# aBi BUSINESS PLAN
## 2019-2023


**AGRICULTURAL BUSINESS INITIATIVE**

# aBi Business Plan

## 2019-2023

December 2018

Exchange rates: USh – US$ = 3,700
USh – DKK = 600

Agriculture Business Initiative

# Table of Contents

# List of Tables

# List of Figures

# Abbreviations

| | |
|---|---|
| AB | Agribusiness |
| AB | Agribusiness |
| BDS | Business Development Services |
| BoT | Board of Trustees |
| BP | Business Plan |
| CCIs | Cross cutting Issues |
| CEO | Chief Executive Officer |
| CLG | Company Limited by Guarantee |
| COO | Chief Operating Officer |
| DED | Development Engagement Document |
| DFA | District Farmers Association |
| DP | Development Partners |
| EU | European Union |
| FaaB | Farming as a Business |
| FC | Founders Committee |
| FIs | Financial Institutions |
| FO | Farmer Organisation |
| FPO | Finance and Programme Oversight Committee |
| FSD | Financial Services Development |
| FTE | Full Time Equivalent (jobs) |
| FW | Funding Windows |
| G4G | Gender for Growth |
| GMS | Grant Management System |
| GoU | Government of Uganda |
| HH | Household |
| HR | Human Resource |
| HRBA | Human Rights Based Approach |
| ICT | Information and Communication Technology |
| IP | Implementing Partner |
| KPIs | Key performance indicators |
| LHS | Last Hard Number |
| MoFPED | Ministry of Finance Planning and Economic Development |
| MRM | Monitoring and Result Measurement |
| PIC | Programme Investment Committee |
| RDE | Royal Danish Embassy |
| RT | Review Team |
| SME | Small and/or Medium Size Enterprise |
| TA | Technical Advisor |
| UG1(2) | U-Growth 1 (2) |
| USAID | United States Agency for International Development |
| USh | Uganda shilling |
| VCD | Value Chain Development |

# Executive Summary

## What is aBi?

This Business Plan (BP) of the Agricultural Business Initiative (aBi) sets out what aBi intends to do in the period 2019-2023. It builds on the achievements and lessons from the past 8 years and its previous BP.

aBi is a social enterprise that channels development cooperation funding to agribusinesses and agricultural service providers in Uganda with the aim of building a strong and competitive agriculture sector. aBi consists of two companies, ABI Development Ltd and aBi Finance Ltd..

ABI Development (formerly aBi Trust) channels development funding as matching grants and Business Development Services to agricultural producers and agribusinesses to enhance their management, production, productivity, value addition, income, profitability and employment. In the period 2014 – 2017 the aBi Trust financed around 110 matching grant projects to six value chains with a total value of around USh275 bn, of which USh130 bn were aBi grant contributions.

aBi Finance provides Lines of Credit (LoCs) to Financial Institutions for on-lending to agribusinesses across the entire value chain. aBi Finance also runs an Agriculture Loan Guarantee Scheme (ALGs) for Financial Institutionsto share losses incurred through defaulting loans. As at December 2017, aBi's financial products generated over 231 thousand new loans to producers and businesses. Under the Financial Services Development (FSD) programme aBi Finance provides matching grants to FIs to build institutional capacity for enhancing the provision of financial services and increase outreach in rural areas. As at December 2017 about USh 17bn in grants was disbursed to 44 FIs.

By the end of 2018, aBi had a capital base of USh 170 billion, of which around 70% wasused to finance the LoCs and 30% is invested in securities and used to indemnify the ALGs. From 2014-2018, the capital fund grew by around 40bn from donations and from interest and fees earned from the aBi financial products. The Value Chain Development (VCD) and Financial Services Development (FSD) matching grants are paid from development partner grants to both programmes.

## BP objectives

Under this Business Plan, aBi intends to grow prudently, leveraging on the achievements from the past, to enhance the quality of service delivery and result measurement, and strengthen the care for its partners and the wider social, economic and environmental impacts from its operations through increasing the emphasis on social responsible investments.

> The agricultural sector in Uganda is dominated by small holder farmers and many small (up to 50 workers) traders and processors. Value chains are generally weakly developed and the quality of farm produce and factory products are of moderate to poor quality. On the other hand the local regional and international demand for produce volumes and quality is rapidly increasing and the sector is responding by strengthening the linkages between producers and processors and by upgrading technical and managerial business capacity to meet the demands.
>
> The financial sector in Uganda is characterized by relatively low financial inclusion rates, especially in rural areas, and a conservative lending appetite by Financial Institutions to the agricultural sector, due to (perceived) high risks, asset liability mismatch, which is reflected in high interest rates and short term loans. Financial inclusion is rapidly increasing because of the digitization of the financial sector, and the emergence and professionalization of SACCOs and semi-formal savings and loans associations.

The overall development objective of this BP is:

a competitive, profitable and sustainable agriculture and agribusiness sector in support of equitable wealth creation in Uganda.

The strategic objectives for this BP are as per the table below.

| | |
|---|---|
| Outcome: | Improved profitability, income and employment of Ugandan farmers and agribusinesses. |
| Result 1: | Smallholder farmers' sustainable production, productivity and market integration increased |
| Result 2: | Beneficiary agribusinesses overall business performance and sustainability improved |
| Result 3: | Smallholder farmers and agribusiness access to serviceable financial services increased |
| Result 4: | aBi's efficiency, effectiveness and sustainability enhanced |

The first three results (1-3) relate to the programmatic interventions that enhance opportunities and capacities for commercial smallholder farmers and for agribusinesses. The first two results impact directly on the managerial, technical and marketing capacities and capabilities of producers and businesses. Result 3 focuses on their access to finance. Results 1 and 2 are largely achieved by ABI Development, and result 3 primarily by aBi Finance.

Operational objectives are defined in Result 4, and reflect efficiency, business performance and sustainability of aBi.

## ABI Development interventions and expected results

The interventions of aBi will continue to be focused on the mid- and upstream value chain actors (primary producers and processors). aBi will strengthen its focus on the linkages between these value chain actors, as well as the linkages between these and the more downstream traders and exporters.

At the onset ABI Development will continue directing its focus to its originally six value chains[1] , but will consider, on the basis of additional value chain analyses to add one or two value chains to its portfolio. In addition, aBi has a dedicated budget line for interventions specifically aimed at women, youth and the environment, and the option to enter into innovative market interventions such as ICT, transport, and irrigation.

Overall, ABI Development plans to execute around 100 grants with a total value of USh159 bn, targeting commercial producers through intermediaries and businesses for production and productivity enhancement, and small and medium agribusiness enterprises for management and capital expenditure support. Commodity platforms, and occasionally Government Agencies, shall be supported to carry out research and policy and advocacy on behalf of the sector or value chain.

The coffee VC will receive around 23% of the funding, followed by cereals with 20%. The other VCs will receive around 10% each, while crosscutting issueswill be supported with 4% of the total funding envelope. By the end of the BP period around 140 thousand smallholder producers will have adopted good agricultural practices on 120 thousand acres, and will have strengthened market linkages with off-takers, earning on average an additional USh1.7 million annually. This constitutes an estimated 30-50% additional monetary farm income.

During the BP period, around 80 agribusinesses will be supported to achieve an additional turnover of USh540 billion.

The combined interventions in agricultural production and processing is expected to generate 90 thousand full time equivalent jobs, of which 50% are taken up by women and youth.

Ultimately, the ABI Development interventions will generate an additional value over the BP period of over USh 1 trillion. With a total programmatic and operational investment of USh249bn, a conservative estimate indicates a return on investment of 400-600%. The contribution of the aBi interventions to the agricultural GDP is around 0.2%.

1 *Coffee, cereals, oilseeds, pulses, horticulture and dairy*

## aBi Finance interventions and expected results

### LoC and ALG interventions

During this BP period, aBi Finance will substantially expand its LoC and ALG components. This will be done by expanding the capital fund from which these components are financed and indemnified, and by increasing the share of the capital fund that is dedicated to the LoC component from 64% to 69%.The LoC product shall be increasingly focussed on Tier III and Tier IV organisations. This will cause loan sizes to remain relatively low, although expected to grow over time to around USh3.5 million per outlay. In addition, aBi will promote ways and means to make the FI loan products more attractive for medium-term financing.

Assuming one annual turnover and an average loan size of USh 3-3.5 million, around 218,000loans are expected to be issued under the LoC scheme, of which almost 16,000 are used for Clean Technology investments. With an average loan term of 1 year and an interest rate of 23% per year, the financial sector is estimated to earn USh 140bn, and the agriculture and agribusiness sector USh149 bn over the lifespan of the BP.

The ALG facility intends to stimulate FIs to extend loans to risky agricultural enterprises. The ALGs are covered by an indemnity facility within the capital fund, up to a maximum of 20% of the capital fund. The global loan limit shall be increased from 3 to 4 times the indemnity fund size.

As a result, during this BP period the ALG loan portfolio shall grow from slightly above USh120 bn to USh168 bn. With the average loan size increasing from 2.8 to 3.0 million by 2023, 196,000 retail loans shall have been generated by the ALGs by the end of the BP period. By then the indemnity fund will have leveraged more than three times its value in smallholder loans in rural areas. The financial sector is estimated to earn 140bn and the agriculture and agribusiness sector 150bn from the ALG facility.

The volume of the LoCs, ALGs are directly related to the capital fund. During the previous BP period, the fund doubled in size to USh162 bn by the end of 2017. This has been achieved by organic growth but also an annual injection from DANIDA amounting to a cumulative additional sum of USh47 bn.

For this BP period, the capital fund is expected to grow by 5% per year from its interest bearing securities, and from fees and interest derived from the LoCs and ALGs. This would result in a fund volume of USh216bn by the end of 2023. Accelerated growth, which would result in a quicker expansion of aBi's financial instruments to FIs, would have to be generated by additional capital injections.

According to the forecasted statement of comprehensive income for the Business Plan period, a conservative estimate shows that the retained earnings will be substantial. This obviously provides aBi with a good vehicle for sustaining the institution and possibly also for future allocations to programme activities from its own fund.

## FSD interventions

During this BP period, aBi Finance will expand its Financial Services Development (FSD) programme with a focus on Tier III and Tier IV FIs. Over time, aBi Finance has developed a good insight in the specific requirements of FIs for FSD support. Most prominently is the need for support to the development of branchless financial banking products to which 30% of the FSD funds will be allocated.

In addition, efficiency gains are to be made for FIs and their clients through mobile banking solutions, which would reduce bank transaction costs and, eventually, bank fees and interest rates. For Tier III and IV FIs, roll out of and capacity building in modern banking software and related management information systems is a second important intervention area.

aBi will upscale its support to VSLAs substantially through intermediary organisations. Over time, it is planned to link mature VSLAs to formal FIs for broader and all-inclusive financial services. aBi shall support that process by assisting FIs in developing attitudes, understanding and products tailored to this new type of clients.

On the basis of previous FSD interventions aBi projects to generate through its partners around 165,000 new accounts per year, and an annual savings volume of around USh35bn.

On the loan side, aBi interventions expect to generate during the entire BP period around 900,000 small loans with a total value of USh440 bn. In addition, the FSD programme will help to establish 36,000 new branchless financial points of sale, thereby increasing financial service penetration in rural areas.

Experience has shown that the economic impact of the loans is considerable. With an average loan duration of 3 months and interest rate of 36% the FSD partners are estimated to earn USh39bn from new loans over the lifespan of the BP, whereas the loan clients would earn around USh95bn from the loans over the lifespan of the project. Cumulatively, the investments in the FSD interventions of USh39 bn, are expected to create three to four times its value for partner FIs and FI clients.

## Governance and management

aBi consists of two operating companies, which are Limited by Guarantee: aBi Finance Ltd and ABI Development Ltd. The two aBi companies are closely intertwined, in particular where they share the same board members, senior management positions and corporate services.

aBi's corporate governance arrangements are set out in aBi's Governance Manual.

The Members of the two aBi companies provide the overall objectives and framework within which the aBi Boards and management operate. They are also responsible for appointing the members of the aBi Boards and the GCEO. TheaBiBoards translate the overall objectives of aBi into policy guidelines and strategies, to be executed by management and staff.

The aBi Boards have delegated portfolio development and procurement to the aBi Procurement and Investment Committee (PIC) and the oversight for financial reporting, internal controls and risk management to the aBi Audit Risk and Compliance Committee. Within certain limits set out in the Governance Manual, the responsibility for managing aBi on a day to day basis, has been delegatedto the Group Chief Executive Officer. The GCEO is supported by the Management Team, consisting of the Chief Operating Officer ABI Development, the Chief Operating Officer aBi Finance, and the Chief Operating Officer Corporate Services.

The aBi Boards are supported by the Company Secretary and advised by the Internal Auditor. The GCEO also has access to these two individuals for advice on governance issues.

The GCEO has established a senior management team to support her in delivering on those matters delegated to her by the aBi Boards.

## Programme execution

Programmatic management and execution is carried out by Portfolio Development and Management teams for the VCD programme and the FSD programme, and a Capital Fund management function in aBi Finance. For these functions, the aBi project managers are supported by technical expertise from the Results Measurement & RD, the Grant Management Controller Unit, and the Legal and Risk Compliance Unit.

Portfolio development is done through the regular launch of funding windows for specific VCs and FSD opportunities identified by the management team and external experts.

Administrative management of projects is carried out through a tailor-made on-line Grant Management System. The GMS manages the application and programme management life cycles, by facilitating on-line applications, KPI performance reporting, financial reporting, and associated uploading and storage of all relevant project documents, correspondence and reports. The system generates real-time project performance reports against project KPIs, and aggregated output tables for VCs and regions as input in the reporting cycle of aBi.

The Corporate Services Department provides services to both companies. The core functions of CS are service provision in the areas of finance, administration, human resources, procurement, technical services (primarily ICT), risk and compliance, and result measurement.

## Result Measurement & Research and Development

The Result Measurement& RD Unit is responsible for result measurements, evaluations and lessons learning. In this, the Unit is guided by a recently updated monitoring and evaluation manual that follows the DCED standard for monitoring and evaluating private sector development interventions. Basis for performance measurements are 14 aBi–wide standard KPI's, 38 value chain specific KPI's and a variable number of project specific KPI's. The value chain specific KPI's are divided between 7 VCs, this ultimately means that each IP reports usually on around 25 to 26, and no-more than 30 KPI's. The KPIs feed directly into the Objective Framework KPIs as shown in chapter 4.

## Risk and compliance management systems

The Risk Management Department focuses on proactive risk and compliance management, through; developing standard risk assessment tools as guided by the aBi Risk and Compliance Framework, andcontinuous risk assessment and risk awareness campaigns at all levels including with implementing partners. To be effective, risk management is aligned with aBi's overall objectives, corporate focus, strategic direction, operating practices and internal culture.

## Reporting

aBi routinely prepares quarterly, semi-annual and annual reports that contain both programmatic and operational data. The reports will be informed by the monitoring data collected from the monitoring visits, progress reports, evaluation reports, the data generated through the M&E database for key performance indicators as referred to in the respective result chains and the other sections of the document, and by the management information system of aBi.

## Sustainability

aBi looks at sustainability from the perspective of delivering more value for development partner money than any other grant delivery mechanism in Uganda. With 8 years of experience and its wide network in the sector, and a cost/benefit ratio of below 30%, aBi should be the choice of preference for financiers interested in agricultural and agribusiness development in Uganda.

## Finances

### ABI Development

The projected income is USh248.8bn against a total expenditure budget of USh251.0 bn, the minor shortfall of USh 2bn is covered by funds projected to be remaining as at the end of 2018.

| ABI Development income and expenditure (USh million) | 2019 | 2020 | 2021 | 2022 | 2023 | 2019-2023 |
|---|---|---|---|---|---|---|
| Total Income | 58,405 | 61,786 | 44,656 | 44,813 | 39,097 | 248,757 |
| Total Expenditure | 47,129 | 49,395 | 49,995 | 52,274 | 52,020 | 250,813 |
| **±Surplus** | **11,276** | **12,391** | **-5,339** | **-7,461** | **-12,923** | **-2,056** |
| **% Programmatic/Total** | 73% | 74% | 73% | 74% | 75% | 74% |
| **% Disbursement/Total** | 64% | 65% | 64% | 64% | 65% | 64% |

The programmatic costs over total costs is approximately 74% .

## aBi Finance

The total income for aBi Finance comes from three sources: interest on LOC & securities, income from management fees of the ALG and Construction Guarantee Fund, and a grant from Development Patrners towards the FSD matching grant programme. The overall surplus before tax during the BP is expected to reach USh 42 bn.

| aBi Finance Income and expenditure (USh million) | 2019 | 2020 | 2021 | 2022 | 2023 | 2019-2023 |
|---|---|---|---|---|---|---|
| Total Income | 27,159 | 29,855 | 30,452 | 31,447 | 24,110 | 143,024 |
| Total Expenditure | 16,567 | 18,866 | 19,051 | 19,954 | 12,086 | 86,525 |
| **±Surplus** | **10,591** | **10,989** | **11,401** | **11,494** | **12,024** | **56,499** |
| **FSD Programmatic/total** | 97% | 93% | 93% | 93% | 93% | 94% |

The total income for aBi Finance comes from three sources: interest on LOC &securities, income from management fees of the ALG and Construction Guarantee Fund, and a grant from Development Patrners towards the FSD matching grant programme. The overall surplus before tax during the BP is expected to reach USh 42 bn.


170
CIMBRIA
DANGER
HIGH VOLTAGE WITHIN
KEEP OUT
180

# 1. aBi background

## 1.1 aBi in short

The Agricultural Business Initiative is a social enterprise with the overall vision to contribute to '**a competitive and sustainable agriculture and agribusiness sector in Ugandain support of equitable wealth creation in Uganda**'. aBi consists of two Companies Limited by Guarantee, ABI Development Ltd (formerly the aBi Trust) and aBi Finance Ltd.

The main focus of ABI Development is to increase agricultural production and value addition by extending matching grants and business development services (BDS)to agribusinesses, farmer organisations and intermediaries. The grants and BDS enhance planning and management, production and businesses infrastructure, and upstream and downstream market linkages of producers and agribusinesses. On the other hand, aBi Finance expands access to business finance for agricultural producers and agribusinesses by offering to Financial Institutions (FIs),financial incentives and infrastructure that make lending to the agricultural sector more attractive and less risky.

The initiative for the establishment of aBi was taken by the Government of Denmark and the Government of Uganda in 2010. The idea was to create an independent institution that would propel agribusiness development in Uganda on a permanent basis, at scale and more reliably and efficiently than can be realised by traditional development programmes.

Permanency is achieved by the fact that aBi is incorporated as two companies to exist in perpetuity. Scale is achieved by offering different development partners a single competent platform to receive, manage and deliver social impact fromentrusted agriculture and agribusiness development funds. This creates economies of scale, hence efficiencies, and a more long-term and stable funding stream not disrupted by the project cycles of the development partners.

Efficiencies are further achieved by the companies' capital base, which was originally endowed to aBi by DANIDA, and which grows through a prudent investment policy. A portion of the proceeds covers some of the operational costs of aBi Finance andABI Development, thereby providing a favourable cost/benefit ratio to development partners.

aBi started operations in 2011. Core funding was provided by DANIDA under the U-Growth I programme (2010 - 2013) and the U-Growth II programme (2014-2018). Several development partners contributed fundsthrough Delegated Cooperation Agreements with the Royal Danish Embassyand a few directly signed agreements with aBi for Fund Management. With this start-up capital, aBi built up a comprehensive portfolio of grants and financial instruments and has become a major player in the agribusiness development sector in Uganda.

By the end of 2018, aBiis projected to havea capital base of approximately USh 170bn (US$ 48 ml), employing 53 staff, of whom 30 are shared in a corporate service arrangement between the two companies. Senior management consists of a Group CEO, and Chief OperatingOfficers for ABI Development, aBi Finance and Corporate Services. Both companies are governed by a Board of Directors, which determine the overall companies' strategies, and provide programmatic, financial and operational oversight through Board Committees. The founders of aBi, the Danish Government and the Government of Uganda, guide the Board so as to ensure that the original idea, long-term objectives and sustainability of aBi are maintained.

This Business Plan sets out what aBi intends to do in the period 2019-2023. It builds on the achievements and lessons from the past. The theme for this BP is **Prudent Growth, Quality & Care**, reflecting a focus on reinforcing the current programmes,and increasing emphasis on SociallyResponsible Investments. Operationally, aBi will further modernise and streamline its governance, administrative and grant management processes, and strengthen risk and compliance management. Ultimately, aBi is committed to generating ever more value for money in a socially responsible manner for development and implementing partners alike.

## 1.2 What aBi does

### 1.2.1 ABI Development Limited

ABI Development channels development funding as matching grants and Business Development Services to agricultural producers and agribusinesses to enhance their management, production, productivity, value addition, income, profitability and employment. It has done this for six VCs: coffee, cereals, pulses, oil seeds, horticulture and dairy. These VCs were selected originally on the basis of comprehensive value chain analyses.Market systems and value chain analyses, combined with lessons from previous interventions must ensure that aBi's interventions remain innovative and relevant for the agribusiness sector, and will inform which other VCs to consider in the BP period.

The aBi Value Chain Development (VCD) grants intervene on three interrelated developmental aspects: building planning and management capacity;building production knowledge, practices, infrastructure and equipment; and strengthening the presence and performance of producers and businesses in upstream and downstream markets.

In the period 2014 – 2017 the aBi Trust (now ABI Development[2] ) executed around 110 matching grant projects with a total value of around USh275 bn, of which USh130 bn were aBi grant contributions. The coffee and cereal VCs received around 70% of the funding. Direct recipients of the grants were SMEs and Farmer Organisations (77% of the IPs), and NGOs, Parastatals and Commodity Platforms. Over the years the share of SMEs in the total VCD portfolio increased. Around 60% of the projects were located in the western and central regions of Uganda. This reflected the more vibrant agribusiness environment in those regions as compared to the eastern and northern region.

Originally, the VCD grants predominantly focused on increasing productivity, income, employment and market integration at producer level. Farmer Organisations and NGOs were supported to provide training and market linkages to producer groups to become more effective players in the VC market systems. Over time the aBi grants portfolio shifted towards SMEs to develop farmer linkages and training programmes specific to their business, and support capital expenditures (capex) to store, process and market additional produce from their client farmers. The trend to increase SME funding for producer development, capital expenditure and upstream marketing shall continue, and further be strengthened with Business Development Services for SMEs. However, it should be emphasized that grant financing of capital expenditure shall only be provided on a more selective basis, carefully analysing the additionality of the grant, by experienced resources.

aBi's grant making has also included strong elements of social and environmental protection and development, where gender equity and more recently support to climate smart agriculture have been keystones, and scored measurable impacts according to various reviews and studies.

An independent review of the period 2014-2018 concluded that the aBi Trust largely met its targets of the BP 2014-2018. By mid-2017, average absorption levels were at 67%. Increased efforts towards disbursements and grant contracting in 2017 and 2018 is expected tomake the aBi Trust meet its absorption and performance targets of the BP 2014-2018 by the end of 2018.

