quicker sales and maintain asset values, thus encouraging lenders to accept them as collateral. Brazil developed a comprehensive system for warehouse receipt financing which serves as a valuable tool for lending against agricultural products. The creation of a reliable market for warehouse receipts facilitated the liquidation of assets, easing the disposition of collateral. Farmers can store goods in certified warehouses, receive financing based on those goods, and sell them when market conditions are favourable.

(v) **Strengthen valuation standards**. Creating standardized valuation methods for movable assets can help address valuation difficulties. This could involve training for valuers and establishment of guidelines that lenders can rely on when assessing collateral. The presence of established valuation services, such as the Kenya Valuers and Estate Agents Chartered Surveyors founded in 1978, enhances this framework. This Kenyan organization provides independent real estate services in Nairobi and Watamu, including the valuation of movable assets, and has helped reduce valuation uncertainties and has promoted a more robust lending environment in that country. The value of movable asset financing in support nascent enterprises that cannot easily access regular bank financing facilities has been well demonstrated from this review. Equally brought out are the gaps, challenges and fears that must be addressed for this system to take effective root in Uganda. Fully considered and addressed, the country will build and effective and supportive landscape for movable asset financing that will help empower businesses and drive economic growth and rural transformation in the country. The onus is on government to take up the challenge and help build critical framework for agricultural and rural transformation.

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# 4.3 INNOVATIONS IN FINANCING ENERGY NEEDS OF MILK COLLECTION CENTRES IN UGANDA: THE CASE OF HEIFER INTERNATIONAL'S LEASE PURCHASE PLAN

Flavia Nalubega[1], Edna Nyamwaka[2] and John Ssenyonga[3]

## 4.3.1 Introduction

According to the Dairy Development Authority, there are 2.5 million households engaged in dairy farming in Uganda, making the industry a key factor in the transformation of farmers throughout the country. In many areas, dairy farmers organized themselves into dairy cooperatives and, according to Oguzhan (2024), cooperatives typically have several hundred farmers as their members with larger organisations having up to 800 members or more. These cooperatives play a critical role in the milk value chain, particularly in mobilizing and supporting dairy farmers, and in aggregating their primary produce- milk.

To aggregate milk produced by numerous farmers, the cooperatives set up milk collection centres (MCCs) that serve dairy farmers living within a radius of 10 km. Through the MCCs, dairy cooperatives collect milk from farmers, conduct quality tests, and ensure access to market by selling the milk to dairy processors. This institutional arrangement provides smallholder farmers in rural areas with a predictable, long-term opportunity to earn sustainable incomes. In addition, these structures serve as channels for the supply of quality pasture seeds as well as other farm inputs, training and extension service, and farmer links to insurance and financial services.

Despite their importance in the marketing of farmers milk, over 50 percent of MCCs in Uganda (> half of 483 collection centres) are not connected to the national power grid (off-grid)., and rely solely on diesel generators for power with no backups when a generator breaks down (Nyamwaka and Nalubega, 2024). It is estimated that 40 percent of the operational budget of dairy cooperatives is spent on diesel to run generators, which expense reduces the income of smallholder farmers and the profitability of their producer organisations.

In dairy milk production, expenditure on power supply is justified because inadequate cooling leads to milk losses and poor-quality milk which, sold at very low prices on the open market, result in revenue losses to farmers of 5-10%(ibid). In this article, therefore, review is made of the modality of an energy financing model that Heifer International has put forward to power milk cooling plants

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### 4.3.2 Heifer International Solar Lease Purchase Initiative

The dairy value chain and the case to avail power to milk collection centres in off-grid areas is an excellent illustration of the need for the type of business innovation that Powering Renewable Energy Opportunities programme (PREO) supports. Heifer International partnered with Carbon Trust under the (PRE) programme to implement the *Solar for Sustainable Income in Dairy* project to provide solar-powered rural milk chilling solutions at the dairy cooperative level across Uganda.

The solar power technology being offered, with components such as PV panels, inverters, batteries and even remote monitoring systems, are largely proven and widely available. However, the penetration of this market by Distributed Renewable Energy (DRE) companies is generally constrained by limited awareness of the viability of solar for productive use in the dairy sector.

Even with awareness, however, two challenges hinder acquisition of this technology by the largely rural dairy farmers and cooperatives. First are the high upfront investment costs that makes deployment of renewable solar solutions too expensive compared to the alternative cost of installing diesel generators. For instance, to power a 6,000-litre chiller through Solar PV system could require initial capital expenditure of as much as UGX 396 million (USD 110,000). Second is Lack of appropriate financing mechanisms in rural areas to support solar development and promotion, with available financing being expensive and not tailored to rural groups of farmers. The Heifer International lease purchase model is perfect fit to addressing these challenges.

### 4.3.3 Structure and Operation of Heifer International Lease Purchase Model

With support from PREO, Heifer Impact Capital designed and piloted a lease purchase product for dairy producer organisations to solarise their milk collection centres, while Heifer International is spearheading customer awareness and system acquisition. Under this model, the dairy co-operatives are extended a 10 or 20-year lease financing, with: (i) an interest rate of 9 percent and 1-year moratorium; (ii) fixed quarterly lease payments; and (iii) option to buy out the entire system at any point during the term. The lease plan is backed by an extensive Operation and Maintenance (O&M) contract, insurance policy, and remote monitoring systems to mitigate technology risks and protect leased assets.

The PREO grant supported the development of this lease product by covering the costs incurred on product iterations[4], stakeholder discussions, awareness creation campaigns, customer acquisition etc.; and, addition, provided a modest 10% capital subsidy. The lease product was piloted to solarise the Migina MCC (8,000 litre chiller); Kiryanyonza MCC (12,000 litre chiller) of Dwaniro Dairy and Livestock Farmers Cooperative Society Ltd.; and the Nabitanga MCC (11,000 litre chiller) of Nabitanga Dairy Farmers Cooperative Society Ltd.

The above are cooperatives that are well organised, whose systems have been audited and passed the mark, and are within Heifer's target/operating area of Central Uganda. The first three solarized sites were commissioned with capacities of 41.4kWp and 38.8kWp (Off Grid) for Dwaniro and Kiryanyonza respectively, and 28.05kWp (Grid Tied) for Nabitanga. Th amount of power availed to the different MCCs was commensurate with their operational needs, the capacity of the cooperatives, and growing needs envisioned for the future.

### 4.3.4 Lease Purchase Plan Performance: Case Study of Migina Milk Collection Centre

To a evaluate the effectiveness of this solarization initiative, the case study was undertaken for Migina MCC that is part of the Dwaniro Cooperative Society. Data obtained show that the POs are benefiting from operational efficiency and can make lease payments from the cost savings. There is evidence of strong financial viability of the lease product, with attractive payback potential of less than 3.5 years. Based on the study, outlined below there are the

4 Repletion of a process

specific benefits and experiences of the Migina MCC of the implementation and use of the solarized system that highlight the value of the Heifer International lease purchase solarization initiative for the dairy sector in the country.

(a) **Energy cost savings.** Based on the 6-month data collected after transition from diesel generators to solar, Migina MCC experienced significant reduction in its energy expenditure.

- In the 12-month period prior to Commercial Operation Date (COD)[5], the Cooperative consumed a total of 24,285 litres of diesel (averaging 2,024 litres per month) that costed UGX 128.7 million (US$ 35,185)[6] per year. Adding the UGX 4.7 million (US$ 1,265) spent on generator maintenance every year, the annual expenditure on energy by Migina MCC totalled UGX 133.3 million (US$ 36,450).
- Post-transition (on immediate adoption of solar), diesel consumption dropped by 93 percent to 145 litres per month (or 1,740 litres annually), with zero diesel use recorded in several consecutive months. With this system the generators are only run during downtime of the system for maintenance/repair; with annual energy cost falling to UGX68.3 million (US$ 18,661) of largely annual lease payment, and 49 percent cost savings for the dairy cooperative. This demonstrates the fact that had the dairy cooperative self-financed the solarization, the payback period would have been less than 3.5 years.

(b) **Reduced losses from poor quality milk.** After the installation of the solar system at the Migina milk collection centre in June 2023, the Cooperative successfully chilled without any losses 1,274,742 litres of milk over a 7-month period valued at UGX 1.2 billion (US$ 323,642). This is a stark contrast to 2022 before the solar system was installed when the Cooperative suffered monthly milk losses worth UGX 9.7million (US$2,653) due to generator breakdowns.

(c) **More reliable milk chilling has benefited farmers by reducing uncertainty about getting their milk to market.** The reliable energy for milk chilling ensures safe milk market reach for the farmers supplying the MCCs. Previously, when the chilling units would not work due to power shortage, farmers were called to take their milk to other MCCs or sell the milk in the informal market. According to responses of farmers affiliated with Dwaniro Cooperative, reliable of power after solarization has built the confidence in farmers to sell milk to the MCC.

(d) **Increased chilling capacity of Migina Milk Collection Centre.** The Dwaniro Cooperative registered a 22.6 percent increase in milk suppliers, going from 164 to 212 farmers in just 5 months. This led to a corresponding increase in the volume of milk collected, chilled and sold to the processor that rose from 536,215 to 541,206 litres.

(e) **Reduced Carbon dioxide Emission.** For Migina MCC, by virtually ending diesel use, this initiative provides a direct and measurable reduction in carbon dioxide ($CO_2$) emissions of approximately 62 MT per year. This gives farmers a clean environment to operate in, given that carbon emissions from generators now ended are not environment friendly and was even affecting nearby farming communities.

### 4.3.5 Key Lessons and Way Forward

The Government of Uganda has embraced climate smart solutions for the agricultural sector and beyond, and needs the buy-in of the population to achieve this goal. Whereas climate smart energy alternative solutions are quite pricey to access, which explains the low uptake and embrace, Government and development partners are intentional and determined to make the dream come true for the agriculture sector. Form this review, two lessons achieving this gained from implementation of the Heifer International PREO dairy initiative are here outlined below. Extensive engagements with co-operatives were needed to explain the financing product and win over their interest. Several meetings and consultations were essential to align financing terms, repayment schedules and technology

5 the day they switched from generators to solar power use
6 1 USD= 3656 as at 4 November 2024

maintenance with the Cooperative's expectations, often resulting in several revisions to ensure suitability. A combination of extensive Operation and Maintenance (O&M) contract, insurance policy, and remote monitoring systems were instrumental in mitigating perceived technology risks that constituted the biggest hurdle at the start of discussions.

The involvement of multiple stakeholders- Heifer International, Heifer Impact Capital, contractors, and the Cooperatives- underscored the complexity of collaborative decision-making processes. However, consistent follow-ups and adaptive project management were pivotal in overcoming these challenges; which highlighted the importance of flexible and transparent contracting frameworks in facilitating innovative solutions for sustainable agricultural practices.

To ensure that this initiative and similar others are scaled up across the dairy and other agricultural value chains, it is important that Government takes up and spearheads adoption of initiatives, such as the PREO that cuts costs, by farmers and farmer organizations to enhance profitability and household income growth, build environment protection, and assure sustainability of the agricultural sector in Uganda. In addition, farmers must build strength and absorptive capacities by forming and working in organized groups (cooperatives) that will attract partnerships to support them uplift the agricultural sector. In this, Development partners are enablers who should continue to support communities to embrace such change factors that, beside livelihood support, mitigate and combat the growing effects of Climate Change.

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# 4.4 SUSTAINING UGANDA'S THRIVING OIL PALM SECTOR – UNDERSTANDING THE NATIONAL OIL PALM PRICING APPROACH

Sandra Nakabiri[1]

## 4.4.1 Status of Oil Palm Production in Uganda[1]

Palm Oil is one of the nine priority commodities targeted in the Uganda Third National Development Plan (NDP III) to support economic transformation. Commercial oil palm cultivation was introduced in 1998 through the Vegetable Oil Development Project spearheaded by the Government in public-private-producer-partnership (4P) involving processor/nucleus estate /smallholder model in the district of Kalangala. Production has since expanded to Buvuma Island and fresh fruit batch (FFB) harvesting started this FY2024/25. Plans are being implemented to expand production into Mayuge, Masaka, and Mukono (Table 13).

Oil palm is not merely a crop; it represents a vital component of Uganda's agricultural landscape. The oil palm industry presents substantial economic opportunities for both farmers and other stakeholders. As of June 2024, Kalangala's oil palm sector had benefitted 2,554 farmers, of whom 954 are women. This oil crop has created employment for 1,400 individuals within factories and additional 1,770 on out grower farms. Plam oil has helped generate household incomes amounting to UGX 309.19 billion and dividends reaching UGX 50.2 billion from a harvest of 434,296 MT of FFB. With Buvuma now also producing the crop, these benefits are expected to grow even further since global demand for palm oil is continuing to rise.

Given the rising importance of palm oil in Uganda's agricultural landscape and the economic benefits it provides, there is need for focused action to ensure continued steady growth and sustainable production. In this article, therefore, examination is made of the marketing of oil palm in Uganda, particularly in respect to the oil palm pricing mechanism.