**Table 1: Targets and actual performance of aBi Trust**

| Indicators | BP 2014-2018 | Actual Cumulative (2017) |
|---|---|---|
| No of farmers reached | 488,700 | 466,062 |
| Farmers' Revenue (USh bn) | 960 | 690 |
| FTE jobs | 89,217 | 48,472 |
| Acreage under crops | 733,050 | 867,280 |
| Adoption | 245,340 | 289,637 |
| Demonstration plots | 20,448 | 16,500 |
| Projects with gender integrated | 95 | 53 |
| Projects with GG integrated | 50 | 38 |

2 *In 2018, the aBi Trust was closed and its assets incorporated as a Company Limited by Guarantee*

Overall, the independent review concluded on the positive side that:

i. The majority of grant projects have been well implemented, in terms of delivering their outputs and reaching their output targets.

ii. At outcome level, there is evidence of increased production and market integration of producers, and of increased agribusiness performance through increased farmer outreach, and capital investments in businesses. These benefits are expected to be sustained, certainly for companies, but to some considerable extent also for producers.

iii. Beyond production, the most notable social outcomes of the aBi interventions at producer level, are increased gender equity and intra-household cooperation.

iv. The financial benefits to agricultural producers are at least 2 – 3 times the value of the investments made by the Development Partners.

v. The cost of service delivery (overhead) by aBi was at between 20 – 25% competitive as compared to similar programmes executed through other grant delivery mechanisms. Under this BP the overheads shall be maintained below 25%.

vi. aBi's fully overhauled Grant Management System (GMS), updated procedures, guidelines and risk management processes, that were introduced in 2017, are robust to meet the increasing number of partners and grant volumes as foreseen in this BP.

vii. The Monitoring and Result Measurement (MRM) system has been overhauled, combined with the GMS and is capable to capture relevant and accurate performance measurement data from its interventions to satisfy accountability and performance standards as well as learn lessons for continuously improving aBi's operations.

### 1.2.2 aBi Finance

Since its inception in 2010, aBi Finance has grown into oneof the largest development funder in Uganda. Itmainly supports agribusiness developmentthrough its product offerings to intermediary Financial Institutions (FIs), to increase their appetite and ability to lend to the agricultural sector.

The core business of aBi Finance is the provision of Lines of Credit (LoCs) to FIs for on-lending to agribusinesses across the entire value chain, and Agriculture Loan Guarantee Scheme (ALGs) to serve as a mechanism that shares losses incurred through defaulting loans. As at December 2017, the financial products generated over 231,000 new loans to producers and businesses, and leveraged three times the amount set aside to indemnify the ALG Scheme. The claims on the loan guarantees have been maintained below 1% of the coverage, which was well below the established upper threshold of 5%.

Under the Financial Services Development (FSD) programme aBi Finance provides matching grants to FIs to build institutional capacity for enhancing the provision of financial services and increase outreach in rural areas. As at December 2017aboutUSh 17bn in grants was disbursed to 44 FIs, of which 36 were SACCOS and57% of the grants went to branch expansion and branchless mechanisms (mostly ICT systems), thereby increasing financial penetration in rural areas. Other major investments were made in Management Information Systems, financial literacy and saving mobilisation, product development and risk management.

In addition to the above, aBi Finance has provided significant support to other development in the financial services sector. aBi was a prime-mover in the development of agricultural insurance, considered an agricultural bond for the capital markets and are major contributors to the development of agency banking in Uganda.

**Table 2:** Targets and actual performance of aBi Finance (2014-2018)

| Indicators | BP 2014-2018 | Actual Cumulative (2017) |
|---|---|---|
| FSD | | |
| No of new savings clients | 200,000 | 606,459 |
| No of new loan clients | 250,000 | 413,341 |
| Increased loan portfolio | | 488 |
| No of agricultural insurances | 12,500 | 52,249 |
| LoC | | |
| Number of loans | 50,000 | 119,692 |
| Loans volume (USh bn) | 82 | 85 |
| ALGs | | |
| Number of loans guaranteed | 100,000 | 111,508 |
| Guaranteed loan volume (USh bn) | 92 | 97 |
| Capital fund | | |
| Total volume (USh bn) | 121 | 162 |
| Yield on investment | 12.0% | 12.2% |

* Revised upwards in 2017

By 2017, the capital base of aBi Finance reached USh162 bn, of which USh85bn was extended in LoCs and 20% was set aside to indemnify the loans under the ALG facility. Although the aBi LoC volume increased over time, the loan volume as percentage of total agricultural lending by formal FIs reduced. This indicates that indeed the FIs' appetite for agricultural lending has increased, which to some fair extent can be attributed to aBi Finance interventions in the financial sector.

LoCs and ALGs were financed / guaranteed from the aBi Finance capital fund. The fees and interest charged to the recipient FIs have generated a fair return on investment. Alongside the LoCs and ALGs, the capital fund has been invested in interest bearing securities. Since 2014, the fund has grown by almost 100% through fresh capital injections and incomes earned on securities and fees, thereby strengthening aBi Finance's capital base, and allowing for a steady expansion of LoC and ALG volumes.

An independent review of aBi Finance in 2017 concluded that:

i. aBi Finance has largely achieved its goals, not in the least because of its efficiency, ethical standards and professional procedures.

ii. Within the Ugandan financial market, aBi Finance is highly regarded for their leading role in providing Lines of Credit (LoCs) and Agricultural Loan Guarantees (ALGs) to FIs.

iii. The services and products offered by aBi Finance have been instrumental in stimulating FIs to initiate or expand financing of agricultural businesses and commercial smallholder producers. The LoCs provide the necessary liquidity for agricultural lending, especially to the tier 4 (SACCO) market, and ALGs provide the market with the necessary insurance to lend to more risky agricultural market segments.

iv. This in turn leads to improved conditions for the end users, and in particular rural agricultural producers. The 2014-2017 review reconfirmed on the basis of a survey amongst smallholder end-user borrowers the findings of an earlier review that loans to smallholder farmers increased their income and grew their asset base.

v. Following the aBi support, FIs increasingly invested in the appointment and training of credit officers and their (IT) systems to make growth in this segment possible.

vi. As a result of prudent financial management and investment policies, aBi Finance has become a financially sustainable organisation.

vii. Given its present stage of development in size, volume, outreach, and acceptance by the market in general and the effect of its strategy, aBi Finance is indeed in a position to attract other investors in the future.

As it stands, aBi Finance is an efficient, stable and profitable finance house, but it is a development finance institution that is not required to pay dividends to shareholders and it receives its' funds at zero-cost. This also reflects that though prudent, aBi Finance's investors are risk willing and expect aBi Finance to continue to be at the forefront of the development of agricultural development in Uganda, taking a pioneering role that provides the proofs-of-concept necessary to attract in the mainstream FIs and investors who provide scale in the delivery of financial services.

# 2. Lessons learned and Strategic Responses

## 2.1. VCD interventions

### Value Chain Development versus Making Markets Work approaches

The aBi Trust has been financing six VCs namely; coffee, cereals, dairy, oilseeds, pulses and horticulture. The recent review concludes that there is no particular reason to change the chosen VCs with others. aBi will therefore continue with the current six VCs but will be open to include new ones if a market analysis strongly suggests its relevance over the existing portfolio.

During the previous BP, aBi has been concentrating its efforts on creating successful businesses and producers in the chosen VCs, rather than building the wider agricultural market systems or applying a Making Markets Work (MMW) approach. During this BP period, aBi will make a broader analysis of the VCs in which it operates to ensure that the interventions address critical market failures within and across the value chains to the wider business environment. The analyses may result in a gradual inclusion of projects with partners and commodity platforms that provide supporting functions, such as input supply, transport, storage and packaging, information and communication, ICT solutions, quality standards, irrigation and mechanisation across the agricultural sector, more broadly.

Since the original value chain analyses in 2011, aBi has done little analytical work to update and deepen its understanding of the VCs. aBi shall in future solicit grants through targeted funding windows, and for that, amore detailed understanding of the opportunities and bottlenecks in the chains, will be needed. This may not necessarily require classical value chain analysis work, but will be more often done through analysing previous grant success and fail factors, and round tableexperts meetings.

Hereunder, is an example of a draft funding window excerpt, which has already been presented for the Board's consideration. It was based on the learnings and consultations made in the development of the aBi Dairy Strategy 2017-2022 and other literature.

If approved, aBi plans to contract four Intermediary Organisations, for the targeted area of South Western[3] Uganda, Central[4] Uganda and Rwenzori Region [5]

The targeted Implementing Partner (IP) shall be required to have a proven track record in developing sustainable market linkages with private service providers in the dairy sector in Uganda, to reach 7,200 small scale (less than 15 animals) dairy farmers and 50 dairy service providers.

This inaugural window shall be specifically allocated USh 9.8 bn to result into an average contract size of USh 2.45 bn per IP. This in turn,could result into a reasonably good cost per farmer of USh 1.4 million (US$360/farmer, US$120/farmer/year).

This funding window(FW) could be the first of three windows over the life of the Business Plan and to which USh23.4 bn has been allocated, where 35% is to be spent on production and productivity, 25% on PHH and quality, and 9% on financial literacy and business planning of farmers and service providers. This amounts to a planned investment of USh21.32bn in this FW, of which, USh9.8 bn (46%) is dedicated to the first FW.

The **table 3** below represents an outlay of the investment planning for the inaugural Funding Windows (FW) expected to be launched in 2019

3 *Kiruhura, Kazo, Ibanda, Sheema, Kabwohe, Ntungamo, Mbarara, Lyantonde, Bushenyi, Isingiro, Mitooma, Rubirizi,*

4 *Bukomasimbi, Butambala, Kalungu, Kayunga, Kampala, Kiboga, Kyankwanzi, Luwero, Lwengo, Masaka, Mityana, Mpigi, Mukono, Nakaseke, Naka songola, Rakai, Sembabule, Wakiso, Kyotera*

5 *Kasese, Kabarole, Kamwenge, Kibaale, Kyegegwa, Kyenjojo, Ntoroko, Bundibugyo*

| FW | No of IPs | 2019 | 2020 | 2021 | 2022 | 2023 | Total USh bn |
|---|---|---|---|---|---|---|---|
| FW Dairy/1 | 4-6 | 3.2 | 3.9 | 2.7 | | | 9.8 |
| FW Dairy/2 | 4 | | | 2.7 | 3.6 | 2.6 | 8.9 |
| FW Dairy/3 | 5 | | | | | 2.6 | 2.6 |
| | **13-15** | **3.22** | **3.9** | **5.4** | **3.6** | **5.2** | **21.32*** |
| * the remaining Ush2 bn in the BP is scheduled to be spent on carry over projects | | | | | | | |

## Portfolio development

aBi's previous open grant application process has resulted in hundreds of very diverse grant applications. To be more efficient in portfolio development, aBi shall design its future calls for grant proposals on the basis of clearly defined funding windows for each of the VCs. This will reduce the number of applications per call, will make the applications comparable and competitive, and will spread the applications more evenly over the years. As a result, staff will spend less time on appraisals, the success rate of applications will increase, and aBi will be able to steer the direction of its grant portfolio.

Some grant project outcomes were not met because of IP business constraints, some of which should have been detected during the grant appraisal process. In 2017, aBi introduced a comprehensive due diligence process that assessesin detail the business case and risks, and develops for promising but risky investments a contingency plan in case the market turns against the IP, accompanied, where needed, by targeted Business Development Services.

## Grant financing

Experience has shown that grant application budgets are often inflated and beyond the historical management capacity of the IPs. Large fund injections run the risk of disrupting the businesses rather than supporting it, if not accompanied with comprehensive BDS. During the grant appraisal process, a detailed business analysis will be applied to make sure that grant amounts are in support of organic business growth, can be effectively handled by the partners' management teamand where the businesses' performance can realistically be expected to maintain the investments made during the grant period.

On average,aBi's contribution to agribusinesses projects has been at between 40% and 60% of the total project value. The remaining part was expected to be raised by the implementing partner either in cash or in kind. It appears that in-kind contributions are hard to monetise and track, and for the new BP period in-kind contributions are considered but will not form part of the approved budgets.

If a partner has agreed on a cash contribution, it is crucial for efficient grant execution that the own funds are available to make the planned investments in time. For major investments, aBi shall monitor the availability of partner funds prior to its own fund disbursement. Where partners cannot raise their own contribution in time due to cash flow problems, ABI Development may assist with linking the partner to FIs or make use of aBi Finance instruments. Combined with BDS,this approach moves aBi towards providing business solutions to partners rather than financing business projects.

As mentioned above, the own contribution of partners has been between 40-60%, irrespective of their business size and case. To make better use of the grant funds, aBi will in future apply a broader spread of own contributions, with a lower contribution for not-for-profit intermediaries and promising but more risky business cases, and higher contributions for companies with a strong capital base, and for low risk projects with potentially high returns on investment.

### Grant management

During the previous BP period aBi management concluded that the paper-based grant management system was not capable of efficiently handling the growing volume of applications and grants. In response,aBi developed anon-line Grant Management System (GMS) for the administration, record-keeping and management during the entire life cycle of a grant. The application documentation is standardised, procedures are streamlined and tightened, and communication, technical and financial reporting are captured online. The GMS is tailored to the new revised processes for grant making, and shall greatly enhance efficiency, transparency and oversight.

### Result measurement and R&D

Over the years aBi developed an extensive set of Key Performance Indicators (KPIs) per grant and for the overall portfolio. Data collection and management of the KPIs became an ever increasing burden for the IPs and the aBi M&E team alike, while the quality of the data was sometimes questionable. Several iterations of the M&E systems were made. For this BP period, and following the introduction of the GMS, aBi has reduced and streamlined the KPIs, and separated grant verification functions from KPI data collection. The Monitoring and Result Measurement team will focus on meta-analyses, real-time evaluative processes and research as well aslessons learning to feed into the design of funding windows. This should also improve the quality of reporting to theBoard, its development partners and other key stakeholders.

### Accountability and risk management

A comprehensive audit exercise in 2015 and 2016 revealed that around 6% of the grant funds were spent outside the aBi procedures, or not properly accounted for. The recovery of these funds has been cumbersome and costly. The steps taken to reduce ineligible expenditures are: the development of clearer guidelines; better IP induction and training; a comprehensive due diligence process prior to granting; and a mandatory annual grant audit. The upper limitfor ineligible expenditure is set at a 2% during grant execution, and at full recovery before grant closure.

## 2.2 aBi Finance Interventions

### Products

The medium to long-term wholesale Lines of Credits of aBi Finance are most often turned into short-term small loans to end users by aBi's intermediary FIs. Many of the reasons for this are beyond the influence of aBi but is nevertheless unfortunate, as agribusiness development and transformation requires not only short-term working capital, but also capital for long-term investment in, for example, buildings, equipment and processing machinery. aBi Finance will increasingly engage FIs to expand the medium to long term on-lending portfolio, and shall strengthen its monitoring tools to track the performance on this target.

aBi Finance's programmatic target group are hard-to-reach small to medium size and risk prone agricultural producers and businesses. It appears that suitable financial products for such clients are scarce, and the capacity for FIs to design, deliver and manage such products for the agricultural sector are limited and constrained by high transaction costs. During this BP period, aBi will expand the support to FIs in developing tailor-made financial products and delivery mechanisms for this "last mile" target group. The opportunities to do so with innovative IT based instruments (FinTech) are growing quickly. aBi shall take an active role in supporting FinTech development with its FI partners.

aBi's strong and solid performance in the sector shall be used to leverage non-FI partners' resources to increase financial inclusion in rural areas. Typical partners in this respect are the Uganda Bankers' Association for agency banking, Uganda Insurers Association, for agri-insurance, and Uganda Central Cooperative Financial Services (UCCFS), to reach more rural clients through SACCOs.

It has been previously suggested that aBi could enter the retail market with (concessional) loan products for borrowers with limited access to the commercial market. However, aBi's infrastructure and staffing is not tailored for this, while such a move would make aBi also compete with its client FIs for LoCs and ALGs. Therefore, aBi Finance will not embark on direct lendingfor the time being.

Concessional lending as a financial product can fill the gap between direct subsidies or grants and market-priced commercial finance, and as a means of supporting the delivery of public-goods by the private sector. At the moment, a limited number of concessional loans are provided by aBi to SMEs under the Clean Technology Fund. In the future, and based on a careful analyses of possible market distorting effects, aBi will expand the concessional loan facility and portable guarantees to enable more comprehensive business solutions to its VCD partners.

### Partners

The aBi partners for LoCs and ALGs are sourced from all financial tiers, but has over time increased its share of tier IV partners to 38%. Tier IV FIs, primarily SACCOs, are generally in a better position to reach the intended aBi target group at lower costs, but may lack the infrastructure (ICT especially) and management capacity to grow their business and handle aBi's LoCs and ALGs. Future interventions will focus on upgrading such organisations through FSD support to a level where they can become effective conduits for LoCs and ALGs.

### FSD integration in aBi Finance

In 2016 the FSD programme was technically and physically moved from the Trust to aBi Finance. This was done to strengthen the integration of FSD grant making with the LoC and ALG instruments. The latter could be extended once an FSD client had met the qualifying standards. This has worked well. In this BP period, full administrative and budgetary integration with aBi Finance shall be completed so as to allow better support for non-financial aspects of the financial services sector. In this regard the amount granted to aBi Finance for this BP period shall be set aside entirely for FSD interventions.

### Fund expansion

The (non-concessional) financial products of aBi are popular in the local market and have delivered the financial and development objectives of aBi Finance, its founders and development partners. The financial sector's demand for these products remains high and significantly unmet. In addition, there are other needs and opportunities for the development of rural and agricultural financial services which are not currently being met by aBi Finance's limited number of instruments. The expansion of aBi's capital base expansion beyond a capital injection of RDE is therefore a logical step to reach a larger clientele, and is also one that a now mature aBi Finance can prudently carry.

Working closely with the RDE, aBi Finance will continue sourcing and considering other development partners to grow the capital fund with the purpose of expanding its LoC and ALG programmes with intermediary FIs (including but not limited to the Clean Technology Fund expansion), enhance its approach to blended finance and also develop and extend the services and instruments that the finance industry offers to the agricultural sector.

### Socially Responsible Investments

As a provider of wholesale LoCs and ALGs to intermediary FIs, aBi has limited control over the social- and development impact of its financial products. aBi will strengthen its SRI engagement with its partners by obtaining an overview of the various global SRI reporting standards and carefully assessing them to adopt the most suitable one to meet her BP objectives. This should lead into the formulation an SRI framework and MRM system based on this standard and an implementation plan for successful adoption.

# 3. External Environment

## 3.1 Agriculture and agribusinesses environment

Agriculture continues to be the most prominent economic sector in Uganda. The sector is dominated by 3.5 million smallholder farmers (< 2.5 hectares), constituting about 85% of the farming community. It provides over 70% of Uganda's employment and 60% of Uganda's export income. Despite low agriculture growth rates and a burgeoning population, Uganda has remained generally food secure, while agricultural exports have increased markedly. Although its share in GDP is slowly declining, it remains central to Uganda's economic growth, social development and stability.

Food crop production is the first priority and main occupation and of smallholder farmers.Coffee is the largest traditional cash crop, grown by 1.7 million farmers. The original distinction between food and cash crops is disappearing, as an estimated 30% of the farm output is marketed. As such, agriculture is also a major source of raw materials for the manufacturing sector, a market for non-agricultural output and a source of surplus for investments in the wider economy.

The demand for higher volumes and quality agricultural produce is rapidly increasing, driven by population growth in the region, and the growing number of middle class consumers. Local, regional and international markets are integrating at a rapid pace, giving the Ugandan market access to over 200 million nearby consumers. In addition, power, roads and communication rapidly expand in rural areas, making it easier and cheaper to produce, move, process and market products.

Agricultural production is dominated by smallholder producers. Smallholder agriculture is a family business that relies mostly on own resources, family member and community support. Formal entities, such as government agencies, commercial service providers and financial institutions, play only a small part in the business.

Smallholder production and productivity is limited by land, labour and capital. As a result, the yield gap remains high; under good management the yields of practically all field crops could quite easily double or triple. Outputs and quality are further reduced by high post-harvest lossesdue to poor produce handling and storage, resulting in low volumes sold at low farm-gate prices.

With land pressure increasing, the opportunities to increase production by expanding the amount of land cultivated are reducing and the imperative to increase productivity is becoming more pressing. Climate change potentially challenges production stability and heightens the need for good agricultural practices to improve yields and also to protect soil and water resources for the future.

Despite the commercial and technical opportunities to increase production and productivity, the uptake of modern technologies, inputs and market integration is slow. Apparently,theincentives to use good agricultural practices (GAP), apply the latest farming techniques, and commercialise production and produce marketingneed to be enhanced if agricultural growth and performance is to improve.

Government support to the agriculture sector has been weak. Though a priority item on paper, national budget allocations to the sector have averaged a paltry 2.5% over the last 3 years. The public agriculture extension service lack innovation, presence in the field and business orientation. The extension gap is increasingly filled by processing companies seeking to securea steady supply of raw materials for their factories. They support farmers with inputs, training, credit and aggregation services. It is at this interface that market demands are most clearly communicated to producers, and where processors, often through village agents or farmer groups, can link producers to their clients.

Farmer organisations are often managerially, financially and commercially weak, but gradually start complying with quality standards, and are able to increase farmers' incomes by cutting out intermediate traders and processors, and negotiate better trade deals through increased volumes and improved quality.

The majority of agricultural traders, processors and suppliers are small family owned business, with a rather good business sense and intuition. At the lower end of this group, the owners have no formal business training, limited financial and management skills, and most often don't meet basic quality, health, safety and environmental standards. More professional companies still face technology,management and capital constraints. These medium-size companies are potentially the missing link between producers and clients for (semi)-processed commodities in the regional and international markets. They would also be able to absorb a substantial number of the 400,000 annualnew entries in the Uganda labour market.

Information and Communication Technology (ICT) is beginning to have a positive impact on smallholder producers, for example by providing commodity price information and secure brokering and payment services to transparently managing aggregation and value addition along the value chain. Potentially, in the next few years ICT may revolutionise the way in which farmers receive agricultural advice, price information, interact with agribusinesses and manage their records and finances.

## 3.2 Financial services environment

Smallholder producers'and small and medium size enterprises' (SMEs)aspirations reflect a financially astute, responsible, and even prosperous mind set. They want to save for the future, they want to investin their enterprises and they want to have more options to mitigate risk[6].

However, none of this is easily accessible to them. Uganda's credit provision to the private sector is at 14% the lowest in the region, and is biased towards semi-urban based larger companies.Despite the demand for financial services, the agricultural sector has for a long time largely been ignored by FIs due to the perceived risks inherent to agriculture, their limited understanding of the sector, highly dispersed clientele, and poor penetration of banking services in rural areas.

However, the financial sector is changing quickly. Banks are increasingly competing for rural clients and seeing the growth of their agricultural portfolios as being key to that. The number of bank branches has grown by over 60% in the last 5 years, mobile money has provided a paying platform for over 22 million Ugandans, and banking agents brings financial services ever closer and at ever lower costs to the rural population.

Nevertheless, the cost of commercial borrowing in Uganda remains high at 23% (May 2018) for formal FI loans, 36% for formal microfinance loans and 50-100% for loans from community-based savings and loans associations. Furthermore, the appetite of FIs to lend to the agricultural sector remains conservative. A large element of this cost structure is determined by the high cost of funds paid by financial institutions and this relates to the central bank's high base-rates and the high yields treasury bills pay.

Currently 30% of the rural population has no access to financial services. Though the numbers of people saving and lending with regulated financial institutions is increasing, of the remaining 70%, a majority accesses capital through informal sources, such as family members or VSLAs. VSLAs are important for creating a savings culture and financial literacy amongst the rural producers. VSLAs also make local money available for small investments for farming and very small business, albeit many are not necessarily productive investments.