## 4.4.2 Marketing of Oil Palm in Uganda

The Government of Uganda, through the Ministry of Agriculture, Animal Industry and Fisheries (MAAIF), is implementing the National Oil Palm Project (NOPP) to uplift oil seed production in the country for import substitution and increase farm household incomes. This is a successor project to the Vegetable Oil Development Project, and one

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**Table 13: Status of Oil palm production per hub as at June 2024**

| Hub | Target (Ha) – small holder scheme | Actual (Ha)- small holder scheme | Target (Ha) – Nucleus scheme | Actual (Ha) – Nucleus scheme | Achievements |
|---|---|---|---|---|---|
| Kalangala | 4,000 | 5,921 | 6,500 | 6,500 | **Beneficiaries:** 2,554 farmers (952 Females)<br>**Household Incomes**:<br>FFB – 434,296MT worth Ush .309.19bn; Dividends-Ug. Sh. 50.2bn |
| Buvuma | 2,500 | 1,728.44 | 5,000 | 2,547 | **Beneficiaries:** 770 |
| Mayuge | 3,500 | 95.92 | | | In Mayuge hub, 2,954 Ha surveyed, 95.92 ha planted, by 121 SHFs |
| Masaka/ Rakai | 3,000 | 0 | | | Masaka hub: 1,992.2 ha surveyed with 898 ha in Kyotera district |
| Mukono/ Bwikwe | 3,000 | 0 | | | |
| **Total** | **16,000** | **7,745.36** | | | |

Source: National Oil Palm Project

of its component goals is to provide markets for farmers who grow oil palm through setting up of oil mills.

One of the provisions of the NOPP agreement is for processors to buy all oil seed harvests (Fresh Fruit Batch-FFBs) supplied by farmers, provided they are of the right quality standards. The same framework puts in place a pricing mechanism where prices of FFBs are determined on a monthly basis using an agreed pricing formula. In this framework:

a) Farmers are organised in farmer organisations (cooperatives/trusts) that help to interface with Government and the processors
b) The farmers are clustered administratively into Units and Blocks that have leadership structures that help to coordinate individual farmers to participate in the value chain.
c) The Units/Block leadership help to sort, grade, weigh and aggregate farmers' FFBs; and after aggregation coordinate transportation/evacuation of FFBs from the Units/gardens to the processors.
d) At processor level, another sorting and grading of the produce delivered is carried out by the buyer before weighing the FFBs at that point.
e) FFB weights are recorded at both supplier and processor levels, and farmers are given receipts for their supplies.
f) Based on the supplies received for each farmer, the processor determines the price to pay using the pricing mechanism and also the total value of FFB supplied for each farmer. Payments for the FFB determined for each of the farmers are made on a monthly basis on their respective bank accounts.

After the FFB is taken by the processor, the fresh fruit butches are crushed into Crude Palm Oil (CPO). A refinery was established in Jinja to process CPO into final products of cooking oil, edible fat as well as bar and powder soap. Other products processed from fresh fruit bunches are palm kernel oil, cake for animal feed, manure and fertilizers.

### 4.4.3 Oil Palm Pricing in Uganda

In the realm of agricultural finance, understanding the dynamics of oil palm pricing in Uganda is critical for both farmers (mainly small holder farmers) and stakeholders. In Uganda, the price oil palm farmers sell their fresh fruit bunches (FFB) is determined by the National Oil Palm Pricing Committee. The committee is mandated to apply a specific pricing formula that determines the monthly price.

### 4.4.3.1 Oil palm price determination structure in Uganda

Oil palm being a perennial non-traditional crop in Uganda, the country has adopted pricing mechanisms (with a Pricing Committee) to safeguard the interest of oil palm farmers and the stability of production to assure stable palm oil supply for domestic consumption and export.

(a) **National Oil Palm Pricing Committee.** To guarantee fair compensation for farmers' produce, a comprehensive pricing mechanism was integrated into the oil palm project design, featuring both a pricing formula (see Table 14) and a National Pricing Committee (NPC) responsible for its implementation. This is a framework formalized in the Oil Palm Development agreement between the Government of Uganda and the Oil Palm company BIDCO Refineries.

The role of the Pricing Committee cannot be overstated; it is tasked with reviewing market conditions and prices stated in the formula while ensuring that farmers receive fair remuneration for their investment in this lucrative crop sector. Understanding the pricing process not

**Table 14. Oil Plam price workings for September and October 2024**

| Ref | DESCRIPTION | Costing | Costing |
|---|---|---|---|
| 1A | FOB Value(USD) | 967.05 | 1,040.63 |
| 1B | Freight (USD) | 62.00 | 62.00 |
| | C&F to MSA Price(USD) | 1,029.05 | 1,102.63 |
| 1B | Marine Insurance | 5.92 | 5.78 |
| | **CIF MSA Price(USD)** | **1,034.97** | **1,108.41** |
| | **Import Duty (10%) and Infrastructure Levy (1.5%)** | **119.02** | **127.47** |
| | **COSTS INVOVLED AT MOMBASA** | | |
| 2 | Port Wharfage Per Ton | 2.20 | 2.20 |
| 3 | Clearing Agency Fees For Warehousing Entry / Per Invoice | 0.10 | 0.10 |
| 4 | Ex Warehousing Entry Per Truck | 1.12 | 1.12 |
| 5 | Trade Levy per Ton | 0.12 | 0.12 |
| 6 | Transit Insurance from MSA to Jinja (CIF) | 1.57 | 1.69 |
| 7 | Storage Charges At MSA - Storage period(month) | 2.74 | 2.73 |
| 8 | ITS/SGS Survey fees per month | 0.22 | 0.22 |
| | **Cost At Mombasa(USD)** | **8.07** | **8.18** |
| | TRANSIT COST TO JINJA | | |
| 9 | Transport charges From MSA to Jinja | 93.00 | 93.00 |
| | **COST TO JINJA (USD)** | **1,255.05** | **1,337.05** |
| | **COST TO JINJA (UGX)** | **4,673,321** | **4,962,212** |
| 10 | **Exchange rate and price in UGX** | 3,723.6 | 3,711.3 |
| | **LANDED COST AT BUL JINJA/TON CPO** | **4,673,321** | **4,962,212** |
| | | | |
| | **Extraction Rate = K** | **23%** | **23%** |
| | **Costant Milling Costing = J** | **1.2** | **1.2** |
| 11 | Transport Cost From Kalangala to Jinja | 84,750 | 84,750 |
| 12 | Insurance CPO to Jinja | 4,000 | 4,000 |
| | **CPO Price Ex POM, Kalangala = H** | **4,584,571** | **4,873,462** |
| | **Price of FFB/MT Delivered at POM (UGX)** | **878,709** | **934,080** |
| | **Price of FFB/MT Delivered at POM (USD)** | 236 | 252 |
| | **Price of FFB/Kg Declared (UGX)** | **879** | **934** |

only empowers small scale farmers but also reinforces confidence among stakeholders regarding sustainable growth in Uganda's oil palm industry.

(b) **Price determination process.** The Pricing Committee is expected to review, negotiate and set a price for farmers' FFB sold to Oil Palm Uganda Limited (OPUL) through the pricing formula outlined below.

The FFB monthly price = (H/J) * K; where:

i. FFB monthly price is the factory gate price per MT of standard quality FFB.
ii. H is the price of crude palm oil (CPO).
iii. K is the oil extraction rate per MT.
iv. J is a constant currently fixed at 1.2.

It should be noted that the oil extraction rate is the percentage of oil that can be extracted from 1000kgs of FFB, while H is the price of FFB that has been delivered to the factory. Like CPO in Malaysia, the cost consideration elements include transport costs, insurance levy and storage charges, among others, as shown in the Table 14. From Table 14 and given that FFB monthly price is determined as (H/J) * K, the value of FFB is (4,873,462/1.2)*23% which equals to UGX 934,080 per metric ton; hence the FFB price of UGX. 934 per kg in October 2024.

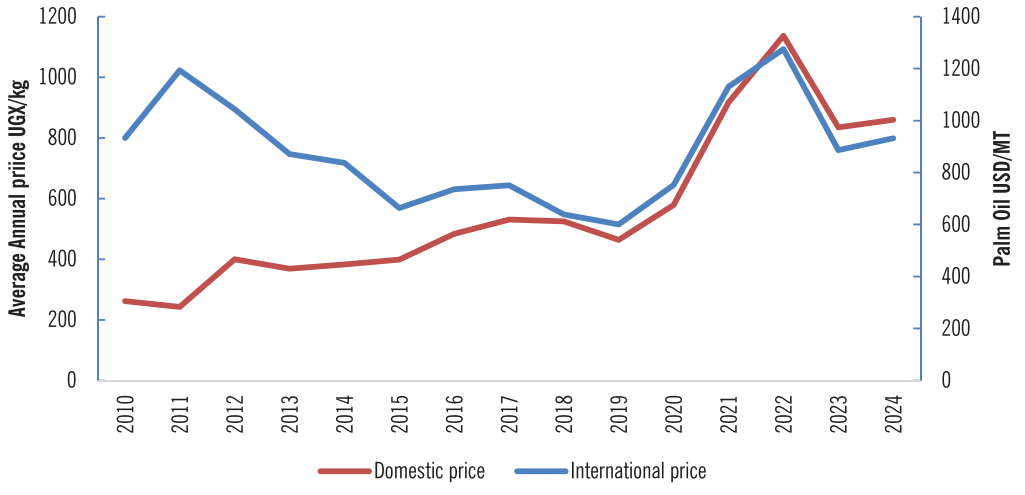
The monthly FFB price that is determined by the Pricing Committee is premised on what Oil Palm Uganda Limited would have paid for the fruits if they were importing them from another country. The above formula thus considers elements such as Free on Board (FOB) - a reference price at Malaysia; shipping and insurance; and transport from Mombasa to Jinja as shown in Table 14. The Committee thus needs to scrutinize all the above elements and ensure that the price to be declared is correct and appropriate for the farmers.

The above pricing formula is considered fair and transparent since:

i. The considerations (variables) applied are determined by international prices for CPO.
ii. The farmers, through their farmer organisations, can monitor the daily Reuters prices at international market for CPO that are used in the pricing formula to determine the FFB price at the end of the month.
iii. The buyer is also to provide evidence for all the pricing formula variables in a meeting that is attended by all stakeholders of the Palm Oil agreement.

Considering international and regional acceptability, the same formula is applied in West Africa, Malaysia and Indonesia and other oil palm producing countries. Indeed, starting in 2015, comparison of the trends in price movements between Uganda and other countries shows that the international palm oil prices per metric ton has progressed in tandem with the domestic prices of FFB per kilo given to Oil palm farmers in Uganda (Figure 47). This

**Figure 47: Trends in oil palm price trends in Uganda versus International**




Source: Author's construction based on data from the World Bank Pink sheet and Kalangala oil Palm Growers Trust

perhaps is good evidence that the local pricing formula indeed considers the international palm oil price.

### 4.4.4 Key Pricing Elements Influencing Oil Palm Prices in Uganda

This approach of price determination often raises questions stemming from fluctuating prices. At its core, however, the fluctuations in oil palm price in Uganda stems from various factors, such as transport costs and global market trends. Below is the institutional framework for the oil palm pricing.

i. **Global Market Trends**. Fluctuations in international prices directly affect local prices. The calculation starts with the average world price of CPO in Malaysia for the previous month thus a change in CPO price significantly affects the price as shown in the calculation above. A rise or fall in CPO prices can lead to immediate adjustments locally, underscoring how interconnected our markets are with global dynamics.

ii. **Insurance**. Marine insurance and transit insurance add additional layers to overall costs. Transit insurance from Mombasa to Jinja

iii. **Storage charges to Mombasa**. This covers crude palm oil imported from Southeast Asia for refining in Uganda.

iv. **Transport charges**. The two elements of transport charges included in this cost are: transport from Mombasa to Jinja, and Transport from Kalangala to Jinja or from Buvuma to Jinja. The raw materials used in the Jinja refinery under normal circumstances are produced in Uganda but because Uganda produce less raw materials than what the refinery requires, BUL must import raw materials from Malysia and Indonesia. In the importation, the company incurs costs of transport and freight insurance among others. What farmers produce in Uganda enables BUL to forego these costs that they would otherwise have incurred from Malaysia/Indonesia to Jinja; reason this cost is added back to the farmer's price to give them the import parity price.

v. **Exchange rate**. Variability in currency exchange rates can impact profitability for exporters.

vi. **Extraction rate**. The oil extraction rate is the percentage of oil that can be extracted from 1000kgs of FFB. Buvuma has just started harvesting FFB and thus has a lower extraction rate of 15 percent while Kalangala is at 23 percent.

In summary, multiple interconnected factors determine oil palm prices in Uganda, from global trends and insurance costs to transport expenses and extraction rates. This makes it imperative for industry players to keep farmers and suppliers well informed of this dynamic landscape.