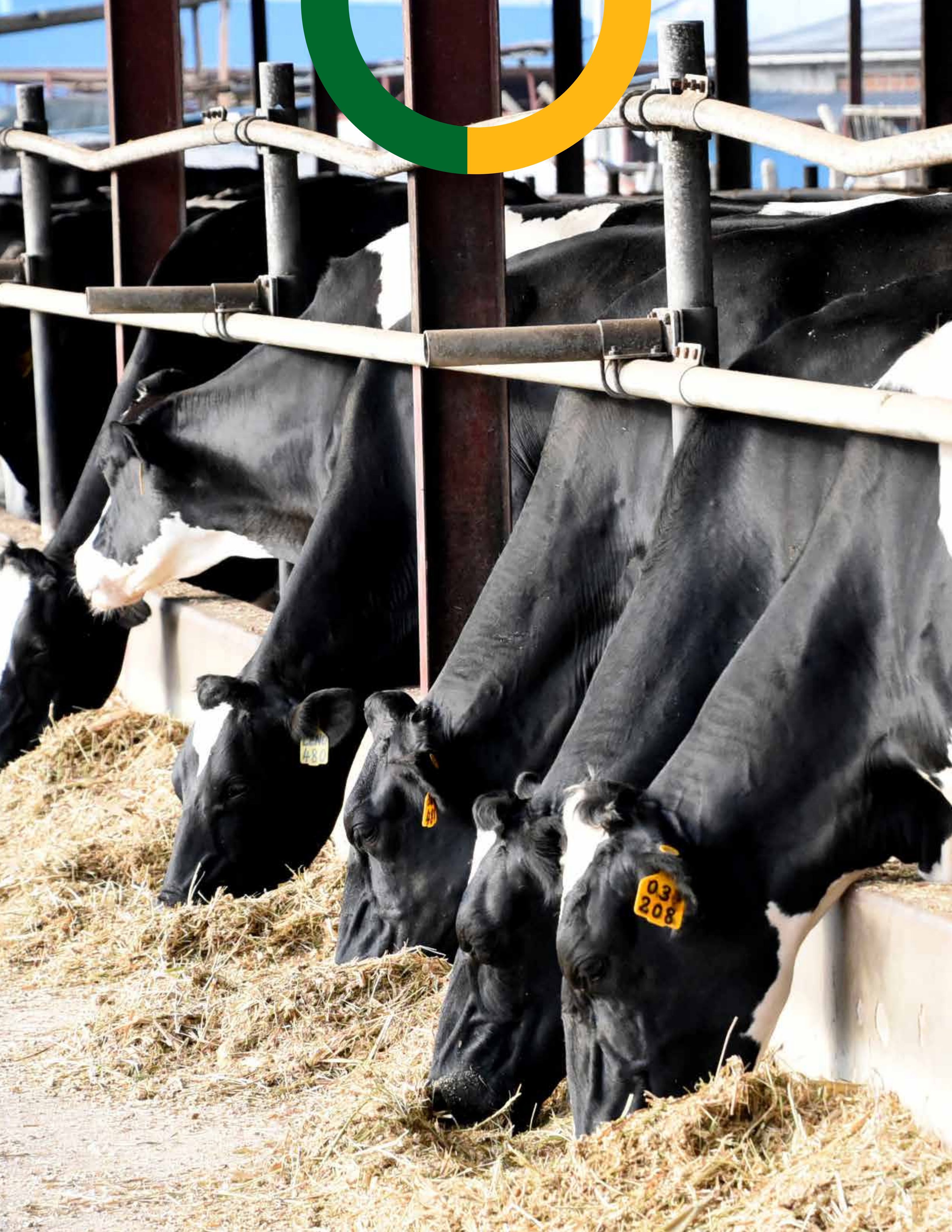
More formal banking services in rural areas are accessed by this group through SACCOs and MFIs, which are rapidly expanding their coverage and services. Increased competition between commercial banks and MFIs has led both to experiment with new FinTech based products in an attempt to serve new types of clients. This is expected to provide SMEs and farmers more access to relevant financial products at lower costs.

Most rural lending is still short term (<3 months) and medium term (<1 year). FIs are reluctant to provide long term lending, due to the mismatch between the term of the lenders' assets and their liabilities. As a result there exists an unmet demand for less traditional financial products, such as term loans to finance the capital expenditures in infrastructure and machinery and equipment that are important for agricultural transformation,and price buffering mechanisms.

6 *National Survey and Segmentation of Smallholder Households in Uganda Understanding; Their Demand for Financial, Agricultural, and Digital Solutions*

In September 2009, Government of Uganda through the Bank of Uganda established the Agricultural Credit Facility (ACF).In addition, over 10 agribusiness investment funds have been established in the last few years with a combined projected capital of over € 150 million. Most of the funds are targeting the high-end market, over €1 million per outlay, but a number of funds are looking at outlays of below €100,000 per company.

All this leaves a gap in financing services for the group of commercialising producers and smaller SMEs that because of their size, weak management and high risk profile, do not qualify for loans or equity funding, and therefore miss out the chance to move to the next level. Tailor-made grants that finance product development,banking infrastructure, and management to FIs that serve this segment is expected to grow the financial services for producers and SMEs.



# 4. aBi's Objectives and Value Proposition

## 4.1 aBi's programmatic niche

### 4.1.1 ABI Development

Thereare major opportunities to grow the smallholder and the agribusiness sector in Uganda. In the foreseeable future practically all agricultural commodities will continue to be produced by smallholders. For the agribusiness sector to grow and for the smallholders to earn a decent living, both will need to find ways and means to make the smallholders produce higher volumes more efficiently, in types and qualities that the market demands and in a socially and environmentally responsible manner. This will require agribusinessesand producers to create a virtuous cycle of mutually beneficial and commercially viable relationships.

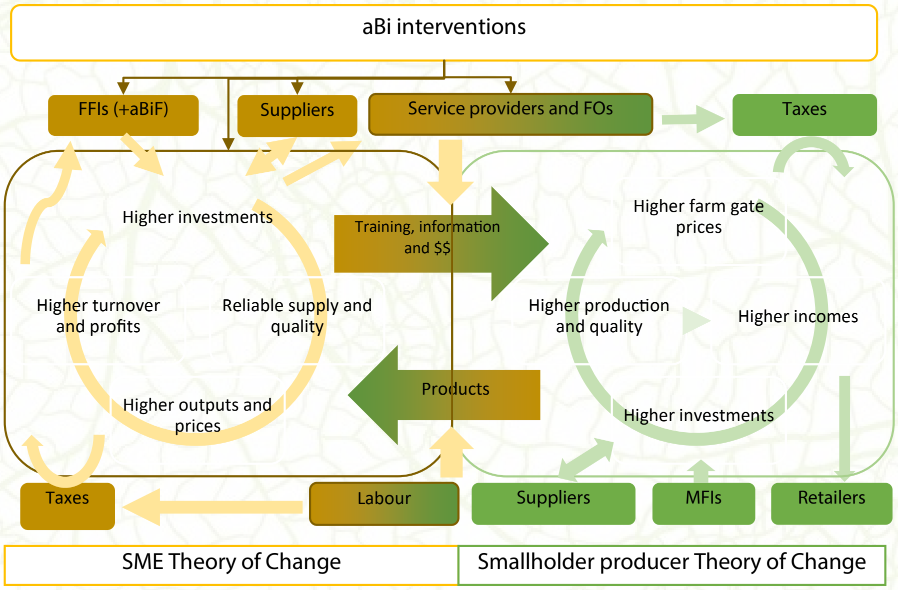



**Figure 1:** Value creation at the interface between producers and SMEs

For this BP period, the interventions of aBi will continue to be focused on the mid- and upstream value chain actors (primary producers and processors). aBi will strengthen its focus on the linkages between these value chain actors, as well as the linkages between these and the more downstream medium and large traders,exporters and international buyers/importers, and will more proficiently use business-case based analysis and whole-of-enterprise solutions to enhance the long-term and development impact of its investments. In future ABI Development willalso be shifting to a wider market systems approach within the VCs, moving its portfolio further upwards into the private sector, based on a thorough understanding of VC bottlenecks along the entire VC continuum.

Secondly, ABIDevelopment will increasingly venture into VC cross-cutting issues such as information and farm management services, input supply systems, small scale irrigation, mechanisation and transport, which are likely to have a multiplier effect on the individual VCs in which it operates.

Thirdly, ABI Development will further strengthen its attention to the social impacts of its interventions. At producer level this refers to fair distribution of efforts and benefits, sustainable production practices, safe use and handling of approved and appropriate agro chemicals, and building resilience against weather, climate and market shocks by carefully balancing investments and risks for smallholder farmers.

In the SMEs, attention shall be paid to responsible business practices, adherence to legal financial, labour and environmental requirements, and enhancing efficiencies in the use of energy and other resources. Based on the latest international insights regarding SRIs, aBi shall develop a set of environmental, social and economic standards that will guide our project appraisal and monitoring processes, and be fully integrated into key performance indicators.

#### 4.1.2 aBi Finance

Whereas there is evidence that the aBi Finance interventions have increased the appetite for agricultural lending within FIs, the agricultural sector, remains underserved, thereby stifling agricultural and agribusiness development. The previous strategy of aBi Finance, a combination of LoCs, ALGs and FSD support, proved to be successful and will continue under this BP, following largely the same principles and processes as during the previous BP period. The expected growth of the capital fund shall be used to increase the LoC and ALG volumes to boost agricultural lending to otherwise under-served clients.

Microfinance or SACCO apexes that havethe potential for responsibly managing external wholesale funds will be specifically targeted with FSD interventions, to help them qualify for accessingLoCs from aBi Finance to on lend to more Tier IV institutions.

The 2017 review challenges aBi to increase financial services, products and engineering efforts. This will be done in this business plan period. aBi Finance will work with FIs to come up with innovative solutions for the needs of producers and SMEs. Such innovations must include both short- and long-term benefits. This means in practice, providing access to finance within the framework of manageable risks. Bundled products, such as loans and insurance, or financial literacy that comes with a loan and tailor made banking services, shall be explored.

In addition, aBi will look into joining collaborative or blended finance initiatives (particularly for SRI driven financing), structured finance and factor finance (eg. warehouse receipts), investments to boost the development of the digital economy; and, if opportunities arise, participate as an investor in other debt or equity funds. For this, aBi Finance will increase its' in-house research and development capacities.

aBi is in a unique position to advance at scale, broader social and environmental impacts through its partners. This will be done through an expansion of the Clean Technology Fund, and by fully integrating Socially Responsible Investment principles in aBi contracts, guidelines and KPIs. Both ABI Development and aBi Finance will adopt an industry-standard Socially Responsible Investment reporting tool by the end of the first year of the business plan.

## 4.2 Mission and Vision

### Mission

aBi is a value based, social enterprise that offers socially and environmentally responsible business services in the form of grants, loans, loan guarantees and business development advice in selected VCs to smallholder farmers and agribusiness in Uganda to improve their performance and increase employment.

aBi is a professional, learning organisation that operates on the principles of equity, transparency, value for money, integrity, care for the planet and fairness towards its staff, owners, financiers, beneficiaries and intermediaries.

### Vision

By systematically and diligently executing its mission, aBi wants to make a tangible contribution to the core objectives of its members:

> “A competitive, profitable and sustainable agriculture and agribusiness sector in support of equitable wealth creation in Uganda.”

Typical indicators that measure progress towards this vision are the growth of the agricultural sector, the overall reduction in poverty, and the reduction in rural poverty, as provided by sectoral and national surveys and statistics.

## 4.3 aBi's Value proposition

### Value proposition to founders and development partners

aBi is committed to be the most efficient, professional and socially responsible vehicle to deliver social investment objectives of **founders and investors** (Development Partners – DPs) with respect to the development of the agricultural and agribusiness sector in Uganda.

Since its establishment in 2010, aBi has developed into an institution with staffing, systems, procedures, infrastructure, connections and knowledge and experience to select and assist the most promising agribusinesses, farmer organisations and intermediaries to grow the agricultural and agribusiness sector in Uganda.

In addition, aBi has developed and implements a results measurement and reporting system that provides as accurate as possible information about the outcomes of its interventions. These systems are permanently adjusted and improved according to industry standards to follow the latest insights, principles and technologies for results measurement and reporting. This guarantees that aBi will increasingly and regularly provide its DPs with reliable data and information about the results and outcomes of their investments.

aBi also continuously improves its financial and risk management systems, so as to safeguard investments against waste and fraud, and ensure a steady expansion of its capital base.

aBi's past efficiency has been achieved by pooling DP funds and reporting. aBi believes that it is in the interest of its DPs to as much as possible maintain this system.

### Value proposition to implementing partners

aBi is committed to assistingcommercial smallholder producers and agribusinesseswith funding and technically up-to-date advice to expand their production, productivity, income, profitability and employment. It will help its prospective IPs to develop their businesses and strengthen their long-term sustainability.

aBi willconstantly update and improve its understanding of the agribusinessand financial sectors, of specific VCs and technical and financial innovations relevant to its IPs. aBi will share its knowledge and advice actively with its IPs through regular site visits, quick and adequate responses to inquiries and observations, and technical reports and evaluations.

aBi will continue cooperating with its IPson the basis of transparency, equality and integrity. As a conduit for development funds from third parties, aBi requires to apply the strictest standards of financial, technical and social accountability for itself and its IPs, and is committed to assist its IPs to meet those standards.

## 4.4 Objectives Framework and Theory of Change

#### 4.4.1 The Objectives Framework and Key Performance Indicators

The Objectives Framework of the BP 2019-2023 makes a distinction between programmaticinterventions areas and related results at three levels:

1. Sustainable commodity production, productivity, and employment income for commercial smallholder farmers;
2. Sustainable productivity,income, profitability and employment in value addition processes by agribusinesses;
3. Access to finance for commercial smallholders and agribusinesses.

For each of the intervention areas, the interventions aim to achieve three interrelated outputs for the Implementing Partners:

1. Good planning, management and operational capacity;
2. Modern and efficient production- and businesses infrastructure;
3. Strong upstream and downstream market linkages with between SHFs, ABs and FIs.

For commercial smallholders and agribusinesses the results are directly linked to primary agricultural and processed commodities and the underlying businesses as reflected in intervention areas 1 and 2. For intervention area 3, the outputs refer to better and more relevant financial products, offered more efficiently through better physical and ICT infrastructure by well-managed FIs.

Results 1 and 2 are largely achieved by ABI Development, and result 3 primarily by aBi Finance. In the theory of change the products of aBi Finance (LoCs, FSD, and LGs) are a necessary input for the achievement of aBi Development Results. Therefore, the three result areas are interconnected towards the delivery of the aBi's vision. The horizontal logic of the framework below highlights synergy created between aBi Development and aBi Finance through the beneficiary SHFs and Agribusinesses being recommended for the financial services and products provided by beneficiary FIs. aBi Development as a facilitator provides grants and technical assistance to build the capacity of SHFs and agribusinesses to be able to access financial services provided under aBi finance.

Underlying assumptions are that when SHFs and agribusinesses increase productivity, production and sales, they will be able to access appropriate and serviceable financial products provided by the beneficiary FIs.

Operational objectives are defined in Result 4: aBi'sefficiency, effectiveness and sustainability enhanced and reflect, business performance and sustainability of aBi.

The following table provides a summarised overview of the objectives structure, whereby the overall outcome is generated by the combined efforts of aBi.

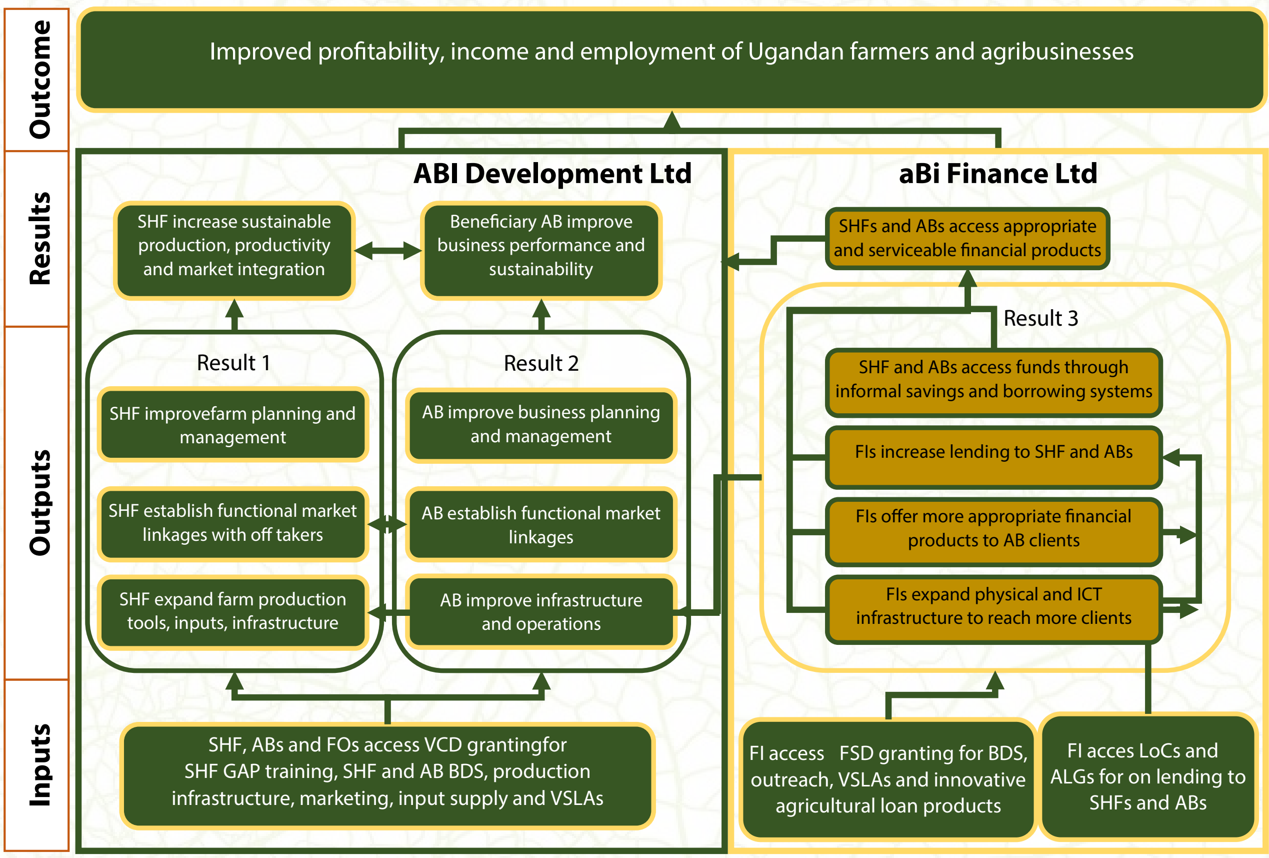



**Figure 2:** Results Chain for the aBi

**Table 4:** Objectives framework of the Business Plan 2019-2023

| Definition | Key activities | Key performance indicators |
|---|---|---|
| Outcome<br>Improved profitability, income and employment of Ugandan farmers and agribusinesses | | • Growth of investmentsby beneficiary SMEs and commercialising producers from own resources or commercial loans<br>• Number of additional FTE employment positions created by beneficiary agribusinesses and commercialising farmers<br>• Growth in loan volumesof beneficiary FIs from own resources oriented towards agriculture |
| Result 1:<br>Smallholder farmers' sustainable production, productivity and market integration increased | | • Number of additional beneficiary farmers who movedup at least one income level<br>• Number of additional beneficiary farmers that are food secure |
| Output 1.1<br>Beneficiary smallholder farmers adopt and apply appropriate technologies that increase production, productivity and produce quality as per market requirements | IPs deliver practical training and demonstrations in economically viable production enhancing techniques, the proper use of inputs, climate and environmentally smart agriculture, and post-harvest handling to farmer groups | • Number of additional beneficiary farmers that reach at least 75% of optimum yields* of selected VCs<br>• Number of additional beneficiary farmers that adopt and apply at least 3 CSA and environmental practices as a result of an aBi intervention |
| Output 1.2<br>Beneficiary smallholder farmers establish, maintain and expand functional and profitable market linkages and partnerships with off-takers | IPs assist farmers and farmer groups in identifying market opportunities, product quality standards, niche markets, bulking and aggregation and contract farming | • Number of additional functional long-term business relationships/partnershipsbetween beneficiary agribusinesses with primary producers/groups beneficiary<br>• Number of additional beneficiary farmers that engage in collective marketing<br>• Commodity price premium realised by beneficiary farmers and farmer groups due to aggregation and or improved produce quality |
| Output 1.2<br>Beneficiary smallholders farmer' production planning, financial planning and farm management improved | IPs assist farmers and farmer groups in (household) planning and decision making, gender equity, resilience and sustainability, and financial literacy | • Number of additional beneficiary smallholder families that employ joint household planning<br>• Number of additional beneficiary smallholders that maintain production and financial records |
| Result 2<br>Beneficiary agribusinesses business performance and sustain-ability improved | | • Improvements in financial performance measures (return on sales (RoS), return on assets (RoA), re-turn on equity (RoE)) by beneficiary agribusinesses<br>• Level of compliance of beneficiary agribusinesses with legal requirements (tax, environmental and la-bour laws) |
| Output 2.1<br>Beneficiary agribusinesses apply professional and socially responsible business planning and management | aBi staff and consultants advise ABs on business/ financial planning and management; governance and equity; labour, safety and environmental standards.<br>aBi finances professional staff in ABs for data collection and financial management for the duration of the grant contract | • Number of additional beneficiary agribusiness that meet aBi's Environmental, Social and Green stan-dards<br>• Share of managerial, financial and operational busi-ness plan targets that are achieved in the BP life-time |
| Output 2.2<br>Beneficiary agribusinesses' downstream and upstream market access enhanced | aBi supports ABs in market research, product and market development, compliance with market standards, contract farming.<br>aBi supports commodity Platforms to enhance b-2-b information sharing, research, policy and advocacy for relevant laws and regulations.<br>aBi will actively share information with its IPs and the public sector, and systematically collate, publish insights in value chain opportunities and bottlenecks from its evaluations | • Number of additional functional long-term business relationships/contracts between beneficiary agribusinesses with primary producers/groups beneficiary<br>• Growth of commodity volumes sourced by beneficiary agribusinesses from upstream producers<br>• Growth of processed sales volumes sold to downstream clients by beneficiary agribusinesses<br>• Level of satisfaction of platform members about the benefits they derive from the platform |

| | | |
|---|---|---|
| Output 2.3<br>Beneficiary agribusinesses' operational capacity and infrastructure improved | aBi will support ABs to finance capital expenditures (buildings, (cool) storage, machines), and for reducing waste, and improving waste disposal and energy efficiency | • Growth in productive asset base of beneficiary agribusinesses<br>• Reduction in energy consumption per unit of factory output of beneficiary businesses<br>• Reduction in product waste as % of overall factory output of beneficiary agribusinesses |
| Result 3<br>Smallholder farmers and agribusiness access to serviceable financial services increased | | • USh growth in agribusiness savings and loans volumes of beneficiary farmers and agribusiness from formal and informal sources<br>• Increase in number and value of loans of mid – long term tenure made by FIs to smallholders and agribusinesses<br>• Growth in the number and volume of aBi loans that support green growth |
| Output 3.1<br>Appetite and financial capacity of FIs to lend to the agricultural sector increased | aBi provides LoCs and ALGs to FIs for on-lending to the agricultural sector and for default coverage for risk prone agricultural loans<br>aBi finances financial literacy in support of savings mobilisation, and graduation of VSLAs and other informal savings and credit arrangements into formal banking<br>aBi provides concessional loans to agribusinesses for green growth initiatives and stimulate FIs to increase financial green growth investments from its LoCs and ALGs<br>aBi provides loans and portable guarantees in support of ABI Development VCD IPs | • Additional business finance leveraged as a result of aBi investments<br>• USh growth of additional agribusiness loan volumes by beneficiary FIs by gender, age, location, business type and usage<br>• Number of additional new savings and loan clients in beneficiary FIs by gender, age, location and business type<br>• USh growth of additional savings and loans volumes by beneficiary VSLAs by gender, age and usage<br>• Number of additional new savings and loan clients in informal lending arrangements (VSLAs)<br>• Number, volume and purpose of green growth loans<br>• Number, volume and purpose of VCD IP loans |
| Output 3.2<br>Physical and ICT infrastructure, governance and management of FIs improved | aBi finances branch expansion, branchless expansion mechanisms, management information systems, risk management mechanisms and skills enhancement of banking staff | • Growth in capital base of beneficiary Tier 4 FIs<br>• Reduction in Non-Performing Asset ratios by beneficiary FIs<br>• Number of Tier 4 beneficiary FIs applying modern ICT banking and outreach tools |
| Output 3.3<br>Financial products of FIs more tailored to smallholders, small SMEs and SRIs<br><br>Output 3.4<br>Loans of FIs more tailored to Agribusinesses in need of long tenures. | aBi finances the development of new innovative financial products and delivery mechanisms tailored to the agricultural sector, towards underserved interest groups and towards socially responsible investments. | • Number of loans and loan volumes as % of total additional loans and loan volumes that is accessed by women and youth<br>• Number of loans and loan volumes as % of total additional loans and loan volumes that is used for socially responsible investments (green growth, energy savings, waste management, safety)<br>• Number and uptake of new financial products tailored to the agricultural sector<br>• Number of FFIs that have special savings and loans products and arrangements for VSLAs<br>• Volume of new long-term loans extended to agribusinesses |
| Result 4<br>aBi's efficiency, effectiveness and sustainability enhanced | | • Growth of the aBi capital fund<br>• Attainment of efficiency ratios<br>• Growth of external funding commitments to cover the BP funding gap, and beyond 2022 |

| | | |
|---|---|---|
| Output 4.1<br>aBi's efficiency and effectiveness in service delivery maintained or enhanced | aBi applies modern, legal and efficient management tools and processes that maximise value for money<br>aBi has the right number and qualities of staff who operate in a clear management structure and are held accountable for their activities and results | • Return on Investments (economic value generated from investments vs aBi programme costs and overall costs)<br>• Cost per smallholder served<br>• Annual programmatic fund absorption against budget<br>• Ratio annual programmatic expenditure over total annual expenditure<br>• Ratio eligible expenditure over grant disbursement<br>• Leverage (additional financial resources mobilised) of aBi investments from grants and loans<br>• Satisfaction score of partners about aBi |
| Output 4.2<br>Financial performance of aBi maintained or improved | aBi applies prudent investment policies to balance risks and performance of its financial assets<br>aBi offers attractive investment opportunities to its development partners that outperform alternative fund destinations | • Return on investment of aBi capital fund<br>• Number and USh volume of contributors to aBi 2019-2023 BP |

The KPI definitions and targets are listed in Annex 1.