### 4.4.5 Conclusion

In effort to ensure good returns for farmers and continued progress in the development of oil palm production in Uganda to its full potential, the National Oil Palm Pricing Committee ensures that farmers receive good value for their produce while maintaining consumer trust through transparent practices. There is need, however, for continuous sensitization of farmers and all stakeholder about this framework. Going forward, the government and National Oil Palm Project should consider the following:

i. Providing support to farmers to increase their productivity as this impacts on the oil extraction rate and builds output required to meet current refining capacity.

ii. Ensuring that the cost charges, such as transport from Kalangala to the factory under their control are minimized to enhance returns of farmers on whom the industry depends for existence and sustainability.

iii. And, providing continuous sensitization for all stakeholders on this framework in the vital process of building knowledge for informed decisions and upholding trust, and as a necessary mechanism for continuous adaptation to change and market dynamics.

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VoDP project document by GoU and IFAD

CHAPTER

# 5

# MANAGING RISK IN AGRICULTURAL FINANCE

# 5.1 UGANDA AGRICULTURE INSURANCE SCHEME: THE NEED FOR A FULLY DIFFERENTIATED INSURANCE SUBSIDY MODEL IN UGANDA

Munyaradzi Daka[1]

## 5.1.1 Introduction

Agriculture plays a critical role in Uganda's economy, contributing approximately 24 percent of the country's Gross Domestic Product (GDP) and employing about 68 percent of the population (World Bank, 2023). Despite its importance, farmers and processors face significant challenges of accessing finance due to high risks associated with weather variability and natural hazards. The dependence on rain-fed agriculture exposes farmers to unpredictable weather patterns, such as droughts, floods and erratic rainfall, that lead financial institutions to perceive agricultural investments as highly risky; hence limiting the ability of farmers to access credit for production and acquisition of productivity-enhancing inputs and technologies.

To address these challenges, the Uganda Government launched the Uganda Agriculture Insurance Scheme (UAIS) in FY 2016/17. The UAIS operates as a public-private partnership that provides subsidized agricultural insurance to protect farmers against losses caused by adverse climatic conditions. Under the management of the Agro Consortium (AIC), the scheme has seen significant success, covering over 772,000 farmers by the end of 2023. This has attracted private sector credit, and has stimulated investments in agriculture through reduced risk exposure. Key successes of the UAIS include its wide outreach, enhanced risk mitigation, and integration into broader agricultural financing models.

So far, the government subsidy programme, managed by the Ministry of Finance, Planning and Economic Development (MoFPED), has been instrumental in lowering insurance premiums to make insurance accessible to smallholder farmers. However, while UAIS has made considerable progress, the current model exhibits significant limitations, including insufficient differentiation. Although the scheme provides some consideration for disaster-prone areas, the current level of differentiation is not sufficient since the uniform approach to subsidies does not adequately consider the varying levels of risk across different regions and crops. In this article, therefore assesses the imperatives for developing a fully differentiated insurance subsidy model in Uganda, and of prioritizing high-risk

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regions and crops. By tailoring subsidies to specific risks, resources can be allocated more effectively, thus ensuring that government support is optimally utilized.

### 5.1.2 Challenges of the Partially Differentiated Uganda Agricultural Insurance Scheme

The current agricultural insurance cover is partially differentiated, primarily focusing on highly disaster-prone areas. While this is a positive step, it falls short of comprehensively addressing the specific risks associated with different crops and regions. Available data shows that the UAIS disproportionately benefits farmers in lower-risk regions while leaving high-risk regions and crops with insufficient support.

To highlight the current disparities in insurance coverage, data presented in Figure 48 show that although UAIS seeks to serve high-risk regions like Karamoja, the overall reach remains low. For example, only about 5 percent of farmers from such regions benefit from agricultural insurance despite the high vulnerability of regions like Karamoja. The subsidy system is often exhausted before it can adequately cover high-risk areas and valuable crops such as coffee and bananas; and the insufficient coverage limits risk mitigation and financial access for farmers.

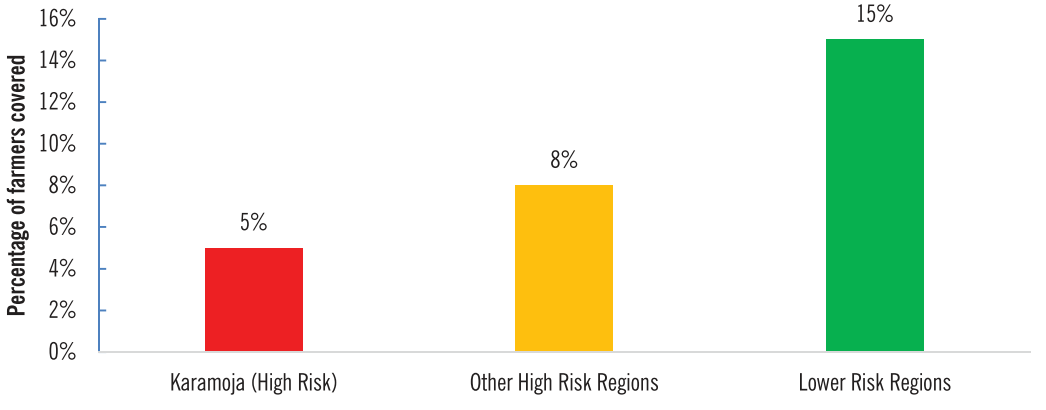
As presented in Figure 48, high-risk regions like Karamoja have significantly lower risk coverage (5-8%) compared to lower-risk regions (15%). The failure to fully differentiate subsidies by region and crop type denies high-risk areas equal opportunity to access affordable insurance with other regions. Without adequate risk protection, financial institutions remain reluctant to extend credit to farmers in these regions, further exacerbating their economic vulnerability.

In contrast, farmers in more stable regions enjoy better access to credit due to the perceived lower risks. For example, regions with fewer weather-related events have seen higher insurance uptake and better access to agricultural loans. The limited coverage also stifles investments in climate-resilience, that undermines the capacity of farmers in high-risk regions to sustain production in the face of the growing effects of Climate Change. As such, a more nuancedly differentiated model is required to address these shortcomings and ensure that the insurance scheme provides equitable support across Uganda's diverse agricultural landscape and agro-ecologies, with no area more exposed to economic and environmental shocks than others.

### 5.1.3 The Structure and Conduct of a Fully Differentiated Insurance Subsidy Model

Under the Uganda National Development Plans (NDP III & IV), and the recent AU Kampala Comprehensive African Agricultural Development Programme (CAADP) policy framework for agricultural transformation, wealth creation, food and nutrition security and economic development that reflects the longstanding commitment of the Government

**Figure 48: Uganda Agriculture Insurance Scheme coverage: High Risk versus Lower Risk Regions (2023)**




Source: Agriculture Insurance Performance Data

to agricultural and rural transformation, the differentiated approach to agricultural insurance deserves closer scrutiny. More so because of the country's huge ecological diversities and socioeconomic disparities that must be addressed. Therefore, here below is a review of elements of the structure and conduct of a fully differentiated insurance model.

#### 5.1.3.1 Need to incorporate more granular distinctions between regions and crop types

To create a fully differentiated insurance subsidy model, the UAIS must incorporate more granular distinctions between regions and crop types based on their risk profiles. A fully differentiated approach would require a comprehensive assessment of Uganda's agricultural landscape, identifying regions and commodities with the highest exposure to climate risks. The differentiation would extend to:

- **Crop-specific Risk**: Crops like coffee, bananas, and maize, which are highly susceptible to weather fluctuations, would receive higher subsidies compared to low-risk crops.
- **Region-specific Risk**: High-risk regions such as Karamoja, that face frequent droughts would benefit from more significant subsidies to offset the elevated insurance costs.

#### 5.1.3.2 Requirement for a stronger institutional coordination and information sharing at both crop and regional levels

While the current scheme does consider disaster-prone areas, this is not enough. A fully differentiated model would require more refined risk assessments at both the crop and regional levels to ensure that high-risk areas and crops grown are not underserved. The fully differentiated model would require adjustments to institutional frameworks, particularly at the Ministry of Finance, Planning, and Economic Development (MoFPED). The Ministry would need to collaborate with relevant institutions, such as the Uganda Meteorological Authority, Ministry of Agriculture, Animal Industry and Fisheries (MAAIF), USAID FEWSNET and Insurance Regulatory Authority (IRA), to gather data on region-specific risks and update subsidy allocations regularly.

Additionally, key organizations, such as the Ministry of Lands, Ministry of Water and Environment, Ministry of Disaster Preparedness and the Office of the Prime Minister (OPM), would play critical roles in providing essential data and facilitating effective disaster risk management strategies. The IRA may need to revise regulatory frameworks to accommodate expanded risk categories, and ensure that insurance companies have the flexibility to develop region-specific products tailored to the unique challenges of different regions.

#### 5.1.3.3 Need to upscale human and financial resource deployment

Upscaling human and financial resources demands the deployment of specialized personnel to assess risks in all regions; additional funding for higher subsidies in high-risk areas; and the development of tailored insurance products that address unique vulnerabilities. Achieving full differentiation will also require overcoming challenges, such as data collection, administrative costs and coordination among multiple stakeholders. Ensuring that insurance providers are incentivized to offer tailored products in high-risk areas will be a key policy hurdle to overcome.

#### 5.1.3.4 Tailoring the fully differentiated agricultural insurance product

The proposed fully differentiated insurance product would be aligned with the specific needs of farmers in different regions of Uganda. By tailoring agricultural insurance to address crop-specific and region-specific risks, the insurance model would offer more comprehensive coverage for vulnerable farmers. For example, a product designed for a drought-prone regions could include higher coverage levels for water-intensive crops, while regions prone to flooding would benefit from insurance products tailored to flood-resistant crop varieties.

While the current UAIS provides some differentiation for high disaster-prone areas, the fully differentiated model would go further to ensure that all vulnerable regions and

high-risk crops receive appropriate support. By aligning insurance products with local conditions, farmers will have greater confidence in the protection offered, leading to increased uptake. Additionally, region-specific and crop-specific products will encourage financiers to offer credit to farmers in high-risk areas knowing that the risks are mitigated through rightly structured insurance.

### 5.1.4 Conclusion and Policy Options

The current UAIS differentiates, to some extent, for high disaster-prone areas but the scale is not sufficient to address the full scope of risks faced by Uganda's farmers. A fully differentiated agricultural insurance scheme is essential to ensure that high-risk regions and crops receive appropriate levels of support that will increase the overall resilience of the agricultural sector. To improve coverage and protection under the UAIS, the following actions need to be undertaken, with responsibilities assigned to specific Ministries, Departments and Agencies (MDAs)

(a) **Develop a differentiated subsidy model based on crop and region-specific risks.** The Ministry of Finance, Planning and Economic Development (MoFPED), in collaboration with the Insurance Regulatory Authority (IRA), Agro Consortium (AIC), and Ministry of Agriculture, Animal Industry and Fisheries (MAAIF), should lead the development of the subsidy model that reflects the different risks faced by various regions and crops. This model should provide more substantial subsidies to high-risk regions such as Karamoja and to high-risk crops like coffee and bananas. Accurate risk assessments from MAAIF and AIC, coordinated by the IRA, will ensure that resources are allocated effectively to safeguard the most vulnerable farmers.

(b) **Mandate the integration of insurance in all government-funded agricultural programmes.** The Office of the Prime Minister (OPM), MAAIF and MoFPED should ensure that agricultural insurance becomes an integral part of all government-funded agricultural initiatives. By making insurance mandatory in programs that provide agricultural loans, grants or subsidies, the government can enhance farmer adoption and resilience and ensure mitigation of the various risks that come with climate variability. This integrated approach would protect farmers from weather-related shocks while boosting investment in the agricultural sector.

(c) **Expand public awareness campaigns to improve understanding of differentiated insurance products.** Raising awareness is critical for the success of a fully differentiated insurance scheme. The Ministry of Information, Communication, Technology and National Guidance (MoICT), in collaboration with the IRA and MAAIF, should lead public awareness campaigns targeting farmers in all regions. These campaigns should focus on educating farmers about the benefits of differentiated insurance products and how to access them; and be based on communicating in local languages and use of various media channels.

(d) **Enhance data collection and risk assessment for better targeting of subsidies.** Accurate data on regional risks is essential for the success of a differentiated insurance model. The Uganda Meteorological Authority (UMA), UBoS, USAID FEWSNET, Ministry of Water and Environment, and the Ministry of Lands should collaborate to improve data collection on climate patterns, water resources and land use. This is critical in refining risk assessments and adjusting insurance products to meet specific needs of farmers in various areas.

(e) **Review and strengthen insurance regulatory frameworks.** The IRA, in consultation with MoFPED, should review and update Uganda's insurance regulatory framework to provide insurance companies with the flexibility they need to offer region-specific and crop-specific products. By promoting innovation within the insurance sector, this framework would allow for the development of tailored insurance solutions that address the unique challenges faced by farmers in different parts of the country.

By adopting the above policy proposals, and assigning clear responsibilities to the relevant MDAs, Uganda can significantly improve its agricultural insurance framework.

These steps will help ensure that all farmers, particularly those in high-risk regions, have access to financial protection thereby strengthening the resilience of the agricultural sector.

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# 5.2 INCREASING THE ABILITY OF LENDERS TO IDENTIFY POTENTIAL DEFAULT IN AGRICULTURAL FINANCING: WHY TIER IV FINANCIAL INSTITUTIONS NEED TO EMBRACE CREDIT INFORMATION SHARING

Urban Murangira[1]

## 5.2.1 Background

Until its rationalization, the Uganda Microfinance Regulatory Authority (UMRA) had announced the establishment of a Tier IV centralized data submission mechanism to enable its licensees to submit credit information and join the credit information-sharing ecosystem in Uganda. This initiative was in exercise of its mandate under Section 8(2)(L) of the Tier 4 *Microfinance Institutions and Money Lenders Act 2016*. UMRA had partnered with the Credit Information Providers Association (CIPA) with support from Financial Sector Deepening Uganda (FSDU) to support the implementation of the Credit Information Sharing (CIS) project for Tier IV institutions.

CIS is the process through which credit providers (banks, microfinance institutions, money lenders, SACCOS, cooperatives) submit credit information about their borrowers to licensed Credit Reference Bureaus to facilitate informed lending. This is one of the initiatives of the Authority aimed at formalizing and stabilizing the sector. In its General Principles for Credit Reporting (2011), the World Bank recognized credit information sharing as a key component of a country's financial infrastructure. It noted that poor financial infrastructure in developing countries can hinder access to finance and create risks that threaten the stability of the financial system.

Since 2008, Banks in Uganda have participated in and reaped the benefits of credit Information sharing. However, institutions in the Tier IV sector (such as money lenders, microfinance institutions and SACCOs) have not been able to exchange credit information due to several reasons including the absence of an acceptable and simplified system of submission, tailored to their business model and lack of sensitization on the benefits of CIS. As a result, there has been high default rates in the Tier IV space which has led to higher interest rate thus limiting access to finance. The current article therefore demonstrates why Tier IV financial institutions need to embrace credit information sharing for the benefit of increasing the information risk related to agricultural financing.

1 Chief Executive Officer at Credit Information Providers Association

### 5.2.2 The Evolution of the Credit Reference Bureau in Uganda

A Credit Reference Bureau (CRB) is a company licensed by Bank of Uganda to collect and collate credit information on individuals and companies from various sources and disseminate that information in form of a credit report to authorized users. Credit Reference Services support the growth of Uganda's financial sector by improving participating institutions' ability to predict default through the provision of timely and accurate information on borrowers' debt profiles and repayment history.

Credit Reference Bureaus (CRBs) were established in Uganda under the *Financial Institutions Act 2004,* with the three currently operating licensed CRBs being CreditInfo CRB, Armada CRB, Metropol CRB Limited and GnuGrid CRB; and 33 financial institutions are participating in the credit information mechanism. Participating institutions are those supervised by Bank of Uganda and include Commercial Banks, Credit Institutions and Microfinance Deposit-taking Institutions.

In 2016, the *Financial Institutions Act 2004* was amended to allow for a multi-bureau environment and for participation of other lenders in the credit information sharing mechanism. These other lenders were referred to as Accredited Credit Providers, meaning a person not licensed by the Central Bank involved in the provision of goods or services on credit or credit services to the public. An expanded and liberalized credit information sharing mechanism increases the visibility and inclusion of the many Ugandans currently excluded from the mainstream financial system. This visibility facilitates increase in access to credit, which is a major catalyst for the growth of many small and medium agricultural enterprises.

Before establishment of the Credit Reference Bureaus in 2004, access to credit information had been limited to financial institutions supervised by Bank of Uganda. This limited the penetration of credit into key sectors like agriculture which is a major contributor to Uganda's GDP.

**Table 15: Diagnostic of the CRB information by purpose of loan**

| | # Individual Loans / Facilities | | | Σ Amount (mill. UGX) Individuals | | | # Non Individual Loans / Facilities | | | Σ Amount (mill. UGX) Non Indiv. | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| PURPOSE OF THE LOAN | Count | Per. | ΔQuarter | Sum | Per. | ΔQuarter | Count | Per. | ΔQuarter | Sum | Per. | ΔQuarter |
| Agriculture | 288,796 | 26% | 10% | 1,694,560 | 14% | 15% | 812 | 2% | 5% | 989,918 | 1% | -6% |
| Mining and Quarrying | 1,367 | 0% | 3% | 7,555 | 0% | 15% | 39 | 0% | 18% | 57,587 | 0% | 31% |
| Manufacturing | 12,480 | 1% | 1% | 67,503 | 1% | -9% | 617 | 1% | 20% | 1,291,624 | 1% | 17% |
| Trade | 188,604 | 17% | 5% | 1,019,992 | 8% | 12% | 4,012 | 10% | -1% | 3,578,002 | 2% | -12% |
| Transport and Communicat. | 11,920 | 1% | 1% | 102,355 | 1% | 10% | 1,057 | 3% | 15% | 526,566 | 0% | -6% |
| Electricity and water | 948 | 0% | 3% | 4,077 | 0% | 5% | 44 | 0% | 47% | 289,626 | 0% | 10% |
| Building, Construct. and RE | 37,941 | 3% | 8% | 1,135,366 | 9% | 9% | 2,473 | 6% | 6% | 143,404,513 | 84% | 8% |
| Community, Social, Other | 12,654 | 1% | 3% | 84,097 | 1% | 10% | 1,684 | 4% | 14% | 489,394 | 0% | 66% |
| Business Services | 173,463 | 15% | 1% | 1,812,904 | 15% | 3% | 20,744 | 50% | 12% | 12,009,534 | 7% | 21% |
| Institutional Sector | 1,176 | 0% | -16% | 11,471 | 0% | 5% | 203 | 0% | 40% | 31,014 | 0% | 94% |
| Personal Loans | 242,098 | 22% | 5% | 3,820,577 | 32% | 2% | 2,125 | 5% | -1% | 1,888,626 | 1% | -25% |
| Household / Mortgage | 6,818 | 1% | 3% | 700,915 | 6% | 4% | 212 | 1% | 11% | 265,764 | 0% | 122% |
| Central Government | 0 | 0% | -100% | 0 | 0% | -100% | 17 | 0% | -28% | 7,988 | 0% | -50% |
| Other or Missing | 147,992 | 13% | 7% | 1,551,759 | 13% | 5% | 7,531 | 18% | -3% | 5,742,816 | 3% | 34% |
| Total | 1,134,257 | 100% | 6% | 12,012,830 | 100% | 6% | 41,570 | 100% | 7% | 170,132,774 | 100% | 8% |

Source: Experian Uganda CRB Ltd Q3 2022

### 5.2.3 Status of Agricultural Financing Credit Information at the CRB

Considering the progress with agricultural financing related credit information, available evidence shows that out of the 21.4 million bank accounts in the Supervised Financial Institutions as at 30th September 2022 , only 2.2 million (10%) had registered on the Credit Reference Bureau system (Table 15). Out of the 2.2million registered borrowers, only 1.1 million (6%) are actively accessing credit as at the end of September 2022.

A diagnostic review of the information reported to the credit reference bureau systems revealed that out of the total credit granted by the Supervised Financial Institutions as at 30 September 2022, 26 percent (288,796) of the individual applicants indicated agriculture as the purpose of loan (Table 15); but only 14 percent of the total value of credit granted went to the agriculture sector. From the synoptics above, a bigger part of the formal lending to individual borrowers is for agricultural activities, though this is limited to the extent that only a small proportion of the population is included in the information sharing mechanism.

The expansion by the Bank of Uganda of the CRB services beyond the supervised entities to include MFIs, SACCOs and other accredited credit providers opened up opportunities for financial inclusion within the agricultural sector. To facilitate this expansion, all financial institutions (i.e. SACCOs, MFIs and money lenders) need to submit data to the Credit Reference Bureaus (CRB) in Uganda. The expansion of access to credit information services will benefit both lenders and borrowers as outlined below

#### 5.2.3.1 To the lenders (Tier IV financial institutions)

Credit Reference Services improve the lenders' ability to predict default through the provision of timely and accurate information on borrowers' debt profiles and repayment history. Specifically, CRBs will: (i) ease the review of a customer's loan application since credit reports provide information on a customer's previous loan repayments; (ii) collect information on client's borrowing and repayment behavior; (iii) reduce the information gap between borrowers and lenders by enabling information sharing between all Participating Institutions, i.e. Supervised Financial Institutions and Accredited Credit Providers; (iv) reduce over-indebtedness and risky multiple borrowing that often result in loan and default burdens on consumers; and (v) increase access to credit as more people become eligible for financial services.

In addition to the above, participating lending institutions are able to offer new and better products due to the availability of information on client risk. Lenders are also able to assess credit risk better, and to improve the competitiveness of their services and products through risk weighting of their customers.

#### 5.2.3.2 To the borrowers

Credit reference bureaus increase consumer visibility to the lenders. When a borrower maintains timely repayments and a healthy credit record, the CRB is able to develop a positive credit profile for the consumer. The borrowers' credit report becomes their collateral (reputation collateral), as lenders begin to lend to prospective borrowers based on how well previous loan obligations had been met in the past. In this regard, CRB ensures that healthy credit habits are rewarded.

When information on a borrower is not shared, other lenders will not have knowledge about the past loan repayment capacity of a prospective borrower. In regard of, Nikolov (2012) stated that "*intangible collateral is the value of a borrower's reputation for debt repayment. This collateral form can book a very significant part of the liabilities of the private sector*". The author further stated that "*individuals will repay their debt whenever the value of repaying exceeds the value of defaulting*".

To the consumer, therefore, there are opportunities of creating custom tailored products and rewarding good borrowers. Of particular significance:

(i) Customers get better credit terms on the strength of their good repayment history, and a good credit report gives the customer bargaining power.

(ii) Credit reports avail evidence on good performance

which may translate to a lower cost of credit, flexible repayment periods, and lower reliance on tangible collateral such as land and buildings amongst other terms.

(iii) Timely access to individual or non-individual credit profiles helps borrowers get loans quicker thus improving the turnaround time on credit applications.

(iv) Borrowers are guided on getting loans that they can repay, which in turn reduces the debt burden that they would carry without proper credit information and guidance. The guidance protects borrowers against reckless lending from loan predators.

### 5.2.4 Anticipated Challenges in Rolling Out Credit Information Sharing Across all Lenders

While it is ideal for all lenders to contribute data to the CRB, this might come with some limitations to Tier IV financial institutions serving the agriculture sector. Key limitations are:

(i) **Inadequate technology infrastructure.** The technology that Tier IV financial institutions have to invest in to keep credit information records in prescribed formats, then later submit the information to the bureaus, may require heavy investment. Without proper record keeping, therefore some Tier IV financial institutions may be left out because information on the CRBs requires standardized formats and regular updates to be usable.

(ii) **Limited internet coverage.** Data transmission is another bottleneck, as it requires reliable and stable internet connectivity. Internet coverage in the country is not widespread, with virtually no government hot spots available nationally. There will be need for quick investment in wide-spread government internet coverage for the last mile lenders to be able to participate in the credit information sharing mechanism.

(iii) **Lenders' preference for traditional collateral.** Most lending in Uganda has to be backed by some form of collateral security; e.g. a land title, plant and equipment, motor vehicle, household items etc. This requirement has greatly excluded people without collateral- the young people and especially women. However, if all borrowers can be added to the bureau over time, their good repayment history on past credit obligations and transaction payment history can be used as a form of collateral to acquire credit. Affirmed by Nikolav (2012) thus: "*because debt access is valuable, a borrowers' clean repayment record becomes another collateral asset which can guarantee debt repayment in the same way as the more tangible collateral*."

### 5.2.5 Conclusion and Emerging Policy Options

Credit Information Sharing benefits are not only to credit providers but also borrowers and the economy at large. For credit providers, CIS enables institutions to manage default rates due to improved risk management at the time of approval of a loan. CIS reduces the information asymmetry about the character and capacity of borrowers to repay money borrowed which results in informed lending decisions. One of the most notable advantages of CIS is the reduction of interest rates that ease loan repayments. It can be noted that one of the reasons why credit providers charge high interest rates is to manage and mitigate the risk on loans and ensure maximum returns whether or not the loan creates financial value for the borrower.

While Tier IV financial institutions that mainly serve the agricultural sector gained notoriety for charging exorbitant and exploitative interest rates, above 20 percent per annum, it is important to note that over 80 percent of the credit in Uganda comes from the Tier IV space. This makes it imperative for the government to support and develop strategies that encourage Tier IV institutions to reduce interest rates to levels that make business sense and facilitate borrowing and repayment. Credit Information Sharing is one such initiatives aimed at ensuring the reduction of interest rates and cost of loans which in turn encourages innovation, entrepreneurship and investment. As such, if the credit providers embrace CIS in the Tier IV space, there will be no more political pressure to cap interest rates because of the potential of CIS to stabilize the market.

Ending, Government is hereby urged to expeditiously address the identified obstacles to enable Tier IV financial institutions to fully enroll and share credit information for the good of the entire financing industry and economy.