# 5. Investment Programmes

## 5.1 ABI Development

### 5.1.1 Programme Interventions

#### Type of interventions

The strength of the ABIDevelopment programme is its focus on a limited number of VCs. For this BP ABI Development will carry over and continue its investments in the six original VCs. More detailed analytical work in the VCs coupled with more precisely defined Calls for Proposals, will more accurately aim at bottlenecks and opportunities in the individual VCs. New VCs shall be considered over the period premised on strong market analysis to justify aBi investments.

In the course of this BP period, ABI Development will move up the VCsfrom focusing on quantitative production and productivity towards improving market integration and product quality of producers;and processing efficiencies, quality and marketing of intermediary and end-products of agribusinesses. Support will be extended to develop long-term win-win partnerships between smallholders and large local and international buyers, exporters and supermarket chains to improve sourcing of supply by organising smallholders, and leverage on their capacity to co-finance value chain development. ABI Development interventions may overtime move out into connecting markets and in supporting services, policy and information sharing, thereby increasingly adopting a Making Markets Work (MMW) approach.

Northern Uganda is still lagging behind in development indices,after a long period of instability. During the previous BP, it was less well prepared to receive private sector support, and was underrepresented in aBi's portfolio. But this is changing quickly, and with a strong imperative to improve the economic and social conditions in both the north and the east, aBi shall make special efforts to expand its portfolio in those areas. aBi will also expand its efforts to strengthen agribusinesses partnerships in West-Nile in response to the expanding refugee population and the resultant strain on the refugee hosting districts.

Development investors are increasingly demanding that their partners align with standards for socially responsible investment. aBi will continue to mainstream within its projects its core SRI principles, which include a focus on poverty reduction, fair and safe labour conditions, equity across gender and age groups, resilience and green growth.aBi will improve the alignment of these activities with IP's business interests, in view of the fact that there are often strong business arguments for acting socially responsible. As part of its due-diligence processes aBi will apply a standardised Environment, Social and Governance (ESG) screening tool to all of the partners it intends to support. Minimum acceptable standards will need to be met before funding is released and remediating ESG shortfalls may be part and parcel of BDS packages. The ESG toolkit, standards and reporting formats will be developed and begin to be applied within the first six months of the business plan.

The table below shows considered example interventions for the VCs and crosscutting themes. The examples give a broad indication of actions, and will be further fine-tuned on the basis of additional information and insights gained during the implementation of the BP.

**Table 5:** VCD interventions at producer and business level

| Value Chain | Producer interventions | Business interventions | Others |
|---|---|---|---|
| Coffee | • Coffee expansion to Northern Uganda;<br>• Farmer training in GAP and FAAB;<br>• Quality improvements for niche coffees<br>• Aggregation, marketing, local processing (washing); | • Commercial seedling production;<br>• Processing capex for quality and efficiency, roasting and packaging;<br>• Certification for niche coffees;<br>• Export development; | • GoU fund allocation to the agriculture and agribusiness sector<br>• GoU agriculture and VC specific policy and regulations<br>• GoU tax policies and incentives<br>• VC specific research (pest and diseases, Climate Smart Agricultural production systems)<br>• VC specific local market development<br>• VC specific export development<br>• Environmental Impact Assessments<br>• Media campaigns and other audio visual tools to spread relevant messages<br>• Mobile technology solutions for production and trade information, supplies and payments |
| Cereals | • Farmer training in GAP and FAAB;<br>• PHH, bulking and collective marketing for maize and rice | • Capex for storage and processing; quality standards; regional market development<br>• Regional market integration | |
| Oilseeds | • Expansion in West Nile and Northern Uganda<br>• Farmer training in GAP and FAAB;<br>• PHH, bulking and collective marketing for sunflower, soya, groundnuts and sesame;<br>• Farmer QDS production for soya | • Capex for processing and packing;<br>• Local and regional market development; | |
| Dairy | • Farmer training in herd nutrition and health;<br>• Breed improvements<br>• Support to primary societies for coolers, equipment and labs | • Processing support to cooperatives;<br>• Breed improvements | |
| Pulses | • Local production for HH nutrition<br>• Local seed systems support | • Quality seed production and distribution<br>• Local and regional market development | |
| Horticulture | • GAP and FAAB for mango, citrus in Eastern Uganda<br>• GAP and FAAB for passionfruit, and pineapple<br>• GAP and FAAB for chillies<br>• GAP and FAAB for tomatoes<br>• Low cost irrigation for high value crops | • Upgrading of fruit trees<br>• Seed and agrochemical supply<br>• Market chain development<br>• Processing and packaging<br>• International market development | |
| Cross cutting | • Joint household planning and equity;<br>• Financial literacy and VSLAs<br>• Women and youth targeted interventions<br>• Climate Smart Agriculture | • Business Development Services<br>• Labour and fair working conditions<br>• Energy and waste management | |
| Interconnecting markets | • Collective storage, processing and marketing for farmer groups<br>• Mobile technology solutions for production and trade information, supplies and payments | • Supply and quality of inputs;<br>• Seed sector support;<br>• Storage and transport services;<br>• Mechanisation and irrigation<br>• Mobile technology solutions for production and trade information, supplies and payments | |

## Number of projects and project duration

For each of the six VCsand any new one that may be taken up,ABIDevelopment shall launch 2-3 Calls for Proposals or tenders for Service Contract, aiming at executing100 new projects during this BP period, including projects that have been signed in the second half of 2018 but started in 2019. In order to manage the contents of the pipeline, during this BP CfPs shall be launched for a single VCs or theme, a limited number of contracts, and a capped value. To maintain a balanced project volume and a manageable appraisal process, CfPs will be staggered for each of the VCs as per the estimates in the table below.

**Table 6:** Annual schedule for Calls for Proposals and number of expected new projects per VC

| Value chain | 2018* | 2019 | 2020 | 2021 | 2022 | 2023 | Sum |
|---|---|---|---|---|---|---|---|
| Coffee | 5 | 0 | 4 | 0 | 5 | 0 | 14 |
| Cereals | 5 | 0 | 0 | 5 | 0 | 5 | 15 |
| Oil seeds | 1 | 0 | 5 | 0 | 4 | 0 | 10 |
| Pulses | 0 | 5 | 0 | 5 | 0 | 05 | 15 |
| Horticulture | 2 | 0 | 5 | 0 | 5 | 0 | 12 |
| Dairy | 1 | 4 | 0 | 4 | 0 | 5 | 14 |
| New VC and markets | 0 | 2 | | 3 | 5 | 3 | 8 |
| Cross cutting issues | 2 | | 4 | 0 | 4 | | 10 |
| **Total new projects** | **16** | **11** | **18** | **17** | **18** | **18** | **98** |

* projects appraised in 2018, but start in 2019

This BP will carry over 26 projects from the previous period, which will expire between 2019 and 2021. Combined with the new projects, the portfolio will hold at any time during the BP period between 45 and 70 projects.

The build-up of the portfolio is determined by the number of newly signed up projects and the project duration. The duration differs between VCs, whereby coffee, cereals, horticulture and dairy projects tend to last 3-4 years, and oilseed and pulses projects last on average 2 years. The duration of crosscutting projects may vary depending on their nature and content.

The maximum number of projects is capped on the basis of the number of VCD grant management staff, and the average staff time required to manage a project from a Call to closure.

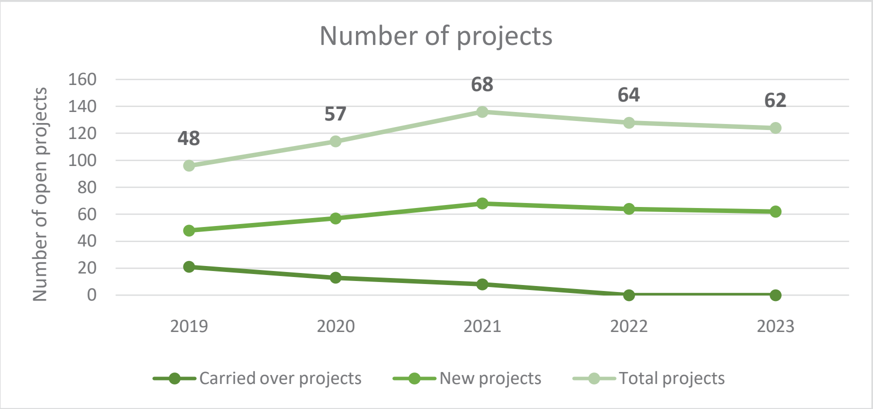



**Figure 3:** number of open projects annually during the BP period

## Implementing Partners

Support to commercialising producers and small producer organisation will be channelled through grants to Farmer Organisations with a commercial focus for improving the services to and market integration of their members. Not-for-profit intermediary organisations are contracted to provide producer technical and managerial capacity building services to upcoming Farmer Organisations. Where suitable, such organisations will be engaged through service contracts rather than grants. Smallholder producers shall also be targeted through grants to SMEs that wish to expand the supply and quality of produce through farmer training and contract farming.

For business interventions, aBi's involvement with small enterprises (employing 5 -49 staff, and with an asset value of USh 10-100 million) will be relatively small grants with a focus on BDS, moderate capex investments and moderate investments in upstream and downstream markets. Medium size SMEs (employing 50 – 100 staff with an asset value of USh 100 – 360 million) will be the prime focus of aBi investments, targeting a larger share of the investments in capex and downstream market development, andsubstantial support in BDS.

aBi will continue to invest in large local and multinational agribusiness companies with a strong local presence and the capacity to reach large numbers of producers with productivity enhancement services, and downstream regional and international clients. The aBi investments in these companies target upstream and downstream market development, relatively large capex and limited BDS support. For stronger business cases and larger SMEs, aBi will demand a proportionally larger contribution than smaller SMEs with a weaker capital base and limited or no access to commercial finance.

Commodity platforms, and occasionally Government Agencies, can apply for grants to carry out research and policy and advocacy on behalf of the sector or value chain, information provision, or local and international market promotion for a value chain or the agricultural sector. In addition, aBi will develop specific partnerships with organisations specialised in climate smart agriculture, sustainable energy, and sustainable environmental management for agribusiness, to further strengthen its green growth portfolio.

## Grant values and allocations per VC

The total direct aBi grants towards VCs and crosscutting projects for the BP period is projected at USh159bn. Out of this amount USh139 bn is provided by the DANIDA for this BP period, of which USh43bnare carried over funds from the previous BP period. aBi has assumed EU funding of USh 25.7bn and other donor partner income of USh30bn.

The distribution of funds across the VCs is shown in the table below. The allocations are made on the basis of potential producer outreach and income, value addition and job creation, export potential and social equity.

**Table 7:** Annual allocation (USh bn) and % of grant funding to VCs

| Value chain | BP Years | | | | | Total | % |
|---|---|---|---|---|---|---|---|
| | **2019** | **2020** | **2021** | **2022** | **2023** | | |
| Coffee | 8.34 | 9.15 | 7.11 | 5.61 | 5.90 | 36.100 | 22.7% |
| Cereals | 8.42 | 6.43 | 5.92 | 4.86 | 5.94 | 31.561 | 19.8% |
| Oil seeds | 1.66 | 3.25 | 2.91 | 3.85 | 2.08 | 13.740 | 8.6% |
| Pulses | 3.60 | 2.80 | 4.77 | 2.80 | 2.80 | 16.766 | 10.5% |
| Horticulture | 1.46 | 4.01 | 3.20 | 5.10 | 4.01 | 17.774 | 11.2% |
| Dairy | 5.22 | 3.92 | 5.43 | 3.58 | 5.26 | 23.420 | 14.7% |
| Other VCs | - | 0.77 | 0.82 | 6.01 | 6.12 | 13.706 | 8.6% |
| Cross cutting | 0.80 | 1.30 | 1.32 | 1.26 | 1.27 | 5.946 | 3.7% |
| Total Projects | **29.65** | **31.63** | **31.46** | **33.00** | **33.26** | **159.013** | **100%** |
| Committed funds DANIDA | 41.00 | 44.3 | 27.00 | 27.00 | 0.00 | 139.30 | |
| Fund balance | **11.35** | **12.67** | **(4.46)** | **(6.00)** | **(33.26)** | **(19.71)** | |

The overall allocation to the VCs is further sub-allocated for each of the VCs on the basis of specific VC needs. Across the VCs, around 52% of the projected commodity funds will be invested in smallholder producers' production, productivity and PHH. An additional 6% of total investments is allocated to informal finance mobilisation and market integration as part of farmer organisation strengthening.

SMEs receive from the total invested funds in direct support around 20% for capex interventions, 4% on market development, and 8% on BDS and management support. The remaining 10% of the funds is allocated to commodity promotional activities, policy and advocacy and knowledge sharing activitiesthrough platforms.

The table shows some variation in the average allocations. For example capex investments in pulses are low, as value addition in pulses is restricted to cleaning and drying only. On the other hand, downstream market integration of oil seeds requires a higher than average allocation, because of the fragmented and highly competitive market.

**Table 8:** Average allocation in % or USh bn of total VC funding to thematic intervention areas

| Thematic areas | Coffee | Cereals | Oil seeds | Pulses | Horti-C | Dairy | Average |
|---|---|---|---|---|---|---|---|
| Productivity | 35 | 30 | 25 | 35 | 35 | 35 | 33 |
| PHH/quality | 11 | 15 | 22 | 22 | 25 | 25 | 20 |
| Downstream markets | 6 | 4 | 10 | 8 | 0 | 0 | 5 |
| BDS | 13 | 9 | 5 | 12 | 4 | 4 | 8 |
| Capex investments | 20 | 24 | 24 | 6 | 20 | 20 | 19 |
| Local markets | 3 | 3 | 4 | 4 | 5 | 6 | 4 |
| Export markets | 3 | 1 | 2 | 2 | 2 | 2 | 2 |
| VSLAs | 2 | 6 | 4 | 5 | 2 | 2 | 4 |
| Regulation/policy | 3 | 5 | 3 | 4 | 5 | 5 | 4 |
| Knowledge sharing | 4 | 3 | 1 | 2 | 2 | 1 | 2 |

## New VCs and interconnecting markets

In light of the review recommendation for aBi to expand into interconnecting markets under the Making Markets Work approach, and to leave opportunities open to venture into new VCs, 8% of programmatic funding has been reserved for this. Interventions in these new areas require additional studies and some experimentation, hence the slow build-up of this portfolio. In 2019, aBi intends for interconnecting markets to look into low-cost irrigation, storage and ICT solutions for agricultural advice and trade information.

aBi has identified poultry as a potentially interesting value chain because of its attractiveness for women and youth, its high returns on investment, and its strong positive upstream linkages with grain producers and the animal feed industry. If further research confirms these initial findings, poultry projects can be rolled out under this budget or under the crosscutting budget lines.

**Table 9:** Number of planned projects and fund allocation for new VCs and interconnecting markets

| | 2019 | 2020 | 2021 | 2022 | 2023 | Sum |
|---|---|---|---|---|---|---|
| Number of projects | 2 | 2 | 8 | 4 | 6 | 22 |
| New VC and markets (USh bn) | 0.15 | 0.765 | 0.818 | 5.955 | 6.018 | 13.706 |

## Crosscutting interventions

Uganda is not spared from global challenges such as climate change, population growth, food security, quality and nutrition, depletion of natural habitats, degradation of land and water bodies, and inequities in the distribution of and control over resources. Within the VC commodity portfolio such issues will continue to be mainstreamed. This includes special measures to strengthen resilience against resource depletion and climate change, such as rainwater harvesting, irrigation, natural soil fertility management, and tree planting. In addition, risk prone projects will include an Environmental Impact Assessment for high risk projects, and the formulation of mitigating measures to be built into the project design.

Inclusion of women and youth in projects, joint household planning, financial literacy, land and water management are part of smallholder producer training programmes. In this context aBi will expand its strategic partnership with the Agriculture Incubation Centre, which is in particular assisting youth to set up agribusinesses. In BDS and capex support to SMEs, attention will be paid to ethical business practices, legal compliance with labour, safety and environmental regulations, waste management and energy efficiency.

In addition to active mainstreaming, aBi has put aside USh5.9bn for projects specifically addressing crosscutting issues beyond the commodity VCs. Four existing projects will be carried over into this BP, and will be supplemented with five more projects in threethematic areas. Fund allocationis initially relatively small, but is scheduled to increase over time.

**Table 10:** Number of crosscutting open projects and fund allocation (USh bn) per crosscutting theme

| | 2019 | 2020 | 2021 | 2022 | 2023 | Sum |
|---|---|---|---|---|---|---|
| Total number of CC projects | 5 | 8 | 6 | 9 | 7 | 35 |
| Women (USh bn) | 0.281 | 0.456 | 0.462 | 0.439 | 0.443 | 2,081 |
| Youth (USh bn) | 0.241 | 0.391 | 0.396 | 0.377 | 0.380 | 1,784 |
| Green Growth (USh bn) | 0.281 | 0.456 | 0.462 | 0.439 | 0.443 | 2,081 |
| **Total value projects** | **0.804** | **1.302** | **1.302** | **1.255** | **1.265** | **5.946** |

### 5.1.2 Intervention outputs and outcomes

## Smallholder producers' performance targets

For each of the VCs the end-of-BP performance targets for producers are listed in the table below. The targets are calculated on the basis of the planned number of projects per value chain, the average number of GAP adopting smallholder producers,and the acreage and yield increments as a result of the projects. Full details of the calculations are contained in supporting Excel models.

For this BP period, the expected yield increments for smallholder producers shall be contractually agreed with the IPs ata minimum of 75% of the optimum yield as determined in VCAs and agronomic research for each of the commodities.

Listed targets are achieved over the lifetime of the projects and the BP (LoBP).

**Table 11:** LoBP beneficiary producer targets by 2023

| Value chain | LoBP GAP FAAB adopting producers* | Yield increment | LoBP GAP acres - cows | LoBP Economic value (USh/producer/year) |
|---|---|---|---|---|
| Coffee (kg/acre) | 49,000 | 270 | 41,000 | 2,600,000 |
| Cereals (kg/acre) | 36,000 | 700 | 60,000 | 1,500,000 |
| Oil seeds (kg/acre) | 14,000 | 400 | 14,000 | 1,000,000 |
| Pulses (kg/acre) | 14,000 | 250 | 6,000 | 1,300,000 |
| Horticulture (various) | 6,000 | various | various | various |
| Dairy (litres) | 14,000 | 5 | 27,000 (cows) | 2,300,000 |
| New VCs and markets | 4,000 | TBD | TBD | TBD |
| Cross cutting issues | 5,000 | TBD | TBD | TBD |
| Total / average | **142,000** | | **121,000 (acres)** | **1,700,000** |

* 95,000 adopting direct beneficiaries and 47,000 spontaneous adopters

The additional generated economic value per beneficiary producer levelis calculated atJune 2018 farm-gate prices. With the producer gross margin of 30% of the additional value, the producer income would rise by between USh 350 and 800 thousand per year, depending on the VC. The average of USh 500 thousand constitutes roughly a 35-50% increase in producer income.

## SME performance targets

The beneficiary SMEs targets are calculated on the basis of the marketed farmer produce, the % produce that is bought by beneficiary SMEs, the processing outturn, the market value of processed commodities and a profit margin of 20% for the mid segment of SMEs. Estimates for the horticulture value chain and the new VCs will be determined during the design of the funding windows.

**Table 12:** LoBP beneficiary SME produce, turnover and profit targets by 2023

| Value chain | LoBP # beneficiary SMEs | LoBP SME clean produce outturn (MT) | LoBP SME turnover (USh bn) | EoBP SME profits (USh bn/SME/2023) |
|---|---|---|---|---|
| Coffee | 12 | 39,000 | 239 | 10.3 |
| Cereals | 13 | 63,000 | 105 | 4.2 |
| Oil seeds | 9 | 8,000 | 15 | 0.9 |
| Pulses | 10 | 6,000 | 11 | 0.6 |
| Horticulture | 12 | TBD | TBD | TBD |
| Dairy (litres) | 12 | 55 million | 169 | 7.3 |
| New VCs | 7 | TBD | TBD | TBD |
| Total | **75** | | **540** | |

The above targets are for the Life-of-BP (LoBP), apart from the average SME profit which is calculated for the year 2023 (End-of-BP), with the assumption that all planned projects for the BP period are completed.

## Social performance targets

Social performance indicators are expressed in employment creation, and in additional farm and SME employment in full time equivalent (FTE) jobs, income and ownership of women and youth. On-farm employment estimates are estimated from gross margin information for reference crops (coffee, maize, sunflower and beans). For dairy, a standard of one FTE per 5 additional cows is applied.

Additional jobs and income for women and youth is currently set at 30% of the total jobs, and the total additional market value created on-farm, respectively. The standard shall be further refined by project evaluations.