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# 5.3 ESTABLISHING AN EXPORT INSURANCE CREDIT SCHEME IN UGANDA: A REFLECTION ON PREREQUISITES

Bob Twinomugisha[1]

## 5.3.1 Introduction[1]

Based on its current economic performance, huge potentials in agriculture, services (tourism), crude oil and minerals, and strategic location in the heart of Africa, Uganda has set the goal of transforming its economy within the next 15 years to achieve a ten-fold increase in its annual Gross Domestic Product (GDP) from USD 50 billion in 2023 to USD 500 billion by 2040. To this end, the country is keen to leverage its external earnings and external capital inflow to build a robust and competitive export sector that is essential for economic growth and job creation.

At present, Uganda's export sector accounts for 14.6 percent of the country's GDP[2] and continues to generate employment in the agriculture, manufacturing and services sectors. The country's leading source of export earnings is agricultural commodities in processed or unprocessed forms, that account for 64 percent of total merchandise exports (Rauschendorfer & Stojanov, 2022). The agro-based commodities exported include cash crops- coffee, tea, cocoa, cotton, flowers; food crops- maize, fruits and vegetables; and fish, livestock products and others (Figure 49).

Despite existing potentials and ambitious export goals, however, Uganda's export sector continues to perform below the desired level. The export of goods has been generating USD 7 billion per annum against the National Development Plan III target of USD 7.4 billion, indicating challenges that affect its ability to achieve full potential (NPA, 2020a). Key amongst is the long-standing political instability in neighbouring South Sudan and Democratic Republic of Congo that are key markets for Ugandan exporters, especially Small and Medium Enterprises (SMEs) that constitute the majority of cross border traders.

The other challenges include non-payments by international buyers and currency fluctuations that continue to pose risks to exporters and is constraining them from generating revenue and raising finance to sustain and expand their businesses; informational opaqueness; low levels of technical and management skills; lack of professionalism- both internal and external; competition from other countries; and inadequate capacity to afford long term financing (Turyahikayo, 2015). External

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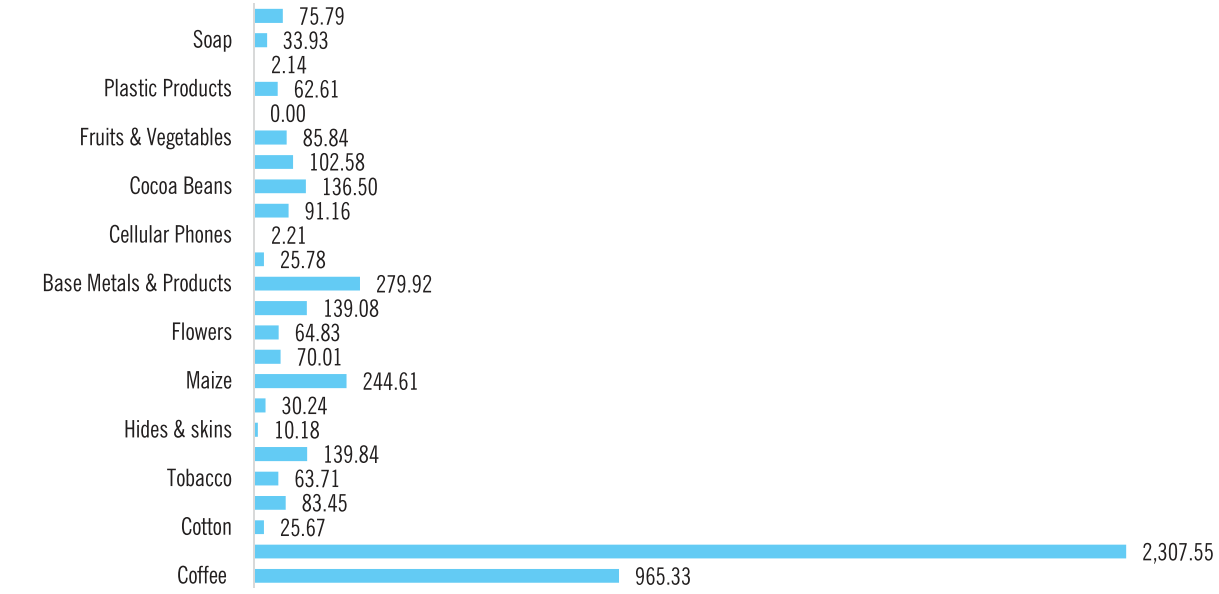
2 https://api.worldbank.org/v2/en/indicator/NE.EXP.GNFS.ZS?downloadformat=excel

**Figure 49: Uganda's Export value for selected Commodities (USD millions), 2023**




Source: Authors' computation Based on Bank of Uganda Data (2023)

shocks, such as the COVID-19 pandemic (IGC, 2020), and geopolitical conflicts such as the Russia-Ukraine war and the Middle East conflict, also affected the growth of Uganda's export sector due to supply chain disruption and reduced global demand (UNDP, 2022).

The various risks and limitations constraining Uganda's economic growth and transformation underscore the need for innovative solutions to de-risk Uganda's exports and boost the competitiveness of its products and traders in international markets. Against this backdrop, exploration is made in this article of the prerequisites of establishing the Export Insurance Credit Guarantee Scheme (EICGS) as a pathway to de-risking Uganda's export sector and boosting exports and national economic growth.

### 5.3.2 The Need for Export Insurance Credit Guarantee Scheme

Various export risks and systemic challenges continue to affect Uganda's export sector, constraining its export revenue generation potential and the competitiveness of traders. The establishment of the Export Insurance Credit Guarantee Scheme (EICGS) would address these export challenges and unlock its export sector growth potentials.

Uganda has for long faced political instability challenges in its East African Community region export destinations, which instability continues. In 2017, Ugandan exporters to South Sudan suffered losses after military violence erupted in South Sudan's capital, Juba; while exporters of coffee to Sudan have faced non-payments due to the ongoing conflict. Uganda's exporters also continue to face stiff competition from international players who benefit from robust export financing mechanisms. For example, whereas Uganda is Africa's second-largest coffee producer after Ethiopia, Kenya coffee exports get higher value contracts due to better access to credit financing and risk mitigation instruments such as export credit guarantees.

Faced with the above, Uganda's SMEs continue to operate in the vicious cycle of insufficient revenue earnings and financial constraints (Turyahikayo, 2015). As such, the country must empower its exporters to level the playing field and enable them compete favorably in the international market. This can be significantly addressed by providing guarantees to financial institutions, reducing their lending risks, and enabling exporters to access credit expeditiously.

### 5.3.3 Export Insurance Credit Guarantee Scheme: Structure and Conduct

Establishing the Export Insurance Credit Guarantee Scheme (EICGS) is an initiative to mitigate risks associated with export financing so as to enhance the provision of affordable credit to Ugandan exporters to build their competitiveness in international markets. Outlined below are the duties of stakeholders, institutional design, and operational structure that guarantee efficient risk-sharing that should be elements in the EICGS implementation in Uganda.

#### 5.3.3.1 Stakeholders and institutional setup

The Export Insurance Credit Guarantee Scheme (EICGS) requires a well-defined institutional setup to coordinate public and private stakeholders, and ensure effective risk-sharing and operational efficiency. At the core of the scheme will be the Uganda Development Bank (UDB) as the lead implementing agency. UDB will manage the scheme's operations, including risk assessment, fund disbursement, claims processing and monitoring.

The Ministry of Finance, Planning and Economic Development (MoFPED) will provide initial seed funding and policy oversight. Its involvement ensures that the scheme aligns with Uganda's broader economic goals, such as boosting export revenues and creating jobs. The Uganda Export Promotion Board (UEPB) will complement these efforts by conducting awareness campaigns and offering capacity-building programs to exporters.

The private sector, especially commercial banks and insurance providers, as the ultimate beneficiaries of the scheme are crucial in the setting up of the EICGS. Banks will issue export loans backed by the EICGS, while insurers will provide credit insurance to safeguard against foreign buyer defaults. Development partners (DPs) such as USAID, the African Development Bank (AfDB), the World Bank, and the European Investment Bank (EIB) will be approached to contribute concessional funding and technical support to bolster the scheme's capacity and financial sustainability.

#### 5.3.3.2 Risk sharing and operational framework

As a risk-sharing mechanism, the EICGS would reduce financial institutions' exposure to risks and encourage exporter financing. In this arrangement, the programme would guarantee up to 75 percent of loan values, with the financial institutions bearing the remaining risk. To obtain this guarantee, exporters would progressively create a self-sustaining fund by paying nominal annual premiums, suggested to be 0.5 percent of the loan amounts.

The eligible exporters in the scheme include large-scale traders and small and medium-size enterprises (SMEs). The national development strategy calls for focusing on strategic export commodities such as coffee, cocoa, fish, tea, and maize, among others (NPA, 2020b), for which exporters must develop market potential or have firm export contracts to lower risk. Because of the efficient architecture of the claims process, banks would submit claims electronically with little paperwork. And, to maintain the scheme's credibility and provide liquidity for member financial institutions, claims would be processed within 60 days.

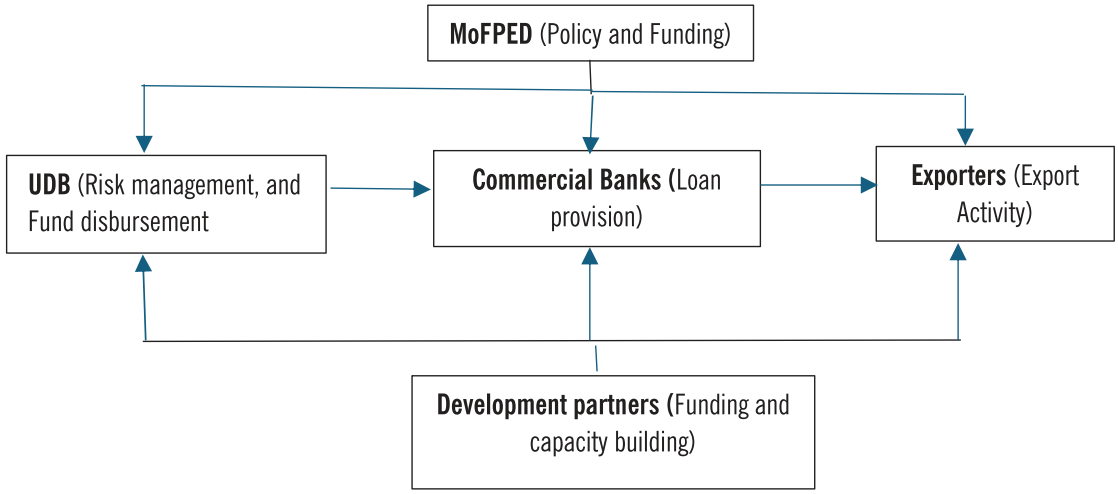
#### 5.3.3.3 Awareness and capacity building

A key component of the EICGS will be capacity-building programs. The UEPB will work with development partners to train exporters and financial institutions on compliance, risk management, and export market needs. These initiatives would help stakeholders prepare to handle global trade challenges and make the most of the programme.

#### 5.3.3.4 Stakeholder interconnections

The EICGS relies on strong stakeholder relationships to succeed. The responsibilities and connections among the public, private, and development partners are shown in Figure 50.

**Figure 50: Institutional Framework for EICGS**




Source: Author's own construction

### 5.3.4 Performance of Past Export Insurance Credit Guarantee Schemes in Uganda

Uganda has implemented a number of export credit programmes to address finance and risk issues, notable of which are the Development Credit Authority (DCA) and the Export Credit Guarantee Scheme (ECGS). Despite their significant contributions, the effectiveness of these programmes was constrained by structural flaws.

The Bank of Uganda (BOU) introduced the ECGS in 2000 to promote non-traditional exports like fish, grains, and flowers. It proved its effectiveness in increasing export financing, and by 2002 loans disbursed under the scheme totaled UGX 23.6 billion (Warren, 2003). However, excessive documentation and strict claims deadlines that discouraged exporters and financial institutions, and operational inefficiencies such as a laborious claims procedure, constrained the scheme's scalability.

#### 5.3.4.1 Major weaknesses

Under this initiative, the DCA provided medium-term loan guarantees to a wide group of borrowers, including microfinance organizations. However, despite its flexibility and wider reach, the DCA faced low exporter awareness and acceptance. Lack of outreach and understanding was one of the most significant flaws in earlier plans, and participation of exporters, particularly SMEs, was hindered by their frequent ignorance of these initiatives. Insufficient promotion from government agencies and participating banks also exacerbated this problem.

Funding constraints were another major issue. The ECGS's capital reserves were insufficient to meet growing demands which restricted its ability to scale up the guarantee. Additionally, past schemes operated in silos, with minimal coordination between government bodies and private sector players, leading to inefficiencies and duplication of efforts. Procedural complexities also undermined the effectiveness of these initiatives. For instance, the ECGS required banks to follow stringent claims procedures, including multiple verifications and detailed reporting, all of which slowed reimbursement and discouraged use of the scheme.

#### 5.3.4.2 Lessons Learned so far

From the past implementation, various lessons have been drawn that can inform development and effective implementation of other EICGS initiatives in the country.

(a) **The proposed EICGS should prioritize simplicity, adequate funding and strong stakeholder collaboration to avoid repeating past mistakes.**

The claims process must be streamlined, with clear guidelines and minimal documentation requirements. For example, banks could submit claims electronically, ensuring faster processing and fewer administrative hurdles.

(b) **Securing sufficient funding is critical.** The government should collaborate with development partners, such as the African Development Bank (AfDB), the World Bank and the European Investment Bank (EIB), to mobilize concessional loans or grants. This would help build a robust capital reserve, ensuring the scheme can be scaled up effectively.

(c) **Awareness campaigns must be intensified to promote EICGS among exporters.** The UEPB and UDB should organize workshops, trade fairs and media campaigns to educate stakeholders about the scheme's benefits. Capacity-building programs tailored for SMEs would further enhance participation, and equip SMEs with the skills to navigate the complexities in international trade.

### 5.3.5 Potential Constraints to the Establishment of EICGs and Mitigation Strategies

Establishing Uganda's Export Insurance Credit Guarantee Scheme (EICG) may be constrained by fiscal challenges; with declining external financing constraining the government from providing the initial capital required. According to Fitch Solutions' recent Report (2024), after it signed the Anti-Homosexuality Act in 2023 Uganda started experiencing external funding and liquidity pressures related to the reduced availability of concessional external financing and grants. As alternative, the government can leverage UDB's partnerships with international development finance agencies like the European Investment Bank (EIB) and African Development Bank (AfDB) to secure concessional loans or grants for initial funding.

Exporters, especially small and medium enterprises (SMEs), also lack awareness and trust, and there is a lack of sufficient knowledge about the operation of the ECIG. All these may negatively affect the ECIG adoption rate in Uganda. The government should therefore increase investment in business development services (BDS) if the country is to establish an effective and sustainable Export Insurance Credit Guarantee Scheme (EICG) (UDB, 2023).

### 5.3.6 Conclusion and Emerging Policy Options

The establishment of the Export Insurance Credit Guarantee Scheme (EICG) provides a transformative opportunity for Uganda to mitigate export financing risks and boost competitiveness in international markets. Progress will spur increase in export revenues, improve trade balances, and boost economic expansion and job creation in the country. The proposed policy measures provide a roadmap to ensure the scheme's sustainability and effectiveness to pave the way for Uganda to achieve its ambitious export growth targets.

To ensure the success of the EICGS, the following three policy options are recommended.

(i) **Strengthening agricultural export integration:** Given the dominance of agricultural commodities in Uganda's exports, the EICGS should be integrated into the broader agricultural value chains. This approach will enhance the scheme's relevance and help unlock higher export revenues from key agricultural commodities.

(ii) **Diversifying export markets:** To mitigate market risks, the government should actively support exporters in expanding into new markets through trade agreements and partnerships. The EICGS can play a crucial role in de-risking entry into these markets, boosting confidence among exporters.

(iii) **Investing in business development services:** The government should increase funding for Business Development Services (BDS) to smoothen implementation of the EICGS. Training programmes should focus on improving awareness, compliance with export market requirements, and risk management skills among exporters, particularly SMEs.

With all the above, the onus is on government to champion the realization of the Uganda's very ambitious economic

growth and national transformation goal through export growth. Government is therefore urged to fully commit to executing requisite financial and institutional interventions to support the EICGS scheme and all other economic interventions.

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# 5.4 MAKING AGRIBUSINESSES CREDIT READY IN UGANDA: PROGRESS ON AGRIBUSINESS DEVELOPMENT CENTRE'S BUSINESS DEVELOPMENT SERVICES

Simon Omara[1]

## 5.4.1 Background

Agriculture plays a crucial role in the economy of Uganda, contributing about 24 percent of GDP annually (International Trade Administration, 2023). According to the Uganda Bureau of Statistics (UBOS), about 70 percent of Ugandans work in the agriculture sector, mainly in the in rural areas where agriculture is the main economic activity and primary source of household livelihood. According to United Nation's Food and Agriculture Organization (FAO), Uganda's fertile agriculture land has the potential to feed 200 million people; yet while 80 percent of its land is arable, only 35 percent is being cultivated (MAAIF, 2024).

Uganda's agriculture sector is diverse, with a wide range of crops and livestock produced across different regions of the country. Smallholder farmers form the backbone of the sector, with most agricultural production coming from small-scale farms. Strengthening farmer-based organizations is, therefore, essential for empowering smallholder farmers, improving their access to markets, inputs and technology, and enhancing their overall productivity and incomes.

Farmer-based organizations (FBOs) are rural base, formed by smallholder farmers for self-help and mobilization for agro value chain activities that enhance collaboration among members to improve agricultural production, market access and advocacy (Dadson, 1988). These organizations are often cooperatives, associations, or community groups like SACCOs that work collectively to strengthen farmers' bargaining power, improve access to inputs and credit, and support knowledge sharing. In Uganda, FBOs are critical for advancing the agricultural sector. By facilitating their collective actions, FBOs help these farmers reduce transaction costs, enhance economies of scale, and improve income stability, which are essential for the growth and resilience of the agriculture sector.

Against the above background, this article shares the progress that the Agriculture Development Centre has made in developing FBOs in Uganda, with the objective of making them credit ready. Also showcases are the initiatives, achievements and insights derived from the Agribusiness Development Centre (ADC) FBO model in delivering effective Business Development Services (BDS) to agribusinesses, and shares lessons learnt so far.

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### 5.4.2 Current Status of FBOs in Uganda

As of 2023, Uganda had an estimated 11,000 registered FBOs that varied in size from small groups of 20 members to larger organizations with over 500 members (UBoS, 2023). FBOs operate across the country, with prominent concentrations in the Central and Western regions. These FBOs are active in agricultural value chains such as of coffee, maize, dairy, tea, cassava, and horticulture. In the coffee sub-sector, for example, FBOs assist with value addition like processing and marketing, while in dairy, they support quality control and cold chain management.

Despite their importance, FBOs in Uganda face multiple challenges, particularly in accessing finance. Smallholder farmers and FBOs often encounter barriers such as limited collateral, high interest rates, limited financial literacy, and inadequate Business Development Services (BDS). Inadequate BDS is especially detrimental as it limits the ability of farmers to meet the requirements of financial institutions, thereby restricting access to credit, and essential non-financial services needed for business growth and livelihood improvement.

The lack of comprehensive BDS affects areas such as business planning, governance, financial management, value chain development and market linkages for FBOs. Without structured guidance in these areas, many FBOs struggle to establish sustainable financial and operational bases with little progress. This diminishes their effectiveness and reduces the overall impact they can have on agriculture.

According to FAO (2021), the shortage of BDS in Uganda limits the capacities of FBOs to manage resources, build market access and professionalize operations. Therefore, addressing the inadequacy of BDS is critical for enhancing FBOs access to agricultural finance and improving their long-term viability. The International Food Policy Research Institute (IFPRI) also points out that lack of infrastructure and high transportation costs further hamper FBO ability to engage profitably in markets. Inconsistent government support further compounds these issues, making it challenging for FBOs to access resources or establish partnerships effectively.

### 5.4.3 BDS Policy and Legal Framework for Uganda's Agriculture Sector

Uganda has put in place various laws, policies, and institutions to promote the provision of Business Development Services (BDS) in the agricultural sector. The National Agricultural Policy, the *National Agricultural Advisory Services (NAADS) Act* and the Agriculture Sector Development Strategy are frameworks set to facilitate and support agricultural transformation with focus on smallholder farmers. On the other hand, *The Uganda Investment Authority Act* and the Uganda Development Corporation are frameworks for investment promotion, business development and economic transformation that agriculture, as key sector, gains from directly through investments in production, value chain activities and trade.

In further efforts to put in place comprehensive framework for national transformation, Uganda recently formulated the National Business Development Services Strategy Framework under the Ministry of Finance, Planning and Economic Development, to enhance and align BDS provision in various sectors, including agriculture. This framework complements all the existing laws, policies and regulations, and outlines interventions to improve access to BDS and promote sustainable business development for smallholder farmers and farmer-based organizations.

Despite various initiatives and attempts by government, private sector and development partners to address the challenges of knowledge and access to resources for investment, there are still gaps that exist in business development service provision in Uganda. These include limited access to tailored and affordable services for smallholder farmers, inadequate BDS coverage in rural areas, poor infrastructure, insufficient coordination among service providers, lack of financial support mechanisms for upscaling projects, and weak and low organization of farmers into functional groups, cooperatives or unions through which BDS services can be demanded by farmers and effectively delivered to them.

### 5.4.4 Structure and Conduct of ADC Farmer Based Organization BDS Programme

The Agribusiness Development Centre (ADC) was set up by the Rabo Foundation (RF) and the Development Finance Company of Uganda (DFCU) Ltd. in 2017 to undertake capacity building in agribusiness for farmer-based organizations, and Small and Medium Enterprises (SMEs).

The ADC Centre seeks to become the preferred partner in promoting self-sufficiency in target customer segments towards agricultural transformation in Uganda. The ADC offers capacity building services to chosen market segments, in this case are FBOs, through business development services such as business accelerator opportunities, and facilitates relevant linkages through innovations and collaboration to grow, build and promote sustainability.

Through its model, ADC provides smallholder farmers and FBOs with targeted BDS support, focusing on areas such as business planning; governance; financial management; and value chain development. These services are designed to improve capacities of FBOs to access finance, grow businesses, build market linkages and operate sustainably. Addressing the gaps in BDS provision is essential for transforming Uganda's agricultural sector and ensuring that smallholder farmers can realize the full potentials that the country's arable land and reliable weather offer.

### 5.4.5 How the Business Development Services Model Operates

The Agribusiness Development Centre (ADC) offers opportunities to support sustainable agribusiness growth through its comprehensive Business Development Services (BDS) framework (Figure 51). Brief summaries of the BDS contents, delivery forms and structures, and targets are summarized below.

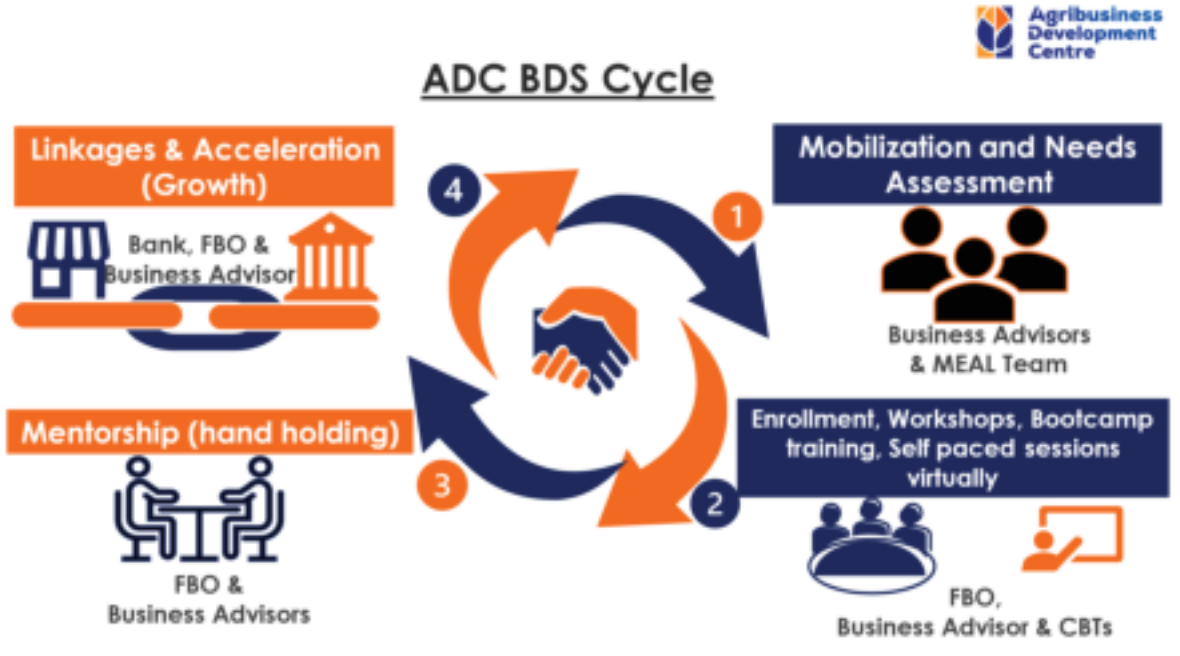
#### 5.4.5.1 Types of BDS offered

The ADC provides a range of BDS modules tailored to strengthening various aspects of agribusiness management.

(a) **Governance and Leadership**: Training in effective governance structures and leadership practices to foster accountability and guide business growth.

(b) **Financial Literacy and Management**: Building capacity in budgeting, record-keeping, financial planning and access to finance, essential for

**Figure 51: ADC's Business Development Services Model**



financial sustainability.

(c) **Agricultural and Food Marketing**: Skills in market analysis, pricing, branding and sales techniques to help businesses reach consumers effectively. Also, Agronomy, with training on sustainable farming practices, crop management, and improved production techniques that enhance yields and productivity.

(d) **Price Risk Management**: Teaching strategies for managing price fluctuations, particularly in coffee and cocoa, for strategic marketing and to stabilize income.

(e) **Specialized Coaching and Mentorship**: One-on-one and group mentoring sessions tailored to specific needs, to help individuals and enterprises overcome challenges and capitalize on growth opportunities.