**Table 13:** LoBP social performance targets

| Value chain | Total on-farm jobs | Total SME jobs | Additional jobs for W&Y | Additional income for W&Y (USh bn) | No. of W&Y managed enterprises |
|---|---|---|---|---|---|
| Coffee | 8,000 | 500 | 4,000 | 25.0 | 6,000 |
| Cereals | 60,000 | 700 | 30,000 | 8.1 | 4,000 |
| Oil seeds | 14,000 | 70 | 7,000 | 2.3 | 2,000 |
| Pulses | 3,000 | 70 | 1,000 | 3.2 | 2,000 |
| Dairy | 5,000 | 300 | 3,000 | 5.9 | 2,000 |
| Total | **90,000** | **1,640** | **45,000** | **44.5** | **16,000** |

In 2019, aBi will develop a more comprehensive tool for measuring a broader set of SRI indicators, which will be integrated in the Result Measurement Framework.

## Financial Returns on Investments

The financial return on investment are established by taking thegenerated LoBP economic value and compare it with the total investment made from development funds. For this it is assumed that every two successful GAP/FAAB farmers make one additional farmer to adopt the same practices. In addition, for establishing processing value, also the side-sold produce is included in the total SME value. The horticulture VC and crosscutting activities are left out of the calculations because of the variety of interventions, and at this stage, lack of implementation plans.

The calculations suggest a total additional economic value from the BP investments between USh1.1 – 1.5 trillion, of which USh500 - 700 bn accrues to the commodity production and related servicessector, including suppliers and labourers, and USh600 -800 bn to the processing sector.

**Table 14:** LoBP additional value created by producers and SMEs for selected value chains

| Value chain | LoBP producer value | LoBP SME value | Sum |
|---|---|---|---|
| Coffee | 330 | 320 | 650 |
| Cereals | 100 | 160 | 270 |
| Oil seeds | 30 | 20 | 50 |
| Pulses | 40 | 20 | 60 |
| Dairy | 80 | 200 | 280 |
| Total | **580** | **720** | **1,300** |

Over the BP period, the ABI Development combined programmatic and operational expenditures are estimated at USh227 bn. Realising that our estimates of the aBi-generated economic value have a high degree of uncertainty, we conservatively assessthe cumulative investment of ABI Development to be multiplied 4-6 times in value for smallholder producers and SMEs. Assuming that smallholder production levels and market prices are maintained, the benefits will continue to accrue to farmers and agribusinesses, evenwithout further aBi investments. The calculated multiplier is comparable with the finding of the 2018 aBi Trust review.

The contribution of ABI Development to Uganda's agricultural GDP would grow from 0.2% in 2019

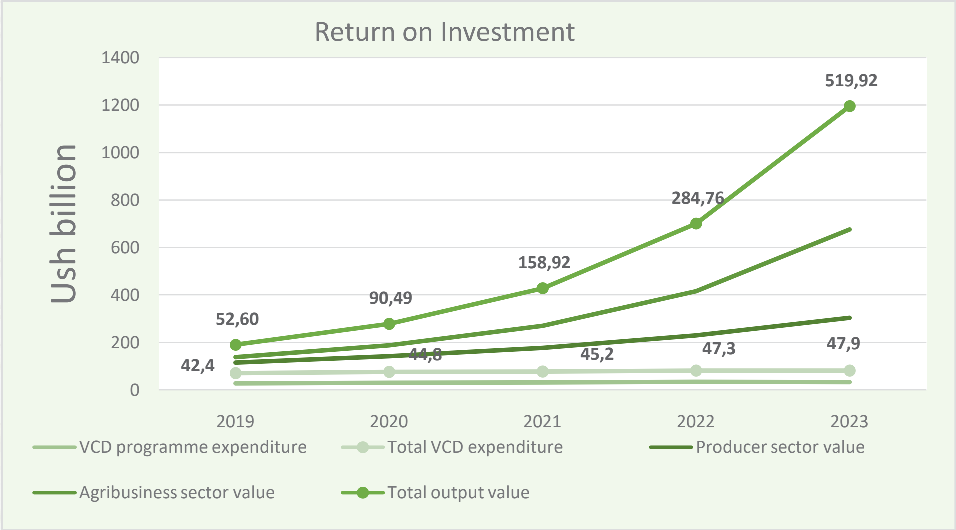



**Figure 4:** return on Investment on VCD programme

## 5.2 aBi Finance

### 5.2.1 Lines of Credits and Agriculture Loan Guarantees

#### Overview

Access to agricultural finance continues to be a major obstacle to agriculture and agribusiness growth. During this BP period, aBi Finance will continue to employ financial tools and instruments to expand financial penetration in the agricultural and agribusiness sectors by commercial and semi-commercial FIs. At the same time, aBi Finance will maintain a prudent investment strategy to expand its capital base and strengthen the underlying long-term sustainability of the company.

The demand for savings and loan products across all financial tiers is growing. The main driver for this trend is the ongoing financial literacy campaigns, and the exposure of previously excluded clients to informal savings and loans systems, such as VSLAs, banking agents and mobile money. As a result, aBi expects an increasing demandfor financial services in rural areas, and a quick expansion of Tier III and Tier IV FIs, which are often well placed to fulfil this demand. During the previous BP period, this trend was already noticeable by the gradually shift in LoC and ALG volumes towards Tier III and Tier IV FIs and a resultant quick increase of retail loans to smallholders and SMEs.

For this BP period, there are good prospects for the LoC and ALG instruments. aBi will actively promote these instruments further towards Tier III and Tier IV FIs that have graduated, often with FSD support, to mature financial institutions. This development is expected to also spur the interest in aBi's FSD programme.

Portable guarantees will continue to be offered to reputable SMEs, often identified by the VCD matching grant programme of ABI Development.

The following assumptions have been made in developing targets and other forecasts of aBi Finance:

i. The ALG shall be indemnified by 20% of the Fund;

ii. A modest organic growth of the fund, averaging 5% per year shall be attained;

iii. Average loan size of loans shall average USh 3.25 M of the BP period;

iv. Recharge cost of 33% towards laying off operational costs;

v. Putting aside USh 4bn for each of the BP years to contribute a total of USh 20bn to ABI Development programmatic costs by 2023.

## Lines of Credit

The LoC programme extends wholesale lines of credit to FIs for on-lending to smallholders and agribusinesses. Within the on-lending portfolio, USh7bn is reserved for clean technology investments, financed from the Clean Technology Fund. The total LoC allocation will increase from USh115bn (64%) to USh 148 bn (69%) over the duration of this BP.

The LoC product is increasingly accessed by Tier III and Tier IV organisations, in terms of volume from 20% in 2013 to 44% in 2018. While this allows a large share of under-served clients to access retail loans, it has caused the average loan size to drop to below USh3 million. Retail loan sizes are projected to rise during this BP from USh3bn to USh3.5 million per unit.

The retail loan terms remain short, 3-6 months, and are therefore more geared towards trade than medium terms agricultural or agribusiness investments. During this BP period, aBi shall promote ways and means to make the FI loan products more attractive for medium-term financing. The small loan sizes and short durations allow the LoCs to be turned over at least once per year, thereby boosting the number of beneficiaries. Assuming one annual turnover and an average loan size of USh 3-3.5 million, around 218,000 loans are expected to be issued under the LoC scheme.

The expected development of the capital fund and its related development of the LoC instrument is shown in the table below.

**Table 15:** Volumes and performance targets for the LoC facility

| Targets | 2019 | 2020 | 2021 | 2022 | 2023 | |
|---|---|---|---|---|---|---|
| **Capital fund** | **178.4** | **188.2** | **196.4** | **204.9** | **213.8** | |
| **LOC (USh bn)** | 115.0 | 127.4 | 133.0 | 137.8 | 147.8 | |
| **Agribusiness** | 119.5 | 128.0 | 133.5 | 139.4 | 147.5 | |
| **Clean Technology** | 7.1 | 7.5 | 9.8 | 10.2 | 10.7 | |
| **LOC (% of endowment fund)** | 64% | 68% | 68% | 67% | 69% | |
| **Agribusiness** | 67% | 68% | 68% | 68% | 69% | |
| **Clean Technology** | 4% | 4% | 5% | 5% | 5% | **Total** |
| **LOC (Number of Loans)** | 42,700 | 45,700 | 41,400 | 43,200 | 45,200 | 218,200 |
| **Agribusiness** | 39,800 | 42,700 | 38,200 | 39,800 | 42,200 | 202,700 |
| **Clean Technology** | 2,900 | 3,000 | 3,300 | 3,400 | 3,100 | 15,700 |

In terms of social outcomes, the LoC instrument is expected to generate 218,000 loans in the agricultural sector, of which almost 16,000 are used for Clean Technology investments, such as biogas, water harvesting system installations, solar powered domestic and irrigation systems, organic manure access and the like.

The economic impact of the LoCs are estimated as 120% of the value of the principal and interest paid to the lender FI. With an average loan term of 1 year and an interest rate of 23% per year, the financial sector is estimated to earn USh 121bn, and the agriculture and agribusiness sector USh130bn over the lifespan of the BP.

## Agricultural Loan Guarantees

The ALG facility intends to stimulate FIs to extend loans to (perceived) risky, often smallholder, agricultural enterprises. aBi offers three types of guarantees as per the box below.

**Table 16:** Type of Agriculture Loan Guarantee products

| Type of ALG | Description | Target client | Client selection criteria |
|---|---|---|---|
| Individual guarantee | Individual guarantees are guarantees where the partner FI requires approval of aBi Finance for each loan. | Individual clients seeking larger loans in support of increase agricultural production, and seeking access to external financing from a specific FI | Permanent<br>Employees: <50<br>Turnover: < USh4 bn<br>Assets: < USh 2.5 bn<br>Loan size: between USh 100,000 and USh 1 bn |
| Portfolio guarantee | Partner FI sends monthly reports on eligible facilities booked under the scheme. aBi Finance may inspect the files of the borrowers placed under the portfolio guarantee | Bulk guarantee for FIs that wish to extend loans small to rural clients who do not meet the minimum required level of collateral | |
| Portable guarantee | Pre-approved by aBi Finance, after which the agribusiness can get quotes from participating banks. After issuing the portable guarantee, it will be administered as an individual guarantee | SMEs operation in the agricultural sector (trading, processing, storage) that seek to access external financing for longer term loans from banks at the choice of the client | Employees: <100<br>Turnover: < USh 5 bn<br>Assets: < USh 3 bn<br>Loan size: between USh 100 ml and USh 4 bn |

The different guarantees and eligibility criteria allow aBi to service through intermediary FIs a wide range of enterprises and financial requirements. However, in practice the majority of ALGs are portfolio guarantees, which primarily serve smallholder farmers and small SMEs.

The ALGs are covered by an indemnity facility within the capital fund. To protect the capital fund the total indemnity coverage shall not exceed 20% of the capital fund. In practice, thus far ALG claims have remained below one percent of the cover, and as such generate income for aBi on guarantee fees paid by the participating FIs.

For the current BP, aBi shall expand its ALG facility on the back of the expanding capital fund, whereby the indemnity coverage shall remain within 20% of the fund. Given the lower than expected default rate, the global loan limit shall be increased from 4 to 5 times the indemnity fund size.On the basis of the above principles, the ALG facility is expected to develop according to the table below.

**Table 17:** Volumes and performance targets for the ALG facility

| Characteristics of the ALG facilities | 2019 | 2020 | 2021 | 2022 | 2023 | |
|---|---|---|---|---|---|---|
| **Indemnity facility (USh bn)** | 35.7 | 37.6 | 39.3 | 41.0 | 42.8 | |
| **Global limit (USh bn)** | 157.0 | 173.1 | 188.5 | 200.8 | 213.8 | |
| **ALG loans (USh bn)** | 120.2 | 132.2 | 144.2 | 156.2 | 168.2 | |
| **Average loan size (USh ml)** | 2.8 | 2.8 | 2.9 | 3.0 | 3.0 | Total |
| **No of beneficiaries** | 34,000 | 38,000 | 39,000 | 41,000 | 44,000 | 196,000 |
| **Leverage** | 337% | 351% | 367% | 381% | 393% | |

Based on previous experience the utilisation is estimated at 65% of the global limit. This will make the ALG loan portfolio grow from slightly below USh102bn to USh139bn by the end of the BP period. Out of this, 50% is covered by the guarantees. With the average loan size increasing from 3.0 to 3.5 million by 2023, 196,000 retail loans shall have beengenerated by the ALGs by the end of the BP period. By then the indemnity fund will have leveraged between three and four times its value in smallholder loans in rural areas.

The economic impact of the ALGs is estimated according to the same parameters as the LoCs. The financial sector is estimated to earn 166bn and the agriculture and agribusiness sector 177bn from the ALG facility.

### 5.2.2 Capital fund

The volume of the LoCs, ALGs are directly related to the capital fund. The fund was originally endowed to aBi by DANIDA, but was turned into equity during the incorporation of aBi Finance as a Company Limited by Guarantee. The strategy for fund management is determined by the aBi Finance Board of Directors.

During the previous BP period, the growth of the fund was projected at 44% from USh84 bn in 2013 to USh121 bn in 2018. The fund has outperformed this projection by doubling in size to USh162 bn by the end of 2017. This has been achieved by organic growth but also an annual injection from DANIDA amounting to a cumulative additional sum of USh47 bn.

For this BP period, the capital fund is expected to grow by 4% per year from its interest bearing securities, and from fees and interest derived from the LoCs and ALGs. This would result in a fund volume of USh201 bn by the end of 2023. Accelerated growth, which would result in a quicker expansion of aBi's financial instruments to FIs, would have to be generated by additional capital injections, for which aBi Finance will continuously be sourcing.

According to the forecasted statement of comprehensive income for the Business Plan period, a conservative estimate shows that the retained earnings will be substantial. That obviously provides aBi with a good vehicle for sustaining the institution and possibly also for future allocations to programme activities from its own funds.

The core function of the capital fund is to provide funds for wholesale LoCs to FIs, to indemnify ALGs and to partially cover the operational expenditures of ABI Development. In line with these objectives, the share of the capital fund invested in LoCs has increased from 32% in 2013 to 70% in 2018. It is expected to further increase during this BP period to 59%, on account of a growing interest of FIs to tap into this funding source. The expected spread by the end of this BP period is shown in the diagram below.

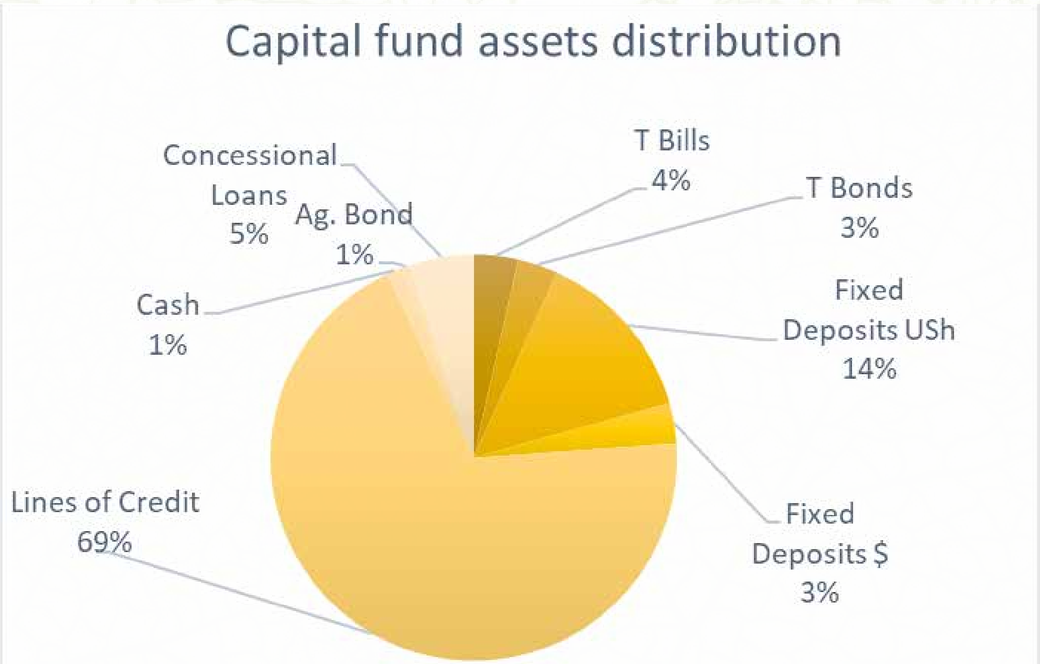



**Figure 5:** distribution (%) of capital fund towards various financial instruments

### 5.2.3 The FSD programme

## Number of projects and investment volumes

Based on the available funds and staffing, aBi Finance strives to have an annual portfolio of around 25 FSD matching grant projects. This number is slightly lower as compared to the previous BP. This is expected to enhance project management, and increase the allocation per project for greater impact. Projects will be sourced through annual Call for Proposals. A large call will be held in 2019 to fill the portfolio. Subsequent calls will replace retiring projects.

**Table 18:** Number of annual projected FSD projects

| Projects | 2019 | 2020 | 2021 | 2022 | 2023 |
|---|---|---|---|---|---|
| Carried over projects from previous BP | 6 | 4 | | | |
| New projects | 15 | 5 | 5 | 10 | 8 |
| Carried over projects from current BP | | 15 | 20 | 15 | 17 |
| Expired projects | | | 10 | 8 | 7 |
| **Total number of open projects** | **21** | **24** | **25** | **25** | **25** |

The budget for FSD up to 2022 shall be financed from a DANIDA grant of USh32.4 bn. The FSD operations are expected to remain with a small balance until 2022, financed by the UPSIDE allocation to aBi Finance, but would require additional new funding for 2023.

## FSD interventions

During this BP period, aBi Finance will expand its Financial Services Development programme with a focus on Tier III and Tier IV FIs. In particular SACCOs have proven to be effective in expanding financial services to the ultimate beneficiaries, despite managerial, operational and infrastructural weaknesses. The number of SACCOs is expanding quickly, especially in Northern Uganda, where aBi Finance will increase its presence.

Over time, aBi Finance has developed a good insight in the specific requirements of FIs for FSD support. These have resulted in nine core intervention areas, to which global fund allocations have been made as per the table below.

**Table 19:** Allocation (USh bn) to core intervention areas of the FSD programme

| Intervention area | | 2019 | 2020 | 2021 | 2022 | 2023 |
|---|---|---|---|---|---|---|
| **Financier Skills Enhancement** | 13% | 0.94 | 1.09 | 1.09 | 1.09 | - |
| **Product development** | 4% | 0.29 | 0.34 | 0.34 | 0.34 | - |
| **MIS** | 22% | 1.58 | 1.85 | 1.85 | 1.85 | - |
| **Branch expansion** | 8% | 0.58 | 0.67 | 0.67 | 0.67 | - |
| **Branchless mechanisms** | 30% | 2.16 | 2.52 | 2.52 | 2.52 | - |
| **Risk management mechanisms** | 4% | 0.29 | 0.34 | 0.34 | 0.34 | - |
| **Support to platforms/collaborations** | 2% | 0.14 | 0.17 | 0.17 | 0.17 | - |
| **Financial Literacy** | 5% | 0.36 | 0.42 | 0.42 | 0.42 | - |
| **Value Chain Financing Improvements** | 5% | 0.36 | 0.42 | 0.42 | 0.42 | - |
| **Total programmatic costs** | | **6.70** | **7.81** | **7.81** | **7.81** | **-** |

Most prominently is the 30% allocation for support to the development of branchless financial banking products. This refers to banking solutions for hard-to-reach or low population density areas, where branches would not be a viable option. In addition, efficiency gains are to be made for FIs and their clients through mobile banking solutions, which would reduce bank transaction costs and, eventually, bank fees and interest rates. For Tier III and IV FIs, roll out of and capacity building in modern banking software and related management information systems is a second important intervention area.

aBi will upscaleits support to VSLAs substantially through intermediary organisations. VSLAs play an important initial role in exposing the non-bankable low income population to regulated financial services. Apart from making small loans available, they also create financial literacy and a savings culture among their members. Over time, mature VSLAs are linked to formal FIs for broader and all-inclusive financial services. aBi shall support that process by assisting FIs in developing attitudes, understanding and products tailored to this new type of clients.

## FSD performance targets

Ultimately FSD interventions are expected to enhance the operational performance of its partner FIs. The performance targets in the table below are set on the basis of previous FSD interventions.

**Table 20:** Key performance indicators for the FSD programme

| Key performance indicators | 2019 | 2020 | 2021 | 2022 | 2023 |
|---|---|---|---|---|---|
| # new accounts (EoY) | 162,000 | 175,000 | 150,000 | 162,000 | 175,000 |
| Average account balance (USh, EoY) | 200,000 | 216,000 | 200,000 | 216,000 | 233,280 |
| Annual new savings volume (USh bn) | 32.40 | 37.79 | 30.00 | 34.99 | 40.81 |
| # new loans | 114,750 | 154,913 | 150,000 | 202,500 | 273,375 |
| Average loan size (USh) | 500,000 | 525,000 | 450,000 | 472,500 | 496,125 |
| Annual loans volume (USh bn) | 57.38 | 81.33 | 67.50 | 95.68 | 135.63 |
| Average outstanding loan principle (USh bn) | 14.3 | 20.3 | 16.9 | 23.9 | 33.9 |
| New branch point of sales | 4 | 3 | 2 | 2 | - |
| New branchless point of sales | 4,800 | 5,800 | 6,900 | 8,300 | 10,000 |
| # of new financial products developed | 2 | 2 | 1 | 1 | 1 |
| Number of clients accessing agricultural insurance product | 22,000 | 25,000 | 28,000 | 35,000 | 40,000 |

This includes an expected slight dip in saving and loan volumes in the election year 2021.

The partners of the FSD programme will be primarily SACCOs, and their target client are generally less affluent and financially astute than the clients of the LoCs and ALGs. This is reflected in smaller loan volumes and shorter loan terms. Because of the terms and sizes, the interest rates on such loans is with an average of 36%, much higher than the larger and longer-term LoC and ALG loans.

Nevertheless, experience has shown that there is a great demand for such loans, and the economic impact of the loans is considerable. With an average loan duration of 3 months and interest rate of 36% the FSD partners are estimated to earn USh39bn from new loans over the lifespan of the BP, whereas the loan clients would earn around USh95bn from the loans over the lifespan of the project.

Cumulatively, the investments in the FSD interventions of USh32bn, are expected to create three to four times its value for partner FIs and FI clients.

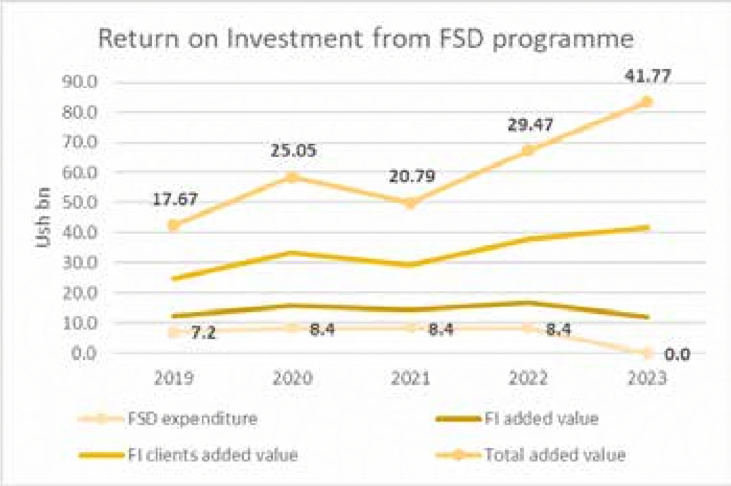



**Figure 6:** return on investment from FSD interventions

Cumulatively, the investments in the FSD interventions of USh32 bn, are expected to create three to four times its value for partner FIs and FI clients.