### 5.4.5.2 Delivery Structures

ADC employs a structured approach for reaching farmers and agribusinesses as outlined below.

(i) **Business Advisors**: Skilled professionals who work closely with agribusinesses to provide tailored guidance, ensuring sustainable practices.

(ii) **Community-Based Trainers**: Local experts trained by ADC to deliver programs within communities, fostering trust and local relevance.

(iii) **Online Platforms**: Digital resources that broaden ADC's reach, offering flexibility and easy access to training for a wider audience.

### 5.4.5.3 Delivery Forms

ADC utilizes a mix of delivery methods to suit different learning preferences and logistical needs.

(i) **In-Person Meetings**: Workshops, seminars and face-to-face training sessions are organized to provide hands-on support and facilitate networking among participants.

(ii) **Digital Content**: ADC's online platforms offer e-learning courses, videos and downloadable resources, allowing agribusinesses to learn at their own pace and revisit content as needed.

(iii) **Field Extension Workers**: These workers visit farms and agribusinesses directly, offering practical support and on-site advice tailored to individual circumstances.

### 5.4.5.4 Target Enterprises

ADC targets a diverse range of enterprises within key agricultural value chains, including:

(i) **Smallholder Farmers**: Providing foundational skills and support for growth in productivity and profitability.

(ii) **Farmer Cooperatives and Associations**: Helping formal groups strengthen governance, management, and market access.

(iii) **Small and Medium Agribusiness Enterprises (SMEs)**: Supporting business formalization, process improvements, and market expansion.

The primary value chain focus entities include coffee, dairy, livestock, cocoa, cereals, fruits and vegetables and oilseeds, and excludes tobacco.

### 5.4.5.5 BDS Content and Material

ADC's training content focuses on practical, actionable knowledge in the following areas:

(i) **Financial Management Tools**: Teaching budgeting, cash flow management, and investment analysis to strengthen business performance and financial health.

(ii) **Governance Frameworks**: Providing models and guidelines for establishing strong governance structures.

(iii) **Best Agricultural Practices**: Covering crop-specific techniques, pest management, soil health, and sustainable farming methods.

(iv) **Market Analysis and Branding**: Introducing market research methods, branding fundamentals, and customer outreach strategies.

(v) **Risk Mitigation for Price Volatility**: Lessons on hedging and forward contracting, specifically tailored for coffee and cocoa farmers.

(vi) **Personalized Coaching Plans**: Customized support to address unique business challenges, and helping enterprises develop actionable plans for improvement.

Through these comprehensive BDS offerings, ADC aims to create a resilient, inclusive, and well-supported agribusiness ecosystems across Uganda.

### 5.4.6 The ADC's Business Development Services Approach

ADC approaches its BDS provision through the tailored FBO model that is executed in three phases i.e. Pre-intervention; Intervention/implementation; and Monitoring, evaluation and reporting.

#### 5.4.6.1 Pre-intervention phase

This first phase involves mobilization to establish pipelines for potential FBO and assessing their eligibility for the BDS services. This phase is supported by networks of ADC business advisors and community-based trainers[2] who are based in different communities within the Northern, Western, Eastern and Central Uganda.

Mobilization and identification of the BDS potential project participants or beneficiaries are done at different levels, i.e. community, district and national, by ADC team members led by the general business associate. These pipelines are primarily got from existing portfolios of FBOs with Small Holder Farmers, SACCOS and cooperatives, from innovative platforms like SOMA, Beanbook, Financial modelling tool and MEAL results platform. ADC works very closely with different stakeholders and partners to collaboratively implement similar projects, from which it sources recommendations. The partners include local governments of districts, municipalities and town councils; private sector organizations such as GiZ, aBi, SEATINI; and other national umbrella bodies like Uganda cooperative Alliance (UCA), Uganda Federation of Community Cooperatives (UFCC), and value chain actors. This process is led by the business advisor. [3]

The potential list of BDS beneficiaries who are Farmer Based Organizations are subjected to an assessment process called 'RACOSTING[4]', with ADC designed assessment tools called RACOST in different versions to collect business information and analyze FBOs in areas of FBO governance, operational management, financial management, sales and marketing, regulatory compliance, environmental management, and many others including assessing current capacity gaps and support in reporting or setting baselines for BDS interventions.

#### 5.4.6.2 BDS intervention/implementation phase

In this phase, FBOs are enrolled for BDS intervention for a period not exceeding 3 months in a particular intervention module for which they were identified and selected. The fields covered include Financial Literacy and Management, Agricultural and Food Marketing, Agronomy, Price Risk Management, Specialized Coaching and Mentorship aimed at building and strengthening their capacities. Training is delivered through organized training sessions, workshops, Webinars, masterclasses, Remotely Via-the-Phone training, and online training supported by availing of tools and templates. The continuous mentorships and coaching are customized to strengthen BDS for business scaling, market analysis, and product diversification for an FBO.

Furthermore, FBOs may be enrolled into Accelerator Programmes such as Business Accelerator Programme (BAP) and Price Risk Management (PRM) [5]. The learners will also be exposed to peer and networking opportunities through learning visits to experts in varied fields. The visits also provide exposure on how right and relevant policies and framework are set in place, e.g. Environmental Social Governance (ESG) and Gender diversity management which are aimed at safeguarding the environment and building an inclusive business workplace respectively. After the training, FBOs shall have become investors ready to align business plans to goals; and ensure that all formalities and compliance with all regulatory requirements are met.

2 Local experts trained by ADC to deliver BDS programmes within local communities.

3 Skilled professionals who work closely with agribusinesses to provide tailored guidance, ensuring sustainable practices

4 RACOSTING is the process of assessing FBOs using RACOST tool to identify existing capacity gap.

5 Business Accelerator Program whose main objectives is to support business improvements and facilitate the necessary linkages for growth and sustainability, The program is themed to consider varied hindrances to agribusiness growth as well as harness opportunities for business acceleration.

### 5.4.6.3 Monitoring and evaluation phase

This M&E exercise gauges the BDS interventions and is conducted on a bio-quarterly basis. It plays a very crucial role in ensuring that the FBO capacity building targets are achieved through the BDS interventions in all the training areas offered. The monitoring and evaluation team on hand largely leverage on the existing robust innovations tool like 'View-world'[6]. This tool supports the organization's M&E system to achieve efficient and effective monitoring and reporting within the intervention regions.

### 5.4.6.4 Post-intervention support for FBOs

After the BDS intervention period, Farmer-Based Organizations (FBOs) are transitioned into a tailored mentorship and coaching phase facilitated by technical business advisors. This phase emphasizes translating the knowledge and skills gained during the intervention into practical financial management practices. The goal is to identify and address other specific gaps that may still hinder FBOs from accessing finance, which is a common challenge for Ugandan smallholder farmer groups.

To complement this, FBO representatives participate in structured peer learning and networking opportunities, helping them establish partnerships, expand networks, and explore new market opportunities. In the Ugandan agricultural context, the following key activities are undertaken:

(i) Peer Learning and Demonstration Models – Small groups of farmers, facilitated by lead farmers, meet on demonstration farms to learn by observing and practicing improved agricultural techniques and technologies. This approach is particularly effective for rural communities, where hands-on experience resonates more with participants.

(ii) Farm Colleges – These are informal training centers, often hosted by progressive farmers or institutions, where FBO members can learn advanced farming practices, including modern tools and climate-smart techniques tailored to Uganda's agro-ecological zones.

(iii) Climate-Smart Agriculture (CSA)[7] – Interventions focus on practices like agroforestry, conservation farming, and use of drought-resistant crops to build resilience against the effects of Climate Change that significantly impacts Ugandan farmers.

(iv) Gender Action Plan (GAP)[8] Learning – Through GAP sessions, FBOs address gender disparities by promoting equal participation of women and youth in decision-making, resource allocation, and access to opportunities. This ensures inclusive development within FBOs.

(v) Matchmaking Events [9]– Organized forums bring together FBOs and key stakeholders like agribusinesses, financial institutions, and development partners. In Uganda, such platforms as farmer expos or agricultural trade fairs are venues for these interactions.

(vi) Exposure Visits [10]– These visits allow FBO representatives to travel to successful farms, agribusinesses, or cooperatives within Uganda or neighboring countries, enabling them to see best practices firsthand and adapt them to their local contexts.

After all this post intervention of BDS provisions are completed, FBOs and enterprises are deemed ready for necessary linkages to finance and markets. ADC usually secures financial linkages for its primary financial partners like dfcu bank and Rabo bank and other financial institutions. In 2023, over 2,177 smallholder farmers whose capacities were built became bankable. This facilitated their entry into formal banking services, and 1,056 FBOs have already accessed agricultural finance to invest in their farms and agribusiness, and to facilitate trading within the period.

6 A tool used by MEAL to track, monitor and report progress of all the BDS interventions wit demographic disaggregation.

7 An approach to agriculture that increases productivity sustainably, builds resilience to climate change, and reduces greenhouse gas emissions where possible. Examples in Uganda include integrating agroforestry and using drought-resistant seeds.

8 A framework designed to address gender inequities in agriculture, ensuring that women and youth have equal access to resources, opportunities, and decision-making processes.

9 Platforms where stakeholders—such as buyers, agribusinesses, and financiers—connect directly with farmers or farmer groups, enabling partnerships and market linkages.

10 Practical visits to model farms, cooperatives, or agribusiness hubs where participants observe and learn proven practices and innovations to replicate in their own contexts

### 5.4.7 Progress and Gaps in Readying FBOs Under the BDS Programme

Based on activity records, so far, ADC has carried out commendable work of training farmer organizations and SMEs in the country despite challenges in implementation and ground level responses. Some of the successes and emerging issues are outlined below.

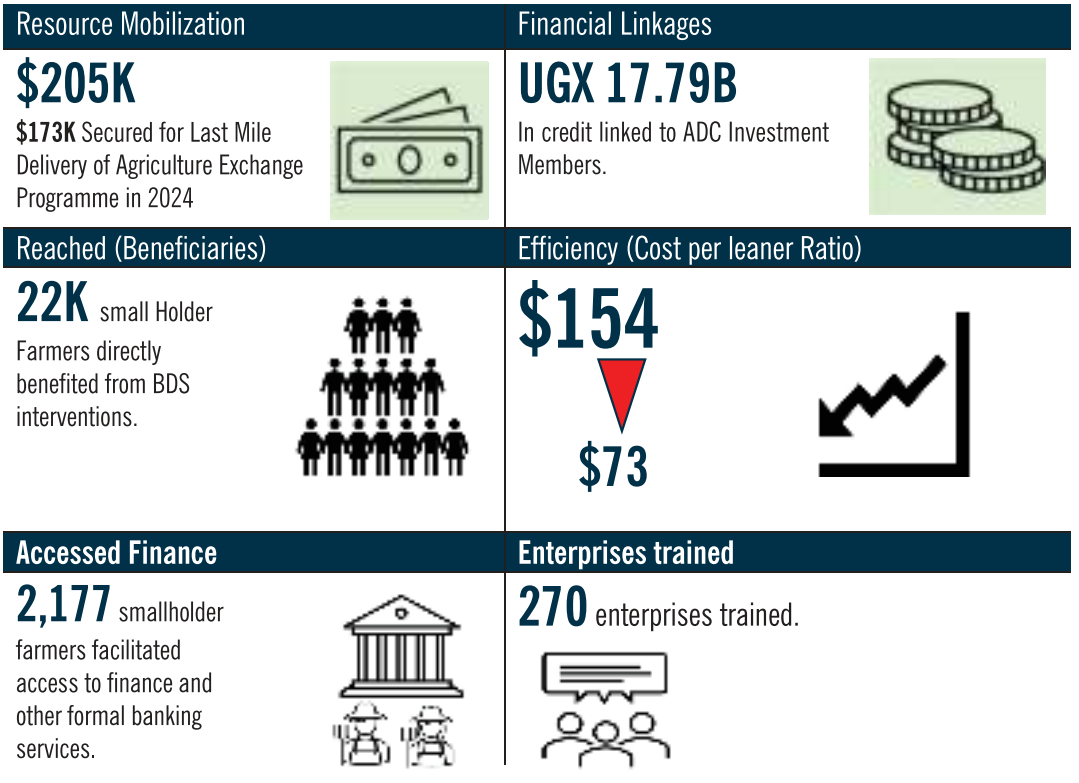
#### 5.4.7.1 Enrolment of FBOs into the BDS programmes

ADC has made significant strides in driving a sustainable BDS programme and fostering inclusive growth and development (Figure 52). ADC's comprehensive business development service programmes have had impressive reach and impact, with 1,260 enterprises and 171 FBOs trained and over 27,079 smallholder farmers benefiting. The key benefit for farmers was training in the areas of primary concern such as financial literacy, marketing, and climate-smart agriculture that empower participants to enhance productivity, improve market access, and mitigate risks, thereby catalyzing growth and strengthening resilience within communities. Similarly, the ADC intervention for youth and women empowerment have seen significant achievements, with 48.1 percent and 61.8 percent of trained youth and women, respectively, progressing to management levels within FBOs- a testament to the effectiveness of this ADC empowerment initiative through the BDS training programme and areas of focus.

#### 5.4.7.2 Financial inclusion through linkage of FBOs

With funding from Rabo bank and dfcu Bank in FY2023 worth UGX 17.79 billion, ADC is facilitating financial and market linkages with clients requiring support (Figure 52). Although the budget target of UGX 23.79 billion was not realized, the funds provided has directly benefited over 22,000 smallholder farmers, primarily through prompt payment for their agricultural produce and access to extension services. In addition, the ADC programme has enabled 84 enterprises and 2,177 smallholder farmers to gain access to formal banking services through improved financial literacy and management skills (ADC Impact Report, 2023).

**Figure 52: Summary of ADC performance 2023.**



The period between 2021 and 2023 witnessed surge in learner interest in the training programme, and a total of 14,881 participants as well as 539 enterprises reached through both physical engagements and virtual learning channels.

The Business Accelerator Programme also attained substantial growth, welcoming an additional 270 enterprises. Arising from progress made during this period, ADC solidified partnerships that resulted in securing funding of US$ 205,000 (UGX 753,068,201) alongside the 2024 commitment from its founding members.

### 5.4.8 Performance of FBO Individual Bankability Indicators and Key Gaps

The impact performance of the various BDS target empowerment initiatives provide clear testament to the validity and effectiveness of the ADC intervention. As with all such initiatives, challenges and gaps were inevitable as reviewed below.

#### 5.4.8.1 Self-sufficiency/sustainability and bankability

From ADC records, 43.1 percent of the target to drive self-sufficiency and bankability of FBOs was achieved (97 out of 225 targeted) (Table 16); the lowest performance level of all target activities. The most significant challenge in supporting FBOs to become self-sufficient and bankable was, limited access to adequate finance or credit for FBOs due to lack of adequate collateral to access the required credit. Difficulties also arose from the failure to link in time this drive with other complimentary training such as resource mobilization to achieve financial independence.

Given the above, ADC intends to build closer partnership with financial institutions to design tailored products for FBOs, strengthen its monitoring systems to regularly assess progress and identify gaps in real-time, and to enhance training on resource mobilizations, financial management and business planning.

#### 5.4.8.2 Governance, leadership and accountability

Building leadership and trustworthiness had the highest performance indicator, with 68 percent of the target achieved (154 out of 225 targeted). This reflects the strong focus and effort of ADC to build effective FBO governance and leadership capacities as the pre-requisite for management success and access to finance and other development support. However, the 32 percent gap needs addressing.

The gaps that were not covered arose from real difficulty in implementing governance structures across all FBOs; resistance to change among some FBO leaders; or lack of buy-in by communities. In response, ADC is strengthening its mentorship programme where successful FBOs guide others in governance practices. It is also creating simplified toolkits to help enterprises develop governance structures and conduct regular follow-ups and audits to track progress.

**Table 16 Summary of Achievements Against Targets**

| Result Area | Target | Achieved | % Achieved |
|---|---|---|---|
| By the end of 2022, 75% of the ADC trained enterprises are self-sufficient/ sustainable and Bankable. | 225 | 97 | 43.1% |
| 1. Strengthen the capacity of 375 Enterprises in governance, and leadership structures, and accountability systems by 2022. | 225 | 154 | 68.4% |
| 2. Strengthen management skills of 375 enterprises in general principles of financial literacy and Management by 2022 | 225 | 133 | 59.1% |
| 3. Strengthen the marketing capacity of 375 enterprises | 225 | 128 | 56.8% |

Source: Author's compilation based on ADC's Impact assessment report, 2022

#### 5.4.8.3 Financial literacy and management

While progress and impacts are noticeable in ADC financial literacy and management trainings achieved 59.1% of the goal set, with 133 out of 225 targeted training carried out (Table 16). This performance fell below ADC expectation, indicating a need for more targeted interventions to strengthen the financial literacy knowledge within the FBOs. ADC was greatly challenged in reaching all FBOs regularly for on ground support due to resource constraints and low prioritization of financial management by some FBOs.

Given the above gaps, ADC will seek additional funding or partnerships to enhance the BDS capacity building training and reach more beneficiaries. In addition, the Centre intends to use case studies and success stories to illustrate the practical application of skills imparted; the benefits of sound financial practices; and use of digital tools to improve financial management and tracking progress. It will also focus on integrating peer-to-peer learning models where FBOs share experiences.

#### 5.4.8.4 Marketing capacity

A substantial number of FBOs 128 (56.8%) were trained on marketing techniques to enable them to build, sustain and increase their sales and revenue flow. Most FBOs registered challenges in developing effective cooperative enterprise-based marketing strategy, leaving nearly half the target unachieved. Some of the reasons for the limited market linkages are insufficient understanding of market dynamics; access to reliable buyers; pricing; and competition from more established FBOs and agribusinesses.

In response to the above gaps, the ADC is looking forward to facilitating partnerships with reliable buyers, and to open markets for the FBOs through organizing and participation in agricultural exhibitions, trade fairs and networking events. These partnerships will provide advanced practical training in areas such as branding, packaging and market research, and leverage technology platforms such as BeanBook to provide customized solutions based on specific needs and challenges of individual FBOs. ADC is already working closely with stakeholders, including government, NGOs and private sector to co-create solutions for enterprises.

### 5.4.9 Challenges of BDS Implementation

The initiative of implementing the FBO Business Development programme has been marked by a series of challenges that have tested ADC's resolve and ingenuity. Below are the key challenges.

#### 5.4.9.1 Insufficient knowledge transfer between FBO management and members

Weak systems for communication and collaboration between FBO management and members have led to gaps in transferring technical and business skills. This is exacerbated by a lack of structured guidelines on mentorship within FBOs, and reliance on informal knowledge-sharing methods. ADC intends to overcome this gap by strengthening its continuous support to help FBOs develop structured formal mentorship frameworks to enhance linkage between FBO management and members by adopting the use of digital tools (e.g., SOMA and digital hubs) to document and share knowledge. The ADC will also participate regularly in organized workshops, and attend FBO Annual General meetings to foster continuous learning and interaction between and within FBOs.

#### 5.4.9.2 Retention of technical knowledge among FBO staff and members

During the extension of BDS services to FBOs, high FBO staff turnover and inadequate internal knowledge management systems resulted in the loss of technical expertise after training. This was further aggravated by the absence of refresher training or systems to build, sustain and preserve institutional knowledge.

To overcome this challenge, the ADC together with the FBOs will attempt to strengthen and establish more knowledge retention systems, such as building the internal training-of-trainers (ToT) programmes and digital archives for documentation. In this regard, the ADC will enhance its efforts to reinforce and update knowledge

through periodic refresher training sessions. Moreover, FBOs will be empowered to create incentives (e.g., career development opportunities) to retain skilled staff within FBOs.

#### 5.4.9.3 Logistical complexities

The geographical dispersion of FBOs, poor infrastructure (e.g. internet connectivity), and high transportation costs have hindered ADC's effective delivery of BDS interventions to the last mile hard to reach Northern, Eastern and Western Uganda. Accordingly, ADC will leverage local partnerships with local Government agencies, other BDS providers, and local authorities within rural areas. In this regard, ADC was able to successfully implement its Community Based Training model to reduce logistical burdens in facilitating and coordinating BDS training sessions. ADC has also leveraged digital tools, such as SOMA e-learning platforms, and virtual training and mentoring, to minimize travel requirements. ADC strongly advocates for government investment in rural infrastructure to facilitate programme delivery.

#### 5.4.9.4 Uncoordinated landscape among BDS providers

The lack of collaboration and alignment among BDS providers has created inefficiencies, including overlapping services, conflicting methodologies, competition for resources, failure to coordinate efforts. This uncoordinated environment has reduced the impact of interventions for FBOs.

This deficit calls for establishment of a formal coordination platform for BDS providers so as to align goals, share best practices, and pool resources. The goal would be to develop a national framework for BDS delivery with clear guidelines on roles, standards and collaboration mechanisms; and to facilitate regular stakeholder meetings to build consensus and streamline approaches to FBO support.

#### 5.4.9.5 Lack of alignment and synergy among stakeholders

Conflicting interests, priorities and approaches among stakeholders have led to fragmented interventions that reduced the effectiveness of BDS programmes. This misalignment often arises from a lack of communication and shared objectives among Donors, BDS providers, government agencies and private sector actors with competing interests. It is therefore important to introduce joint planning and review sessions for stakeholders in order to align priorities, create shared performance indicators to measure collective impacts, and promote collaboration. A multi-stakeholder committee will be required to coordinate interventions and resolve conflicts.

The above challenges need to be addressed systematically, leveraging on existing BDS frameworks. Addressing the above challenges will enable ADC to enhance the efficiency and impacts of its FBO Business Development Service programmes, and ensure sustainable growth and improved access to agricultural finance for FBOs.

### 5.4.10 Lessons Learnt

During the period of implementation of the Business Development Services for farmer-based organization in Uganda, ADC learnt the lessons outlined below.

(i) **Tailor made BDS is effective but takes time to develop and execute:** Unlike other BDS service providers, ADC offers the option of tailoring BDS for specific FBO needs, which takes longer to develop and execute than generic BDS but is more effective. Developing a new brand for a product can take weeks of back-and-forth discussions between consultants and farmer organizations with no decisions being made. A go- to-market strategy takes at least two months to develop and execute.

(ii) **Cooperatives can pay for BDS support:** A myth has been created that SMEs and other FBOs in Uganda are financially too constrained to pay for quality BDS. The ADC experience shows that quality BDS provision can unlock the willingness of cooperatives to pay for BDS. However, some form of initial subsidized BDS offer is necessary to get the farmer organizations and SMEs persuaded to participate in any paid for, subsidized, or cost sharing BDS arrangements.

(iii) **Support FBOs in mobilizing additional finance:**

To magnify the economic value of Farmer Based Organizations and smallholder farmers, there is pressing need for creating key partnerships. Although ADC has made steps to develop a Resource Mobilization Policy and successfully secured US$ 378,000 in project funding and commitments during this period, the sustainability of its BDS programmes and projects necessitates a reinforced approach. It is therefore critical to bolster ADC's financial sustainability and resilience amidst economic uncertainties by strategically engaging donors and diversifying revenue streams.

(iv) **Implement an effective monitoring strategy to enhance monitoring and evaluation:** ADC has invested resources to establish its robust monitoring systems that help the organization to regularly assess BDS progress and impacts, and identify gaps in real-time. It also supports quick decision making, and provides guided and tailored BDS content development. This helps to address the current needs and gaps that exist within the FBOs.

Implementing an effective monitoring strategy offers robust opportunities for efficiently achieving desired results by enabling proactive management, data-driven decision-making, continuous improvement, resource optimization, alignment with objectives, and enhanced accountability throughout the process. In 2024, ADC will persist in utilizing its Monitoring, Evaluation, and Learning (ME&L) framework, and will create avenues to better assess key performance areas and objectives outlined in the Strategic Plan.

### 5.4.11 Emerging Policy Actions and Conclusion

In light of the above highlight of challenges and gaps, the following are the recommendations and identified actions and policy options.

1. **Improve coordination among BDS providers:** The uncoordinated landscape among Uganda's BDS providers limits the effectiveness of capacity-building interventions because of fragmented approaches. There is need to establish a formal coordination platform to support the development and review of current national action frameworks for Business Development Services (BDS), and establish multi-stakeholder coordination platform earlier alluded to.
2. **Strengthen knowledge retention systems:** Insufficient knowledge transfer and retention among FBOs and agribusiness enterprises have hindered the sustained application of technical skills gained through the BDS training. It is proposed that mandatory knowledge retention mechanism, such as training-of-trainers (ToT) models, be incorporated into the national BDS strategy framework and all other FBO capacity-building programmes. The Uganda National Agricultural Extension Services Policy should also integrate digital tools and e-learning platforms into extension services for knowledge retention.
3. **Establish a national BDS accreditation and certification system:** The uncoordinated landscape among Uganda's BDS providers, and lack of standardization in service delivery, reduced the effectiveness and trust in capacity-building interventions. It is proposed that a National BDS Accreditation and Certification Framework be established under the Ministry of Trade, Industry and Cooperatives to regulate service delivery. All BDS providers should also be formally accredited and certified based on clear guidelines for competence, professional ethics and service quality; with regular audit and assessment to ensure compliance and maintenance of quality standards. Incentives, such as grants or public recognition, should also be provided for certified providers to encourage adherence to standards. This will enhance trust and confidence among FBOs and clients, while ensuring the delivery of professional, impactful Business Development Services.

This review of the initiatives by the Agribusiness Development Centre (ADC) to provide business development training to farmer-based organizations speaks to the need to effectively support all such

initiatives and others (finance, production, processing, marketing etc.) if Uganda's goal of agricultural and economic transformation is to be realized. It is important to note thought that without building the knowledge and competencies of all agricultural value chain actors, the various efforts contained in this Agricultural Finance Yearbook 2024 will yield very little. The support to ADC that highlight the importance of training of FBOs, farmers, processors and agricultural commodity dealers must therefore be fully supported and expanded.

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