## 5.3 Risks

The focus of aBi investments is on increasing productivity, lower-level market development and the return that farmers and agribusinesses from enhanced efficiency, quality and resultant price levels. There are a number of significant externalities that influence the outcomes of this approach, in particular for producers.

Firstly, aBi has little or no influence on the vagaries of commodity markets and exchanges and the shocks that their volatility send back down through the value chains to farmers. Uganda is a fairly open market and so global and regional dynamics, for example crop failures or bumper crops in large producing countries or in the region, or political instability in neighbouring countries, can have a profound effect on local price levels, as has been seen in recent years. All in all, Uganda is a price taker, and the ups and downs of the global and regional markets immediately impact on local producer markets and prices.

Secondly, Uganda's agricultural sector is by and large rain-fed, and will remain so for the foreseeable future. Despite continuous talk about and some investment in irrigation schemes, large scale irrigation of field crops in smallholder farms is technically, logistically and financially not viable under the current production levels. Prudent soil and water conservation measures is the most feasible option for most farms and crops, but these will at times not be sufficient to overcome a prolonged drought, and provide no protection at all against other production risks, such as crop pests and diseases. In future, crop failures may become a growing risk in light of climate change.

These two main factors, production and price uncertainties, expose commercialising farmers to the risk of moving out and back into poverty. Commercialisation and market integration of smallholder farmers must therefore be accompanied with interventions to maintain food security at household level, continued attention to soil and water conservation measures and innovative crop insurance products to protect farmers against such risks and strengthen their resilience. For high value crops on small plots, low cost irrigation systems should be promoted as part of a broader production innovation package.

By 2023 Uganda's population will be over 50 million, around 20% higher than at the start of this BP. Economic growth is hardly keeping up with population growth making the per capita growth of Uganda's economy too small to lift large numbers of people out of poverty quickly. This may jeopardise overall stability, and hence the operational environment for aBi to thrive. The impact of population growth on the agricultural sector is an unknown factor. On the one hand, there is likely to be an increasing demand for agricultural produce, arguably accompanied by higher prices for producers and processors, and on the other hand, there will be an increasing pressure on land, water and other natural resources that are imperative for maintaining productivity and the viability of individual farms. All this is uncharted territory and its consequences for agriculture, national food security and political stability are unknown. However, it will take impressive agricultural growth to maintain this population, for which Uganda has no precedence in the recent past.

For the financial sector similar reasoning brings to light similar uncertainties. A growing and dynamic agricultural sector operating in a bullish market may increase the demand and the FIs appetite for agricultural financing, but higher production risks and alternative financing options may have an opposite effect. Likewise, also the financial sector is heavily influenced by global developments, and in particular the movement of exchange rates and interest rates of the major global currencies. Low interest rates in the recent past made investors to look for more attractive destinations for their funds, but as of now it is more likely that the era of cheap money in developed economies is coming to an end. Domestic interest rates are therefore expected to remain high, and pull money away from the agricultural sector to more lucrative and less risky opportunities. This makes the presence of aBi Finance in this market more relevant than ever.

Though the agricultural sector is expected to remain volatile in terms of results for farmers and their families, and the financial sector to remain conservative in their lending policies, it is clear that there will be a significantly bigger and more demanding domestic market for agricultural produce and that this will be increasingly urbanised. Supplying that market will be one of, if not the most pressing priority for Uganda.

# 6. Governance and management

## 6.1 Legal Structure

aBi consists of two operating companies, which are Limited by Guarantee. aBi Finance Ltd and ABI Development Ltd. ABI Development was incorporated in 2018 and took over theactivities of aBi Trust, following the recommendations of the 2017 review of the Trust. The two aBi companies are closely intertwined, in particular where they share the same board members, senior management positions and corporate services.

aBi Finance is mandated to maintain the real value of the capital invested in the Capital Fund and to use the earnings from the investments to cover both aBi Finance's and ABI Development's core operating costs as necessary and possible. This is the mechanism that gives aBi partial longer-term sustainability.

The Memorandum and Articles of Association of both companies provide that in the event that the companies are wound up, any retained funds will not be distributed to the Members but will be transferred to an organisation with similar objectives, i.e. the promotion of agribusiness in Uganda.

## 6.2 Governance framework

aBi'sgovernance framework is shown in the diagram on the next page.

### 6.2.1 Members

The role of the Membersis to set the broad strategic purpose and governance framework of aBi, providing funding and appointing the aBi Boards of Directors and GCEO.The current Members of the aBi companies are as follows:

- ABI Development Ltd - The Kingdom of Denmark and aBi Finance Ltd
- aBi Finance Ltd – The Kingdom of Denmark and Mr. Warwick Thomson

There is provision in the Memorandum and Articles of Association of both companies for new Members to join the aBi companies with the consent of the existing Members.

The Members will have the powers and rights of members under Ugandan Law. They will be required to approve the following matters upon recommendation of the Board:

a) appointment, removal and remuneration of directors;
b) appointment, removal and remuneration of the chairperson;
c) appointment, removal and remuneration of the vice-chairperson of the board;
d) the business plan of the Company;
e) admission of new members to the Company and determination of the criteria for any such admission;
f) appointment, removal and remuneration from time to time of the Group Chief Executive Officer;
g) annual reports of the company including audited financial statements;
h) acceptance of funding from persons other than the members of the Company;
i) merger or amalgamation of the Company with any other organisation;
j) any material changes in the nature or scope of the business of the Company;
k) the appointment and removal of the company's auditors; and
l) borrowing of money or obtaining any other form of credit accommodation.

In addition, to holding an Annual Meeting they will have the right to hold extraordinary meetings whenever they feel one is required. Historically, Members have held quarterly meetings at which they have been informed about the performance of aBi, Board technical and financial workplans and reports, and any ad-hoc reporting that they may request from the aBi Boards. It is anticipated that the quarterly meetings will continue. In addition, aBi management organises for Members and Board members semi-annual field visits to IPs of their choice.

For technical and financial oversight, RDE Staff are currently members of the aBi Procurement and Investment Committee and Audit, Risk and Compliance Committee of the aBi Boards. It is anticipated that this will be a temporary measure.

### 6.2.2 Investor Council

Traditionally RDE is the entry point for investment of most other development partners through Delegated Cooperation Agreements. The DCAs ensure that aBi deals with a single entity with respect to disbursements, and technical and financial reporting. For this BP period, RDE will continue managing DCAs at the request of DPs. For entering into direct agreements between a DP and aBi, the Members of the two aBi companies will have to be informed and agree.

Following the governance restructuring of aBi, it has been decided to set up an Investor Council which will comprise the development partners providing funds to aBi. RDE will Chair this council and the Government of Uganda will be the Deputy Chair. This reflects the close working relationship aBi and RDE have with the Government of Uganda.

The Council will meet twice a year:

- First half of the year - To receive and discuss the financial statements of aBi
- Second half of the year – To receive the Annual Work Plan for the following year.

In addition, the Council will receive progress updates and copies of Business Plans, evaluation documents etc. agreed with RDE as Chair of the Investor Council. There will also be opportunities for Investor Council members to participate in field trips to see aBi activities. This reflects the current practice with DPs.

The Investor Council will have no approval powers only rights to information and the rights to query, comment and advise on the information it receives.

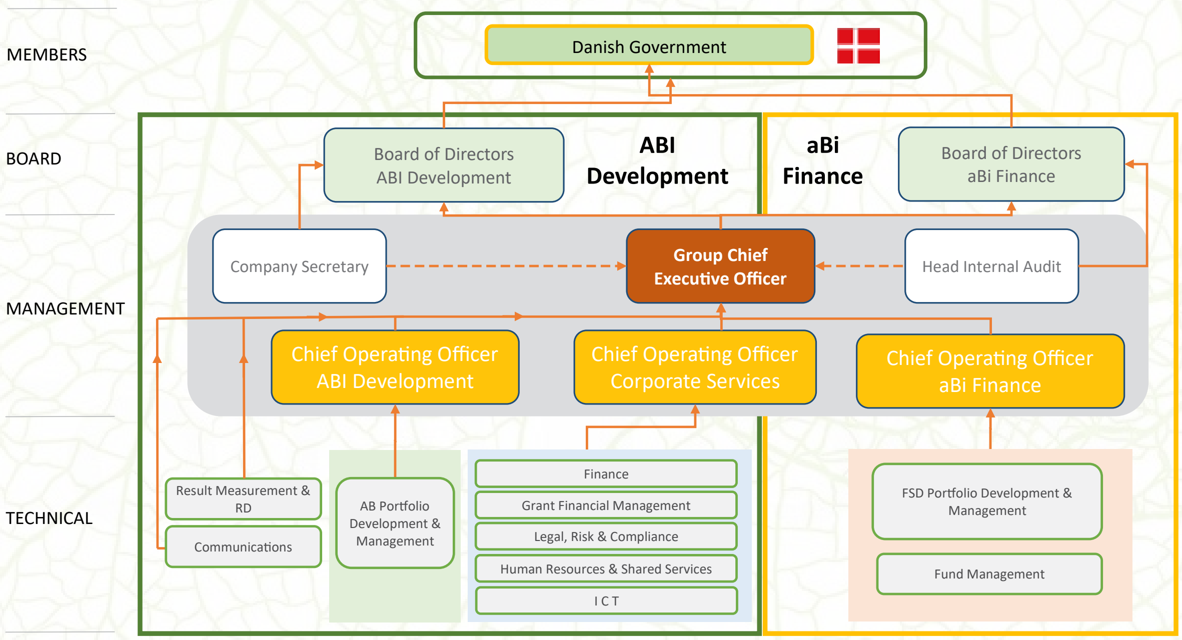



**Figure 7:** aBi Governance and Management Structure

### 6.2.3 Boards of Directors

ABI Development and aBi Finance are governed by Boards of Directors consisting of up to 7 Directors. The two Boards are streamlined to consist of the same Directors, who will by all means and purposes govern the two companies as a single entity. The Boards share a Company Secretary.

As owners and custodians of the BP, the Boards of Directors translate the overall purpose as determined by the Members into programmatic and operational objectives, strategies, and targets, and closely monitor the performance of management towards the achievement of the BP. In practical terms, the Boards will scrutinise and approve Annual Workplans and Budgets, and quarterly and annual technical and financial reports from senior management. In addition, the Board approves new major investment proposals, and, as a legal requirement, annual



TECHNICAL

company audit reports. The Boards executes their functions through, at least, quarterly, full meetings and ad-hoc meetings of the Boards and or their Committees if and when required.

The aBi Boardshave establishedtwo standing committees: the aBi Procurement and Investment Committee (PIC), and the aBi Audit, Risk and Compliance Committee (ARCC).

The role of the PIC is to oversee the development of the programmatic portfolio and operational procurements. The PIC defines the portfolio build-up by considering for recommendation to the aBi boards, the contents and size of VC-specific funding windows and FSD programme activities, for alignment with the strategic and operational objectives of aBi. In addition, it will scrutinise and approve investment proposals and procurements within thresholds defined in the Procurement Manual and the Funding Manual, and against the quality and business criteria as defined in the funding window definition.

The PIC consists of a minimum of two members. Non-board members can be appointed to the PIC, but must be in the minority. The PIC can co-opt technical and financial experts in an advisory capacity for pre-screening of and commenting on the proposed projects.

The ARCC consists of a minimum of two members, Non-board members can be appointed to the ARCC, but must be the minority. The ARCC considers and makes recommendations to the aBi Boards on the financial and audit standards, guidelines and reporting requirements (the Risk Management Framework) for the programmes and operations. The Head of Internal Audit reports to the ARCC.

#### 6.2.4 Senior Management

The aBi Boards have delegated the responsibility for managing ABIDevelopment and aBi Finance to a Group Chief Executive Officer. The GCEO is supported by the Management Team, consisting of the Chief Operating Officer ABI Development, the Chief Operating Officer aBi Finance, and the Chief Operating Officer Corporate Services.

The senior management team is responsible for translating the BP and related directions and instructions from the Board or its committees into programmatic and operational plans, and manages its implementation by its technical teams.

#### 6.2.5 Programme management teams

### Portfolio management

Programmatic management and execution is carried out by Portfolio Development and Management teams for the VCD programme and the FSD programme, and a Capital Fund management function in aBi Finance.

VCD portfolio development and management unit consists of a Head and eight technical staff. The core function of the VCD team is project management. This includes providing technical and operational backstopping to IPs, verifying project outputs and project finances. For these functions, the aBi project managers are supported by technical expertise from the Results Measurement and RD unit, the Grant Management Control Unit, and the Legal and Risk Compliance Unit.

In relation to portfolio development the team functions are to design funding windows for approval by the Board; appraise investment proposals and propose suitable investments for consideration to the Funds Management Committee; and manage the approved projects up to their closure. As compared to previous BPs, this process will be streamlined in two ways: Calls for Proposals will be launched for precisely defined funding windows, targeting an identified opportunity of issue in a value chain, interconnecting market or crosscutting theme. The design of the funding window shall be supported by MRM data, and the MRM Research and Development staff, who where needed shall be supported by short-term expert teams. Furthermore, in case of large responses of Calls, short-term expert teams can be called upon to assist in the appraisal process, so as to free time of portfolio managers to continue their project management work.

FSD portfolio development and management consists of three staff. Their functions are largely similar to the VCD PD&M team.On-site backstopping and verification will be done according to the mixed team approach that will combine operations with staff from Finance, MRM and Risk Management units.

During the BP period, the administrative management of projects will be done through the tailor-made aBi on-line Grant Management System. The GMS manages the application and programme management life cycles, by facilitating on-line applications, KPI performance reporting, financial reporting, and associated uploading and storage of all relevant project documents, correspondence and reports. The system generates real-time project performance reports against project KPIs, and aggregated output tables for VCs and regions as input in the reporting cycle of aBi.

The technical and operational backstopping of portfolio managers is considered a programmatic function whereas the other activities of the team are operational. For that reason, 25% of the PD&M team costs are assigned to the programmes' budget lines.

### Capital fund management

The Capital fund management Unit administers the Capital fund assets with a view of meeting the growth targets of the fund. The investment strategy to be followed by this unit is outlined in paragraph 5.2.2 of this business plan.

#### 6.2.6 Corporate services

The Corporate Services Department is formally placed in ABI Development, but provides services to both companies. ABI Development cross charges 33% of the CS costs to aBi Finance, a rate which is reviewed periodically to justify need for revision or not in addition it will charge a rate of 2% to NURI which has now taken up much greater office space.

The core functions of CS are service provision in the areas of finance, administration, human resources, technical services (primarily ICT), risk and compliance, and results measurement.

The financial management function has an operational and programmatic component. The latter concerns the verification of project accountabilities, grant audits and compliance with procedures, which is allocated to a separate Grant Management Controller Unit.

The Technical Services Unit is instrumental in keeping the ICT and other technical infrastructure up to date and functioning. In addition it has been in the forefront of developing the on-line automated Grant Management System (GMS) and the mobile field data capturing tool that IPs use to upload field activity data to the aBi server. The GMS content and management are handed over to the portfolio managers, but the Technical Services Unit shall continue to provide back-up support to the users in the office and in the field.

#### 6.2.7 Staff Performance Management

aBi has over the years made improvements in the execution of the staff performance management process, with all staff being appraised and Key Performance Indicators (KPIs) being set based on the Approved Workplans and Budgets, which are in turn set based on the Business Plan. It is against these KPIs that staff performance is assessed each year to monitor progress and allow for corrective measures to be taken where needed.

Nonetheless, there is a need to improve aBi'sability to measure how effectively she manages and deploys financial and human resources in such a way as to deliver on organisational goals and objectives. This shall be achieved by moving towards a performance management process which provides a comprehensive framework to translate aBi's strategic objectives into a coherent set of performance measures.

Over the next five years, aBi is set to transition to the Balanced Score Card approach by training key staff and then piloting the method in one unit before rolling it out to the entire organization to ensure buy-in and ownership of the process. The Balanced Score Card is a management system that can motivate performance improvements by relating aBi'sBP to resources, business activities and then to performance measures while demonstrating the cause and effect linkage. In addition, this instrument can be used to assess financial processes, stakeholder relations, internal business processes and learning and growth characters of the organization.

## 6.3 Results Measurement and RD

Accurate and reliable Monitoring and Result Measurement of the aBi programmesis critical for portfolio development, performance tracking, technical accountability and broader lessons learning. During the previous BPs emphasis of the MRM system has been on project output verification, result monitoring and reporting, and less on strategic evaluations and lessons learning to inform future interventions.

During this BP period, the MRM Unit shall more than before focus its attention on result measurements, evaluations and lessons learning. In this, the Unit will be guided by a recently updated monitoring and evaluation manual that follows the DCED standard for monitoring and evaluating private sector development interventions. The DCED is a standard of monitoring and evaluation which has been embraced by the donors in private sector development to measure results. This Standard outlines key elements in a practical process for estimating results that can be managed by programmes internally.

Basis for performance measurements are 14 aBi–wide standard KPI's, 38 value chain specific KPI's and a variable number of project specific KPI's. The value chain specific KPI's are divided between 7 VCs, this ultimately means that each IP reports usually on around 25 to 26, and no-more than 30 KPI's. The KPIs feed directly into the Objective Framework KPIs as shown in chapter 4.

**Box: Innovations in MRM**

**Drones for agriculture**

Increasingly the use of UAV's (unmanned aerial vehicles) or drones are being used across the globe for agriculture purposes, primarily for monitoring and data gathering. aBi has assessed the options for using drones preliminary for M&E purposes. There is an interest in being able to verify the extent and amount of land being recorded as cultivated/farmed by IP's as part of aBi operations, by using aerial imagery to demarcate the boundaries of what is actually observed. This would form part of a learning exercise to further enhance the data gathering capabilities of IP's. In addition, once the processes are better understood, aBi can look to using such devices for more advanced environmental purposes such as addressing land suitability analysis and flood mapping. This would provide further support to the programs in identifying where and why aBi should work in the chosen locations.

**An aBi GMS Mobile Application**

With the Grant Management System (GMS) well under way, there is an opportunity to work enhance it by creating an 'App' that provides summary updates direct to staff's smart phones. Such information would contain access to an IP's profile information, location, reporting status including the quick identification of any gaps, and also, KPIs and associated targets and results to date. In addition, the App will provide a standard overview of all grantee operations, aggregating results across all IPs and/or Value Chains; for example, providing a snap shot of aBi interventions in dairy for Q3 2018, as per the Dairy KPI's and targets. After preliminary tests, this could be expanded to be an update portal to development partners and Board Members, via their mobile devices, providing summary performance reports by Quarter.

Previous experience has also shown methodological quality issues with field data collection, interpretation and attribution, not in the least because many IPs do not have the capacity and often not the interest to collect KPI data. To overcome this issue, aBi provides IPs with additional grant funding for monitoring staff. Furthermore, aBi shall increasingly build its monitoring system around the concept of the Last Hard Number (LHN), which is the last number in the intervention logic that can be firmly established, often from the IPs operations or financial records. For FSD, this is already done by requesting FIs to provide aBi with their new bank account and loan data from their own system. For SMEs examples are commodity purchasing records, factory outturns and financial data.

## 6.4 Risk and compliance management systems

### Functions and operations

The risk management and compliance functions are key components of the organisation's line of defence. While the risk function is responsible for overseeing risk-taking activities across the organisation, the compliance function is responsible, among other things, for promoting and monitoring that the organisation operates with integrity and in compliance with applicable, laws, regulations and internal policies.

The two control functions supplement internal audit which provides an independent assurance to the Board and senior management on the quality and effectiveness of the organisation's internal control, risk management and governance systems and processes, thereby helping the Board and senior management protect the organisation and its reputation.The board oversight role over the risk and compliance management function is delegated to the Audit,Risk and Compliance committee. This committee has a set mandate that guides its operations and activities.

The risk management department delivers on the commitment set out by the Boards to strengthen risk management practices within aBi and advance focus on proactive risk and compliance management, thus placing more emphasis on communication of key risk events and trends. This significantly demands an enterprise wide involvement in responsible risk management at all levels. Such an environment will support responsible risk management and bring about best risk practices into existing governance and organizational structures, planning and operational process.

The above will be achieved through risk awareness campaigns at all levels including at implementing partners, continuous risk assessment, developing standard risk assessment tools as guided by aBi Risk and Compliance Framework. To be effective, risk management will be aligned with aBi's overall objectives, corporate focus, strategic direction, operating practices and internal culture ensuring that risk management is considered priority in resources allocation and integrated within existing governance and decision –making structures at both operational and strategic levels.

### Procedures and guidelines

The following are the policies, procedures and guidelines in place.

**Table 21:** Status of policies, procedures and guidelines

| Manual | **Policy** | **YoA** | **IA assurance** | **Custodian** |
|---|---|---|---|---|
| Finance & Accounting Manual | General Finance & Accounting Policies | 2018 | | COOCS/HOF |
| HR Manual | Salary Policy<br>COLA Policy | Dec 2017 | | COOCS/HHR |
| ICT Manual | ICT Policy | Sep 2017 | | COOCS/TM |
| Procurement Manual | | Mar 2018 | X | COOCS/HHR |
| Risk & Compliance Manual | Risk & Compliance Policy | Sep 2017 | | COOCS/LCM |
| MRM Manual | | Sep 2017 | | COOCS/MEM |
| Funding Manual | | Sep 2018 | | COOT/COOaBiF |
| Communications Manual | Communications Policy | Sep 2017 | | CM |
| Investment Manual | | Sep 2017 | X | COO aBi F |
| Guarantee Manual | | Mar 2018 | X | COO aBi F |

The above table shall continually be updated over the Business Plan life as new Policies are approved and old ones revised.

## 6.5 Reporting

aBi will prepare quarterly, semi-annual and annual reports that contain both programmatic and operational data. The reports will be informed by the monitoring data collected from the monitoring visits, progress reports, evaluation reports, the data generated through the M&E database for key performance indicators as referred to in the respective result chains and the other sections of the document, and by the management information system of aBi.

Only annual reports will be published to all stakeholders at the end of each year. Further to the routine reports, aBi will use third party teams to verify the work of the partners as and when necessary and report to aBi for decision making. aBi will conduct impact assessments for indicators in the higher levels of the result i.e. Impact Level, Sector Growth and Enterprise Performance and Market Uptake.

## 6.6 Sustainability

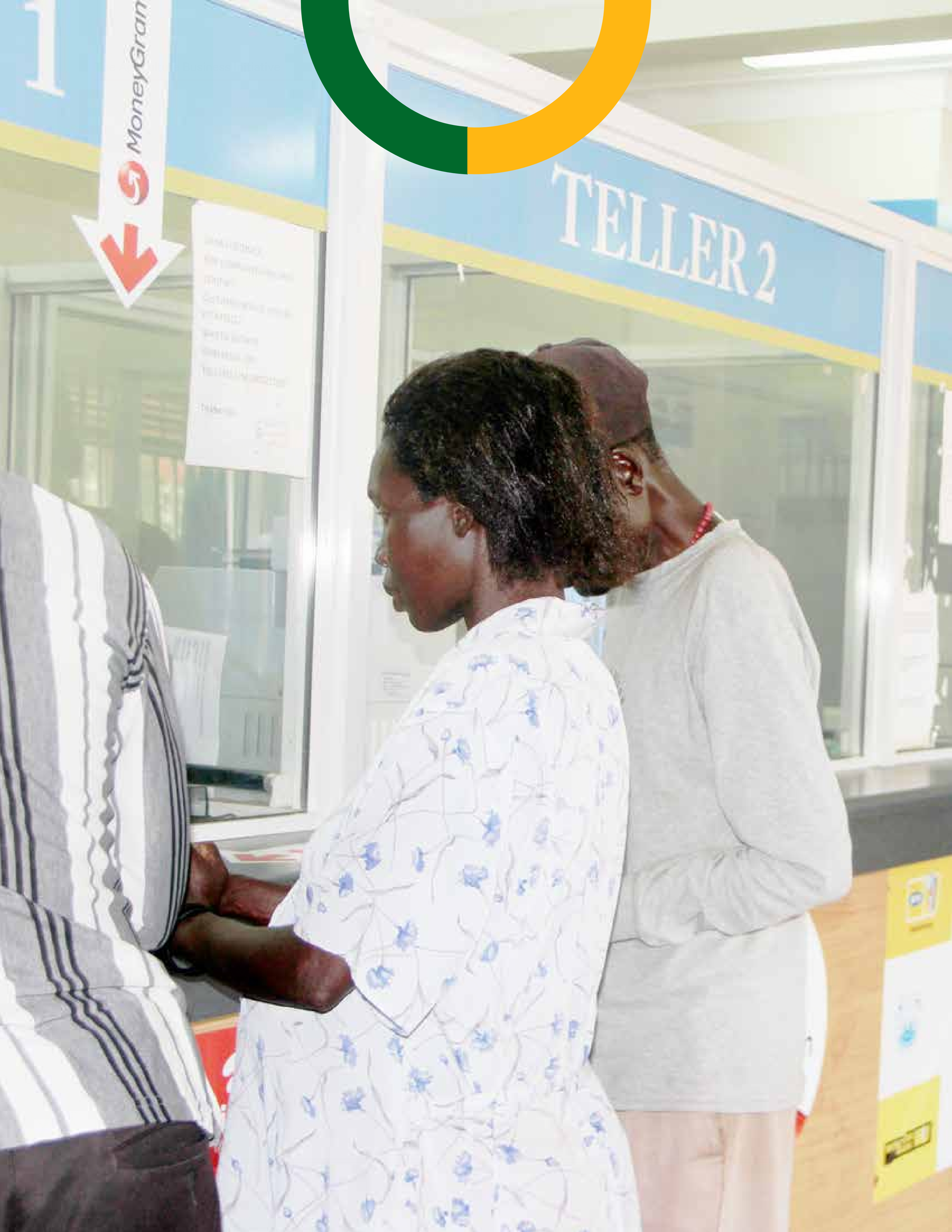
Ultimately programmatic sustainability for aBi means leaving behind a flourishing and socially and environmentally responsibleagriculture and agribusiness sector that no longer requires aBi support.

In the medium to long term sustainability for aBiitself means having the financial and human resource capacity to turn development funds into top-notch support to the agribusiness sector in Uganda. This latter sustainability objective can, in theory, be achieved through three separate channels.

i. First, aBi own assets, and in particular the Capital fund, which under prudent management should generate a moderate surplus to, if not wholly finance, at least covers some of the operational costs of ABI Development alongside aBI Finance. This can keep the ABI Development alive even during times when donor funding is low.

ii. Secondly, some activities of aBi maygenerate some additional income, for example fund management fees, and consulting services. Fund management fees are indeed budgeted for as a source of income, albeit modest. Consulting as a commercial undertaking by aBi is a not foreseen activity in this business plan.

iii. Thirdly, and most realistically, ABIDevelopment and the FSD programme of aBi Financehave to demonstrate to its (potential) funders that it is delivering more value for donor money than any other grant delivery mechanism. In practice this means for aBi to deliver high quality grants at a lower cost, and be able to technically and financially account for it.


MoneyGram
TELLER 2

# 7. Finances

## 7.1 ABI Development

A summary overview of income and expenditure for ABI Development is shown in Table 217. The detailed underlying financial data are contained in a supporting Excel spreadsheet.

The projected income is USh248.8bn against a total expenditure budget of USh251.0 bn, the minor shortfall of USh 2bn is covered by funds projected to be remaining as at the end of 2018.

Breakdown of the Projected Income, comprising of the following:

| Source | Amount in USh bn | Probability |
|---|---|---|
| UPSIDE and balance of UGII Funds | 148.9 | 100% |
| aBi Finance Contribution | 23.5 | 100% |
| EU Funding | 25.7 | 100% |
| Other DPs | 30 | 50% |
| Recharge costs from aBi F and NURI | 20.7 | 100% |
| Total | 248.8 | |

Whilst the EU Funding has been factored in at €6M with 100% probability (on account of positive meetings held with EU and RDE on funding possibilities), the other DP funds have been calculated on the basis of a 50% probability of delivering a possible USh 60bn, hence leading to the USh 30bn projection.

ABI Development will actively solicit for funds from DPs from the very start of the BP period, and has already had a number of positive discussions with the EU, key to this is showing value for money in the delivery of the programme.

**Table 22 :** Summary of income and expenditure ABI Development (USh ‘000,000)

| | 2019 | 2020 | 2021 | 2022 | 2023 | 2019-2023 |
|---|---|---|---|---|---|---|
| **INCOME** | | | | | | |
| UPSIDE RDE & DP’s | 54,548.0 | 5,7848.0 | 40548.0 | 40548.0 | 34,648 | 228,140 |
| Recharges to aBi F and RALNUC | 3,857.4 | 3,937.6 | 4,108.2 | 4,264.7 | 4,449.3 | 20,617.3 |
| **Total Income** | **58,405** | **61,785** | **44,656** | **44,812** | **39,097** | **248,757** |
| | | | | | | |
| **EXPENDITURE** | | | | | | |
| **Programmatic** | | | | | | |
| VCD Disbursements | 30,103.0 | 32,103.8 | 31,960.1 | 33,521.9 | 33,811.0 | 161,499.8 |
| VCD Programmatic | 4,398.6 | 4,577.9 | 4,766.6 | 4,965.3 | 5,174.8 | 23,883.2 |
| **Total Programmatic** | 34,501.6 | 36,681.7 | 36,726.7 | 38,487.3 | 38,985.7 | 185,383.0 |
| **Operations** | | | | | | |
| VCD operational | 11,072.5 | 11,315.5 | 11,832.4 | 12,306.8 | 12,866 | 59,393.2 |
| Other costs | 1,555 | 1,397.9 | 1,436.1 | 1,479.5 | 0.2 | 6,036.6 |
| **Total operations** | 12,627.5 | 12,713.4 | 13,268.4 | 13,786.3 | 13,034 | 65,429.8 |
| **Total Expenditure** | **47,129** | **49,395** | **49,995** | **52,273** | **52,019** | **250,812** |
| | | | | | | |
| **±Surplus** | 11,276 | 12,390 | -5,339 | -7,461 | -12,922 | -2,056 |
| **% Programmatic/Total** | 73% | 74% | 73% | 74% | 75% | 74% |
| **% Disbursement/Total** | 64% | 65% | 64% | 64% | 65% | 64% |

**Table 23:** ABI Development Statement of financial position 2018 (Ush '000,000)

| | 2019 | 2020 | 2021 | 2022 | 2023 |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| Cash and Bank Balances | 13,346 | 25,736 | 20,397 | 12,937 | 14 |
| Current Assets | 17,066 | 17,066 | 17,066 | 17,066 | 17,066 |
| Equipment | 1,528 | 1,891 | 2,257 | 2,627 | 2,796 |
| Total Assets | 31,941 | 44,694 | 39,721 | 32,631 | 19,877 |
| **LIABILITY AND FUND BALANCE** | | | | | |
| **Liabilities** | | | | | |
| Other Payables | 1,521 | 1,521 | 1,521 | 1,521 | 1,521 |
| Deferred grants | 20,777 | 33,531 | 28,557 | 21,467 | 8,713 |
| **Total Liabilities** | **22,298** | **35,052** | **30,078** | **22,989** | **10,234** |
| Fund Balance | | | | | |
| Fund Balance | 9,642 | 9,642 | 9,642 | 9,642 | 9,642 |
| **Total liabilities and net funds** | **31,941** | **44,694** | **39,721** | **32,631** | **19,877** |

To remain an attractive vehicle for managing agribusiness development funds of third parties, aBi's cost of delivery to the ultimate beneficiary has to be competitive as compared to alternative disbursement mechanisms. aBi's benchmark for overhead has been set at below 25%. aBi's programmatic expenditure over the BP period is estimated at indeed 25%, but will drop over time from 26% to 25%. The ratio between disbursements only against total operational costs is 34%.

**Table 24:** Allocations between Programmatic and Operational Costs

| | Programmatic | Operational | External |
|---|---|---|---|
| Grant disbursements | 100% | | |
| Human Resource Costs VCD | 25% | 75% | |
| M&E Costs | 71% | 29% | |
| Fleet Costs | 50% | 50% | |
| Audit, studies | 73% | | 27% |
| STTA | 75% | 25% | |
| GMS | 50% | 50% | |

The last two rows of Table 21 show the cost of programme delivery. In our definition programmatic costs are costs that directly contribute to the objectives framework of aBi. The costs consists of actual disbursements to IPs and the costs of indirect support to IPs. The latter is defined as per Table 22.

## 7.2 aBi Finance

A summary overview of income and expenditure for aBi Finance is shown in Table 24. The detailed underlying financial data are contained in a supporting Excel spreadsheet.

The total income for aBi Finance comes from three sources: interest on securities, income from management fees of the ALG and clean technology fund, and a grant from DPs towards the FSD matching grant programme. The overall surplus before tax during the BP is expected to reach USh 42 bn. Net profit after tax will be added to the capital fund and as such shall expand the asset base of aBi Finance substantially from USh174bn to USh 215bn (Table 25).

The cost of delivery of the FSD programme is currently estimated at 6% of the total costs. In other words, 94% of the FSD grant will be spent in direct disbursements to partners.

**Table 25 :** aBi Finance Forecast statement of comprehensive income and expenditure (USh '000,000)

| | 2019 | 2020 | 2021 | 2022 | 2023 | 2019-2023 |
|---|---|---|---|---|---|---|
| **INCOME** | | | | | | |
| Interest | 18,999 | 20,502 | 21,039 | 21,975 | 22,978 | 105,493 |
| Fees | 960 | 953 | 1,013 | 1,073 | 1,133 | 5,132 |
| FSD Grant | 7,200 | 8,400 | 8,400 | 8,400 | 0 | 32,400 |
| **Total Income** | **27,159** | **29,855** | **30,452** | **31,448** | **24,111** | **143,025** |
| **EXPENDITURE** | | | | | | |
| Operational expenses aBiF | 4,219 | 5,932 | 6,261 | 6,608 | 6,974 | 29,994 |
| Programmatic expenses FSD | 7,200 | 8,400 | 8,400 | 8,400 | 0 | 32,400 |
| Management fees for aBi Trust | 3,100 | 3,872 | 4,065 | 4,242 | 4,450 | 19,729 |
| Provisions for Bad Debts | 2,048 | 662 | 326 | 704 | 662 | 4,402 |
| **Total Expenditure** | **16,567** | **18,866** | **19,051** | **19,954** | **12,087** | **86,525** |
| **Surplus** | **10,592** | **10,989** | **11,401** | **11,494** | **12,024** | **56,499** |
| FSD Programmatic/total | 43% | 45% | 44% | 42% | 0% | 37% |

**Table 26:** aBi finance Statement of financial position 2018 (USh '000,000)

| | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| Cash and Bank Balances | 887 | 1,301 | 1,827 | 1,462 | 2,227 | 2,637 |
| Securities | 64,862 | 56,910 | 51,223 | 59,935 | 56,235 | 53,637 |
| Lines of Credit | 102,049 | 115,049 | 127,421 | 126,282 | 137,756 | 147,823 |
| Concessional Loans | 5,052 | 8,000 | 9,000 | 10,000 | 10,000 | 11,000 |
| Fixed Assets | 4 | 24 | 24 | 24 | 24 | 24 |
| Deferred Tax | 764 | 269 | 269 | 269 | 269 | 269 |
| Other receivables | 100 | 300 | 300 | 300 | 300 | 300 |
| **Total Assets** | **173,718** | **181,852** | **190,063** | **198,272** | **206,810** | **215,690** |
| **Liabilities** | | | | | | |
| Bad debt provision | 5,079 | 7,126 | 7,788 | 8,114 | 8,818 | 9,480 |
| Other payables | 1,645 | 1,200 | 1,200 | 1,200 | 1,200 | 1,200 |
| Staff gratuity | 1,234 | 1,234 | 1,289 | 1,289 | 1,289 | 1,289 |
| Tax Payable | 270 | 0 | 0 | 0 | 0 | 0 |
| **Total Liabilities** | **8,227** | **9,560** | **10,278** | **10,604** | **11,308** | **11,970** |
| **Equity** | | | | | | |
| Capital Grants | 108,540 | 108,540 | 108,540 | 108,540 | 108,540 | 108,540 |
| Profit for the period | 8,825 | 6,800 | 7,494 | 7,883 | 7,834 | 8,218 |
| Retained Earnings | 48,126 | 56,951 | 63,751 | 71,245 | 79,128 | 86,962 |
| Total Equity | 165,491 | 172,291 | 179,785 | 187,668 | 195,502 | 203,720 |
| **Total liabilities and net funds** | **173,718** | **181,852** | **190,063** | **198,272** | **206,810** | **215,690** |

# ANNEX 1: Definitions and metrics of Key Performance Indicators

| Description | Change of investments by beneficiary SMEs and commercialising producers from own resources or commercial loans |
|---|---|
| Level | Outcome |
| What it measures | USh in productive investments during a standard period. |
| Definitions | Productive investments are investments that enhance production, productivity or production processes. Typical examples are land, buildings, machinery, transport or equipment, inputs, animals, IT, training,<br>For companies the standard period is in most cases a financial (or accounting) year;<br>for smallholder commercial producers the best standard period is probably a growing season<br>From own resources requires the investments not to be paid from grants, but from own savings or commercial loans |
| Data collection | For companies, data will be provided by the companies extracted from annual accounts or audit reports, and/or preferably 1-3 years after the expiry of the project<br>For smallholders, data are collected annually and during end-of project evaluation by aBi |
| Connection to GMS | No direct connection to GMS indicators |
| Expected level of growth | No hard number, but ultimately for both companies and smallholders, businesses should be able to expand without external free funding or subsidies. |

| Description | Number of additional FTE employment positions created by beneficiary agribusinesses and commercialising farmers |
|---|---|
| Level | Outcome |
| What it measures | Full time equivalent jobs created in companies and on farms as a result of the aBi investments. |
| Definitions | 1 FTE job = 240 full (6 hrs or more) wage labour days worked in a year. It excludes family labour on smallholder farms. 1 FTE can be the sum of more than one part-time wage labourers in terms of hours and or days in a year.<br>The DCED definition and calculation apply. |
| Data collection | FTE data collection in companies shall be done by looking at the company's annual payroll and wage bill, which is a reliable measure for formal employees, but may miss casual labourers.<br>FTEs at smallholder farms can be calculated on the basis of gross margin tables for crops, whereby a labour actors is applied when farms move from low-input-output, to medium/high-input-output systems. Alternatively, labour data can be collected from smallholder surveys. Both methods are fairly unreliable. |
| Connection to GMS | Directly related to VCD GMS STD indicators 1-4 disaggregated by gender. |
| Expected level of growth | In the VCD calculation model additional on farm FTEs are based on the medium-input-output model and are estimated at 95,000 over the project period. For SMEs, the FTE estimates are based on additional work per 1000 MT of product volume and reach roughly 9,000 FTEs |

| Description | Change in loan volumes of beneficiary FIs from own resources oriented towards agriculture |
|---|---|
| Level | Outcome |
| What it measures | Ush in loans to the agricultural sector by Financial Institutions |
| Definitions | A loan to the agricultural sector is a sum of money lend for a specific period and at specific terms to a company or individual to finance an agricultural or agribusiness related operation: land, stores, inputs, tools, animals, machinery, trade financing, transport, processing, and marketing of agriculture produce or processed commodities. |
| Data collection | Data shall be provided by partner FIs, and can be extracted from the Financial Yearbook and other statistical data provided by the GoU. |
| Connection to GMS | No direct connection to GMS indicators |
| Expected level of growth | The partner FIs should be able to invest more of their own resources not grants, into financing agribusinesses and agricultural production. Annual investment projections shall be determined by the partner IP at the start of project implementation |

| Description | Number of beneficiary smallholder farmers who moved up at least one income level | | | | |
|---|---|---|---|---|---|
| Level | Result 1 | | | | |
| What it measures | Smallholders moving from one income bracket (USh) to a higher bracket, for at least two years. | | | | |
| Definitions | The absolute poverty line in Uganda for smallholder family is not easy to establish – the global standard of US$ 1.90 or less per person per day would mean a minimum income level of a standard family of 5 persons of around Ush one million/month, which is around 20 times above the Ugandan standard of a poor family. Some additional work is therefore required, but once a minimum level is established the income brackets could be set as per the proposal below.<br>1. below the absolute poverty line for more than two years<br>2. 4 times above the absolute poverty line for more than a year<br>3. 12 times above the absolute poverty line for more than a year<br>4. 24 times above the absolute poverty line for more than a year | | | | |
| Data collection | Income data will be collected by tracking buying volumes and prices of beneficiary SMEs, and by base-line and end-line studies amongst smallholder farmers For smallholders, data are collected annually, during end-of project evaluation and impact surveys by aBi | | | | |
| Connection to GMS | Farmer incomes are not part of the GMS core indicators, but could be derived from GMS sales volumes indicators | | | | |
| Expected level of growth (USh bn) | The producer model estimates the total volumes and values of adopting farmers on the basis of expected project roll-out and production increase, set at the end of the BP period at 75% of on-farm crop research levels as per the table below | | | | |
| | 2019 | 2020 | 2021 | 2022 | 2023 |
| | 29.39 | 44.06 | 66.06 | 99.04 | 148.48 |

| Description | Number of additional beneficiary farmers that are food secure |
|---|---|
| Level | Result 1 |
| What it measures | Days per year without access to adequate food quantities or qualities as per the needs of all household members |
| Definitions | Household food security exists when all members of the household, at all times, have physical, social and economic access to sufficient, safe and nutritious food which meets their dietary needs and food preferences. Food security can be broken down into three interrelated components: 1) food availability, 2) food access and 3) food utilisation. |
| Data collection | Food security data are collected through base-line and endline surveys. |

| | |
|---|---|
| Connection to GMS indicators | No direct connection to GMS indicators |
| Expected improvement | All aspects of smallholder food security should improve over time. The actual food security situation may differ considerably between VCs and regions, and targets have to be set on the basis of the base line study. |

| Description | Number of additional beneficiary farmers that reach at least 75% of optimum yields* of selected VCs |
|---|---|
| Level | Output 1.1 |
| What it measures | Yields in kgs/acre or litres of milk of selected VCs. |
| Definitions | The 75% of optimum yield target is to be established as a hard number in the funding window definition on the basis of VCAs and expert opinions. |
| Data collection | Yield data will be collected by tracking buying volumes of beneficiary SMEs and divide them by number of suppliers, and by base-line and end-line studies amongst smallholder farmers |
| Connection to GMS indicators | Yield data are systematically collected as part of the GMS VCD indicators |
| Expected level of growth | With current producer levels at 20-30% of optimum yields, across the VCs yields should double or triple during the lifetime of the intervention. |

| Description | Number of additional beneficiary farmers that adopt and apply at least 3 CSA and environmental practices as a result of an aBi intervention |
|---|---|
| Level | Output 1.1 |
| What it measures | Count of applied climate smart practices at farm level |
| Definitions | Climate smart practices relate to agricultural interventions that sustainably increases productivity, enhances resilience (adaptation), reduces/removes greenhouse gas emissions (mitigation), and enhances food security and national development goals.<br><br>For interventions at smallholder level, sustainable productivity and adaptation are the core pillars. The broad definition of CSA allows for a broad range of CSA practices to be considered, in different broad categories: soil and water conservation and management; conservation agriculture, including minimum tillage, green covers, and mulching, tree planting; wise and responsible use of approved pesticides and inorganic fertilizers; the use of pest, disease and drought tolerant varieties, crop rotations. aBi is contributing to CSA by promoting CSA activities and trainings as part of their grant assessments. |
| Data collection | A baseline survey and end-line surveys will be required. Data will be collected annually through in-depth interviews and surveys by aBi |
| Connection to GMS indicators | CSA data are systematically collected and reported as part of the GMS VCD indicators |
| Expected level of growth | The ultimate aim is a rational application of as many relevant CSAs in the context of the VC; whereby a reasonable balance is achieved between costs and short-term and long-term benefits |

| Description | Number of additional beneficiary farmers that engage in collective marketing |
|---|---|
| Level | Output 1.2 |
| What it measures | Number of farmers or farmer groups |
| Definitions | Collective marketing includes all deliberate and voluntary activities of farmer groups over at least 2 growing seasons, to gain economies of scale in commodities markets by agreeing on standards, collectively bulking cleaning, storing and offering combined volumes to offtakers, with a view of receiving price premiums or marketing cost reductions. |
| Data collection | Collective marketing data are systematically collected and reported as part of the GMS VCD indicators |
| Connection to GMS indicators | |
| Expected level of growth | The target: all farmer groups supported by aBi engage voluntarily in forms of collective marketing |

| Description | Commodity price premium realised by beneficiary farmers and farmer groups due to aggregation and or improved produce quality |
|---|---|
| Level | Output 1.2 |
| What it measures | The USh difference between individual farm gate prices and collective marketed farm gate prices. |
| Definitions | The farm gate price is the net amount that a farmer or farmer group receives from an off-taker per unit of produce sold. |
| Data collection | Standard farm gate prices can be obtained from trading platforms, or from surveys amongst farmer groups. Collective prices are obtained from farmer groups as part of the GMS data collection system |
| Connection to GMS indicators | Collective data are systematically collected and reported as part of the GMS VCD indicators |
| Expected level of growth | It is expected that collective marketing provides farmers with a premium of at least 20% over individual marketing. |

| Description | Number of additional beneficiary smallholder families that employ joint household planning |
|---|---|
| Level | Output 1.3 |
| What it measures | Count of smallholder farmers that mention the application of joint household planning |
| Definitions | Joint household planning is a series of family based activities whereby on a regular basis social, production, financial and marketing targets and decisions are taken in joint consultation between (adult) family members and whereby the process and outcome largely satisfies all family members |
| Data collection | Joint household decision making data are systematically collected and reported as part of the GMS VCD indicators. Data on joint planning shall also be collected annually through surveys by aBi. |
| Connection to GMS indicators | |
| Expected level of growth | Joint household decision making is an integral part of farmer training, and is expected to be applied by not less than 80% of all participating families. |

| | |
|---|---|
| Description | Number of additional beneficiary smallholders that maintain production and financial records |
| Level | Output 1.3 |
| What it measures | Count of families that have some form of systematically collected, reliable and recorded data on investments, production volumes, and sales |
| Definitions | Recorded investment, production and sales data have to be recorded in written or digital form in a notebook or on a computer. The relevance and quality of the data should be scored, as well as how the family uses it for planning and decision making |
| Data collection | Data can be collected using interviews or surveys in which also data about joint household data are collected |
| Connection to GMS indicators | Joint household decision making data are systematically collected and reported as part of the GMS VCD indicators |
| Expected level of growth | Record keeping is an integral part of farmer training, and is expected to be applied by not less than 80% of all participating families. |

| | |
|---|---|
| Description | Improvements in financial performance measures (return on sales (RoS), return on assets (RoA), return on equity (RoE)) by beneficiary agribusinesses |
| Level | Result 2 |
| What it measures | RoS, RoAs and RoEs are ratios |
| Definitions | Return on Sales is the ratio of the cost of production over the total income from sales<br>Return on Assets is the ratio of the total value of company assets over total income<br>Return on Equity is the ratio of the total capital base of the company over the total income |
| Data collection | Data are collected during the due diligence process and are directly available from the partner company's audit reports |
| Connection to GMS indicators | The GMS collects routinely sales data of partner companies as a STD indicator across the VCs. |
| Expected level of growth | RoS is a measure of efficiency, and would ideally drop over time – lower costs per unit of production<br>RoA and RoE are measures of financial health of a company and are expected to raise over time. |

| | |
|---|---|
| Description | Level of compliance of beneficiary agribusinesses with legal requirements (tax, environmental and labour laws) |
| Level | Result 2 |
| What it measures | Count the fraction of agribusinesses in full compliance with basic laws and regulations. |
| Definitions | A list of basic laws and requirements would need to be established at the onset of the partnerships, and are likely to include: PAY, NSSF and corporate taxes; adherence to labour contractual and safety requirements, adherence to effluent management, safety and noise regulations. |
| Data collection | Data are collected during the due diligence process and are available from the annual audits and MIS. In-depth interviews with agribusinesses. |
| Connection to GMS indicators | The GMS does not routinely collect tax and regulation adherence indicators of partner companies. |
| Expected level of growth | Partner companies are expected to become fully compliant with all laws, rules and regulations during the execution of the project |

| | |
|---|---|
| Description | Number of additional beneficiary agribusiness that meet aBi's Environmental, Social and Green standards |
| Level | Output 2.1 |
| What it measures | aBi is in the process of establishing its own ESG standards, which are likely to overlap to some extent with the GoU rules and regulations |
| Definitions | Awaits the establishment of ESG standards |
| Expected level of growth | Partner companies are expected to become fully compliant with the ESG standards during the execution of the project |

| | |
|---|---|
| Description | Share of managerial, financial and operational business plan targets that are achieved in the BP lifetime |
| Level | Output 2.1 |
| What it measures | The number and level at which Business Plan targets are being met |
| Definitions | Business Plan targets, for example company growth in volumes, personnel, financial indicators, efficiencies and adherence to rules and regulations, are considered when still relevant and management is still committed to their achievement. |
| Data collection | Base lines about BP targets are set or collected during the due diligence and BDS support processes and progress metrics are available from the annual audits and MIS |
| Connection to GMS indicators | The GMS does not routinely collect BP progress indicators of partner companies. |
| Expected level of growth | Targets are expected to be met when at 90%, and/or when their level of achievement is fully analysed and influence management decision making |

| | |
|---|---|
| Description | Number of additional functional long-term business relationships/contracts between beneficiary agribusinesses with primary producers/groups beneficiary |
| Level | Output 2.2 |
| What it measures | Number of groups or farmers with which the business has a reliable business agreement |
| Definitions | A business agreement is a known, mutually and voluntary agreed, and preferably written understanding between the agribusiness and producer about the terms under which supply and off taker will take place. |
| Data collection | Data shall be collected from the SMEs management information system with regard to produce supplier |
| Connection to GMS indicators | The GMS collects similar data routinely |
| Expected level of growth | Agribusinesses would expect to prefer at least 50% of their factory outturn to be timely and reliably sourced from known and trustworthy suppliers |

| | |
|---|---|
| Description | Growth of commodity volumes sourced by beneficiary agribusinesses from upstream producers |
| Level | Output 2.2 |
| What it measures | MTs or litres of raw materials entering a beneficiary agribusinesses |
| Definitions | MTs and litres need to be defined for each commodity in terms of quality and moisture content |
| Data collection | Data shall be collected from the SMEs management information system with regard to produce supplier |
| Connection to GMS indicators | The GMS collects similar data as VC specific indicators |
| Expected level of growth | The sourced volumes are expected to grow according to BP targets |

| | |
|---|---|
| Description | Growth of processed sales volumes sold to downstream clients by beneficiary agribusinesses |
| Level | Output 2.2 |
| What it measures | MTs or any other standard and accepted sales unit (bags, packages etc) |
| Definitions | The units sold are defined in the Business Plan |
| Data collection | Data shall be collected from the SMEs management information system with regard to produce supplier |
| Connection to GMS indicators | The GMS collects similar data as VC specific indicators |
| Expected level of growth | The level of growth shall be related to Business Plan targets |

| | |
|---|---|
| Description | Level of satisfaction of platform members about the benefits they derive from the platform |
| Level | Output 2.2 |
| What it measures | A member satisfaction score on any predetermined scale |
| Definitions | Member satisfaction shall be measured against the objectives and targets of the platform or service provider as determined in its workplan or project proposal |
| Data collection | Data shall be obtained through a member satisfaction survey during project implementation and at the end of the project |
| Connection to GMS indicators | The GMS does not capture platform or service provider indicators. |
| Expected level of growth | Member satisfaction is expected to be at least 65% on a 1-100% scale |

| | |
|---|---|
| Description | Growth in productive asset base of beneficiary agribusinesses |
| Level | Output 2.3 |
| What it measures | The monetary value of the company's assets |
| Definitions | Company assets are all physical assets used in production processes, such as land, buildings and machinery |
| Data collection | Data shall be collected during the due diligence process and from the SMEs management information system and audit reports annually. |
| Expected level of growth | The level of growth shall be related to targets in the Business Plan |

| | |
|---|---|
| Description | Reduction in energy consumption per unit of factory output of beneficiary businesses |
| Level | Output 2.3 |
| What it measures | Kwh electricity for electric powered factories and machines, and fuel consumption for diesel and petrol powered factories and machines |
| Definitions | The energy consumption per unit of factory output is calculated as the Kwh or equivalent energy consumption per kg or litre of factory finished product |
| Data collection | Data are collected during the due diligence process, from the companies' MIS and from annual audit reports |
| Connection to GMS indicators | The GMS does not routinely collect similar data |
| Expected level of growth | Although total energy consumption of a factory is likely to grow with factory output, the energy consumption per unit of output is expected to drop when more efficient production processes or machineries are employed |

| Description | Reduction in product waste as % of overall factory output of beneficiary agribusinesses |
|---|---|
| Level | Output 2.3 |
| What it measures | % finished product outturn from raw material |
| Definitions | Raw material is accepted produce purchased from suppliers, which may or may not be graded according to agreed standards. Finished product is the factory outturn that is being supplied to downstream offtakers according to agreed standards. The metric is a unit finished product over a unit raw material. |
| Data collection | Data are collected as part of the company MIS |
| | The GMS collects routinely core data that form the basis for calculating this indicator |
| Expected level of growth | Standard outturns for the VCs are known, and can often be increased by better quality raw material, and better and more efficient production processes. The ultimate aim is to achieve outturns according to international standards. |

| Description | Growth in agribusiness savings and loans volumes of beneficiary farmers and agribusiness from formal and informal sources |
|---|---|
| Level | Result 3 |
| What it measures | USh saving and loans volumes by producers and agribusinesses SMEs |
| Data collection | For SMEs, baseline information is collected from the due diligence process, and progress data from annual audit reports. For producers, informal savings data is collected from VSLA records and household surveys |
| Expected level of growth | Producers and SMEs bank balances are expected to grow to a certain level, but then be used for productive investments. High and growing savings volumes are therefore not necessarily a sign of good business practices.<br><br>Healthy loan volumes, when serviceable, are often a sign of a dynamic enterprise. Healthy loan levels are calculated on the basis of loans over equity, and loans over sales volumes. |

<table>
<tr><td>Description</td><td colspan="6">Increase in number and value of loans of mid –long term tenure made by FIs to smallholders and agribusinesses</td></tr>
<tr><td>Level</td><td colspan="6">Result 3</td></tr>
<tr><td>What it measures</td><td colspan="6">USh loan volumes by FIs and their term to producers and agribusiness SMEs. The loan volumes are separated by LoC, ALG and FSD partner FIs</td></tr>
<tr><td>Definitions</td><td colspan="6">Loan volumes are calculated as the sum of the value of all loan agreements over a period of time, usually a financial year, of a financial institution. The loan term is the average duration of the loan.</td></tr>
<tr><td>Data collection</td><td colspan="6">Data are collected as part of the quarterly reporting requirements of partnering FIs</td></tr>
<tr><td>Connection to GMS indicators</td><td colspan="6">The aBi finance and GMS collects the data routinely</td></tr>
<tr><td rowspan="5">Expected level of growth (USh bn)</td><td colspan="6">The aBi Finance KPI model estimates the total loan volume of all partnering FIs as per the table below. Loan terms differ between the various financial products, from a growth to 1 year for LoCs and ALGs, and to 6 months for FSD FIs</td></tr>
<tr><td></td><td>2019</td><td>2020</td><td>2021</td><td>2022</td><td>2023</td></tr>
<tr><td>LOC</td><td>122.4</td><td>128.5</td><td>133.7</td><td>141.7</td><td>148.8</td></tr>
<tr><td>ALG</td><td>97.7</td><td>106.2</td><td>115.3</td><td>124.1</td><td>128.5</td></tr>
<tr><td>FSD</td><td>57.38</td><td>81.33</td><td>67.50</td><td>95.68</td><td>135.63</td></tr>
</table>

| Description | Growth in the number and volume of aBi loans that support green growth | | | | | |
|---|---|---|---|---|---|---|
| Level | Result 3 | | | | | |
| What it measures | USh loan volumes and purpose by FIs to producers and agribusiness SMEs for clean technology and green growth investments | | | | | |
| Definitions | Green technology and green growth investments are defined in the Clean Technology Funding manual as part of the LoC loan portfolio | | | | | |
| Data collection | Data are collected as part of the quarterly reporting requirements of partnering FIs. The purpose of the loans is a descriptive indicator that separates the loans in various categories of uses. | | | | | |
| Connection to GMS indicators | The aBi finance and GMS collects the data routinely. For the loan purpose description some categorisation is required | | | | | |
| Expected level of growth (USh bn) | The aBi Finance KPI model estimates the total loan volume of LoC partnering FIs as per the table below. | | | | | |
| | | 2019 | 2020 | 2021 | 2022 | 2023 |
| | LOC | 6.8 | 7.1 | 9.2 | 9.7 | 9.9 |

| Description | Additional business finance leveraged as a result of aBi investments | | | | | |
|---|---|---|---|---|---|---|
| Level | Output 3.1 | | | | | |
| What it measures | USh additional finance leveraged from aBi investments through ALGs | | | | | |
| Data collection | Data are collected as part of the quarterly reporting requirements of partnering FIs | | | | | |
| Connection to GMS indicators | The aBi Finance and GMS collects the data routinely | | | | | |
| Expected level of growth (USh bn) | The aBi Finance KPI model estimates the total leverage factor of ALG partnering FIs as per the table below. | | | | | |
| | | 2019 | 2020 | 2021 | 2022 | 2023 |
| | ALG | 3.4 | 3.5 | 3.6 | 3.8 | 3.9 |

| Description | Growth of additional agribusiness loan volumes by beneficiary FIs by gender, age, location, business type and usage |
|---|---|
| Level | Output 3.1 |
| What it measures | USH loan volumes of partner FIs disaggregated by relevant sub target groups |
| Data collection | Data are collected as part of the quarterly reporting requirements of partnering FIs |
| Connection to GMS indicators | The aBi Finance and GMS collects the data routinely |
| Expected level of growth | No specific targets are set in the aBi LoC, ALG and FSD outcome models |

| Description | Number of additional new savings and loan clients in beneficiary FIs by gender, age, location and business type |
|---|---|
| Level | Output 3.1 |
| What it measures | Number of loans taken as a result of the LoC, ALG loan products, and FSD interventions |
| Definitions | A loan is a sum of money loaned to a person or company under specific terms and conditions, to be paid back, usually with interest, within a period of time |
| Data collection | Data are collected as part of the quarterly reporting requirements of partnering FIs |
| Connection to GMS indicators | The aBi Finance and GMS collects the data routinely |

| | | | | | | |
|---|---|---|---|---|---|---|
| Expected level of growth (USh bn) | The aBi Finance KPI model estimates the total number of loans per year of all partnering FIs as per the table below. | | | | | |
| | | 2019 | 2020 | 2021 | 2022 | 2023 |
| | LOC | 42,700 | 45,700 | 41,400 | 43,200 | 45,200 |
| | ALG | 34,310 | 38,000 | 38,933 | 41,267 | 43,743 |
| | FSD | 114,750 | 154,913 | 150,000 | 202,500 | 273,375 |

| Description | USh growth of additional savings and loans volumes and clients by beneficiary VSLAs by gender, age and usage |
|---|---|
| Level | Output 3.1 |
| What it measures | USh savings and loans volumes and clients of VSLAs |
| Definitions | VSLAs are informal savings and loans associations, that operate on strict set of VSLA rules. Their savings volume is established at the end of the annual savings and loans cycle. The loan volume is calculated as the sum of the value of all loans extended to VSLA members during the annual savings and loan cycle |
| Data collection | Data are collected as part of the quarterly reporting requirements of partnering VSLA intermediary supporting organisations. |
| Connection to GMS indicators | The GMS collects the data routinely |
| Expected level of growth | Targets will be established during the base line study for the VSLA support programme |

| Description | Growth in capital base of beneficiary Tier 4 FIs |
|---|---|
| Level | Output 3.2 |
| What it measures | USh value of shareholders' / owners' equity of Tier 4 FI partners |
| Definition | Value resulting from the subtraction of Financial Institutions' liabilities from its assets |
| Data collection | Is part of the financial routine reporting requirements of FIs. A baseline and an end line evaluation will be required to determine the growth in capital base |
| Connection to GMS indicators | The GMS does not collect the data routinely as a standard indicator |
| Expected level of growth | The capital base of Tier 4 partners is expected to grow at a rate which will be projected by the FIs after establishing the baseline. |

| Description | Reduction in Non-Performing Asset ratios by beneficiary FIs |
|---|---|
| Level | Output 3.2 |
| What it measures | Sum of USh Loans at Risk over Outstanding Loan Portfolio |
| Definitions | Loan Portfolio at Risk is defined as the value of the outstanding balance (principal) of all loans in arrears.<br>Outstanding balance is the unpaid, interest-bearing balance of a loan portfolio. |
| Data collection | Is part of the financial routine reporting requirements of FIs |
| Connection to GMS indicators | The GMS does not collect the data routinely as a standard indicator |
| Expected Non-Performing Asset Ratio | Non-performing asset ratio is expected to operate <5% |

| Description | Number of Tier 4 beneficiary FIs applying modern ICT banking and outreach tools |
|---|---|
| Level | Output 3.2 |
| What it measures | Count and % of total number of Tier 4 partners |
| Definitions | Modern ICT is defined as internationally recognised and specialised ICT tools for office and outreach banking operations |
| Expected level of growth | All Tier 4 partners are expected to apply modern ICT tools by the end of the BP |

| Description | Number of loans and loan volumes as % of total additional loans and loan volumes that is accessed by women and youth |
|---|---|
| Level | Output 3.3 |
| What it measures | Count and USh of loans towards women and youth |
| Definitions | Youth is defined as all persons below 30 years |
| Data collection | Disaggregated data are collected as part of the quarterly reporting requirements of partnering FIs |

| Description | Number of loans and loan volumes as % of total additional loans and loan volumes that is used for socially responsible investments (green growth, energy savings, waste management, safety) |
|---|---|
| Level | Output 3.3 |
| What it measures | Defined SRIs. |
| Definitions | The SRIs will be defined in the SRI manual of aBi Finance |
| Data collection | Is part of the narrative routine reporting requirements of FIs |
| Connection to GMS indicators | The GMS collect the data routinely as a standard indicator |

<table>
<tr><th>Description</th><th colspan="6">Number and uptake of new financial products tailored to the agricultural sector</th></tr>
<tr><td>Level</td><td colspan="6">Output 3.3</td></tr>
<tr><td>What it measures</td><td colspan="6">Count of financial products, and count of number of loans through this product as % of total number of loans</td></tr>
<tr><td>Definitions</td><td colspan="6">Financial products tailored towards the agricultural sector, may take cognisance of the sectors special needs, for example loan terms and loans for specific products or uses</td></tr>
<tr><td>Data collection</td><td colspan="6">Is part of the narrative routine reporting requirements of FIs</td></tr>
<tr><td>Connection to GMS indicators</td><td colspan="6">The aBi Finance and GMS collect the data routinely as a standard indicator</td></tr>
<tr><td rowspan="3">Expected level of growth (USh bn)</td><td colspan="6">The aBi Finance KPI model estimates the total number of new products as per the table below</td></tr>
<tr><td></td><td>2019</td><td>2020</td><td>2021</td><td>2022</td><td>2023</td></tr>
<tr><td>Loan product</td><td>2</td><td>2</td><td>1</td><td>1</td><td>1</td></tr>
</table>

| Description | Number of FFIs that have special savings and loans products and arrangements for VSLAs |
|---|---|
| Level | Output 3.3 |
| What it measures | Count of FIs |
| Definitions | Special loans and savings products and arrangements are geared towards the needs of VSLAs, often less affluent and educated, for example in terms of a special desk, translated application forms, group loans and group collaterals |
| Data collection | Is part of the narrative routine reporting requirements of FIs |
| Connection to GMS indicators | The GMS does not collect the data routinely as a standard indicator, although it could be captured in the indicator 'new loan products' |
| Expected level of growth | Each partner FI is expected to have clear arrangements and products for VSLAs |

| Description | Volume of new long-term loans extended to agribusiness clients |
|---|---|
| Level | Output 3.4 |
| What it measures | Value of loans whose repayment period /tenor is more than 3years |
| Definitions | Long-term refers to borrowing of more than 3 years and relates to investments such as land acquisition, irrigation, fish ponds, farm buildings and other infrastructure development |
| Data collection | Is part of the narrative routine reporting requirements of FIs |
| Connection to GMS indicators | The GMS does not collect the data routinely as a standard indicator, although it will be captured in the indicator 'new loan products' |
| Expected level of growth | Should grow at a rate commensurate with short and medium-term lending. |

<table>
<tr><td>Description</td><td colspan="6">Growth of the aBi capital fund</td></tr>
<tr><td>Level</td><td colspan="6">Result 4</td></tr>
<tr><td>What it measures</td><td colspan="6">USh value of the capital fund</td></tr>
<tr><td>Definition</td><td colspan="6">Capital fund is the investment fund established by DANIDA to indemnify the loan guarantees and partially sustain the operations of aBi Trust</td></tr>
<tr><td>Data collection</td><td colspan="6">Data are routinely collected and reported to the Boards on the basis of negotiations with potential financiers</td></tr>
<tr><td rowspan="3">Expected level of growth</td><td colspan="6">The aBi Finance targets are set in the BP as per the table below.</td></tr>
<tr><td></td><td>2019</td><td>2020</td><td>2021</td><td>2022</td><td>2023</td></tr>
<tr><td>USh bn</td><td>178.4</td><td>188.2</td><td>196.4</td><td>204.9</td><td>213.8</td></tr>
</table>

| Description | Growth of external funding commitments to cover the BP funding gap, and beyond 2022 |
|---|---|
| Level | Result 4 |
| What it measures | USh commitments from external financiers beyond the 2022 |
| Definitions | USh commitments are expressed in funding agreements |
| Expected level | The budget for the next 2-3 years must be fully covered by funding commitments |

| Description | Return on Investments from the aBi programme |
|---|---|
| Level | Output 4.1 |
| What it measures | The USh economic value generated from investments vs aBi programme costs and overall costs |
| Definitions | The USh Return on Investment is the value generated by and for producers and SMEs enrolled in the aBi interventions |
| Data collection | The VCD and FSD KPI models have calculated RoIs on the basis of a large number of assumptions that need to be verified during the BP period. |
| Expected level of growth | For both the VCD and the FSD interventions RoI are expected to reach not less than 300% |

| Description | Cost per smallholder served |
|---|---|
| Level | Output 4.1 |
| What it measures | Total number of smallholders served over USh total aBi programmatic and operational expenditure |
| Definitions | The number of smallholders served is the sum of all smallholders receiving services, training, equipment, marketing support etc) as per the grant contracts |
| Data collection | Total number of smallholders served is collected routinely through the GMS system |
| Expected level of growth | The cost per smallholder served should not exceed US$ 25/person/season. |

| Description | Annual programmatic fund absorption against budget |
|---|---|
| Level | Output 4.1 |
| What it measures | % of actual disbursement over scheduled disbursements |
| Definitions | Actual disbursements are funds directly transferred to partner organisations in a given period (usually annually); scheduled disbursements are funds committed to be disbursed in a given period. Scheduled disbursements are annually established on the basis of the outstanding VCD and FSD portfolio |
| Data collection | Data are routinely collected in the aBi Financial management system |
| Expected level of growth | Disbursement ratios are expected not to fall below 85% of planned. |

| Description | Ratio annual programmatic expenditure over total annual expenditure | | | | | |
|---|---|---|---|---|---|---|
| Level | Output 4.1 | | | | | |
| What it measures | % programmatic expenditure over the sum of programmatic and operational expenditure of the ABI Development VCD programme | | | | | |
| Definitions | Programmatic expenditure are all expenditures that directly contribute to the achievement of the aBi BP objectives. The definitions of programmatic costs are set in the VCD BP budget, and include some staff and operational costs. | | | | | |
| Data collection | Data are routinely collected in the Financial Management System, and reported to the Board | | | | | |
| Expected level | The aBi VCD targets are set in the BP as per the table below. | | | | | |
| | | 2019 | 2020 | 2021 | 2022 | 2023 |
| | Ratio | 73% | 74% | 73% | 74% | 74% |

| Description | Ratio eligible expenditure over grant disbursement |
|---|---|
| Level | Output 4.1 |
| What it measures | USh volume of approved grant expenditures over total disbursements at any point in time during grant implementation. An aggregate figure indicates the level of compliance of partners with the requirements, and the level of efforts aBi may need to invest in fund recovery. |
| Definitions | Expenditures are approved when they fulfil the requirements as laid down in the grants manual. |
| Data collection | Data are routinely collected by the Grants Management Controller and reported to the Audit, Risk and Compliance Committee by senior management |
| Expected level of growth | Maximum ineligible expenditure levels are set at 2% of total disbursements |

| Description | Leverage |
|---|---|
| Level | Output 4.1 |
| What it measures | Additional financial resources mobilised by the beneficiary FIs |
| Definitions | Additional financial resources mobilised from aBi investments (ALG, LOC) |
| Data collection | Routine quarterly reports submitted by participating FIs |
| Expected level | Leverage targets will be set after establishing the baseline |

| Description | Satisfaction score of partners about aBi |
|---|---|
| Level | Output 4.1 |
| What it measures | A satisfaction score for various criteria (professionalism, speed, flexibility, honesty) on a predetermined (Likert) scale |
| Definitions | Measures extent to which products and services supplied by aBi meet customer expectations |
| Data collection | Data are collected during the mid-term and end-term online survey amongst all BP partners |
| Expected level | All scores should be higher than 80%. |

| Description | Return on investment of aBi capital fund |
|---|---|
| Level | Output 4.2 |
| What it measures | % growth of the capital fund |
| Data collection | Data are collected and reported upon as part of the aBi Finance MIS system |
| Expected level | Capital fund is expected to grow by 4% annually on the basis of earned interests and fees. No growth estimate is made on the basis of additional fund injections from third parties. |

| Description | Number and USh volume of contributors to aBi 2019-2023 BP |
|---|---|
| Level | Output 4.2 |
| What it measures | USh grant contributions towards the VCD, FSD and Capital fund |
| Definitions | A grant contribution is a non-refundable donation to aBi for the execution of its BP 2019-2023 |
| Data collection | Data are collected and reported upon as part of aBi MIS system |
| Expected level | The current grant contributions are reflected in the BP. |

# aBi Business Plan
## 2019-2023

aBi

Agriculture Business Initiative

UMOJA House, 2nd Floor
Plot 20 Nakasero Road
P.O.Box 29851, Kampala
Tel: +256-312-351600
www.abi.co.ug