

## FOCUS ON THE PULSES AND MAIZE VALUE CHAIN:

# Building Resilience in Uganda's Agribusiness

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Since 2020, extreme weather and drought have devastated part of East Africa, triggering a food crisis impacting some of the staple foods in the region, including maize, wheat, rice, and sorghum. For maize, 2021/22 production harvests in import-dependent Somalia, Kenya, and South Sudan will be 27, 25, and 20 per cent lower than last year and 32, 9, and 17 per cent lower than average levels, respectively, because of poor rainfall performance. Production in Burundi and Rwanda will be similar to last year but 14 per cent above average. The surplus registered in Tanzania and Uganda is identical to 2020/21, though it is slightly higher than average<sup>1</sup>.

These climate impacts were worsened by the COVID-19 global pandemic that, among other effects, impacted the movement of goods and services through lockdowns. The Ukraine war has also triggered inflation across the globe, including in prices for critical components of the agriculture value chain, including transport and agro inputs.

These supply disruptions were compounded by the Government of Kenya's ban on the importation of maize from Uganda and Tanzania in March 2021. Kenya asserted that maize from the two countries was unfit for human consumption due to high levels of mycotoxins that were consistently beyond safety limits with conditions<sup>2</sup>.

The ban was lifted two months later, but the damage was already done. Maize exports from Uganda declined. The farm gate maize prices slumped to as low as UGX 400 per Kg from UGX 600 per Kg. Consequently, maize dropped its position as a leading export commodity from fifth to ninth by the end of March 2021<sup>3</sup>.

During the 2020 to 2021 period, aBi The Agricultural Business Initiative (aBi), one of the major players in facilitating agricultural sector growth in Uganda, supported smallholder farmers to build resilience against these shocks through partnerships with agribusinesses. Through its various projects, it channelled development grants, business development services, and financial services to these businesses to enhance their management, production, and productivity.

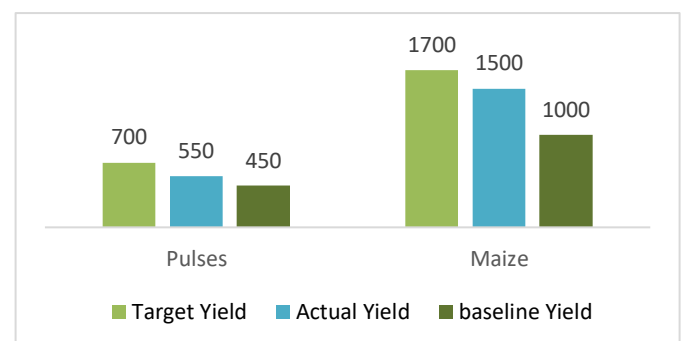
Between 2020 and 2021, aBi partnered with and supported seven businesses to boost maize and cereals production; Aponye Uganda Ltd, AgroWays (U) Ltd, Acila Enterprises Ltd, Arise and Shine Maize Millers Ltd, New Kakinga Millers Ltd, the International Institute of Tropical Agriculture and the Eastern Africa Grain Council. Areas of collaboration included piloting a novel biotechnology for aflatoxin control, training in Good Agricultural Practices (GAP), post-harvest handling and quality

assurance, village savings and loan associations, gender mainstreaming, and demonstration garden establishment. Other activities included training in collective marketing for the marketing committees and farmer groups. Radio programs were also used to relay information, especially on the distribution of agro-inputs, pests, and disease management.

aBi also implemented a COVID-19 response project, "Building the Resilience of Smallholder Farmers through Increasing Access to Agro-Inputs", to support farmers' access to agro-inputs through the provision of input subsidies covering 100% provision in 2020 to 60% at the end of 2021. This initiative aimed to safeguard the production supply, trade, and processing of essential food staples, including maize, beans, and soya beans.

Through its partnerships, aBi enabled more than 36,000 maize farmers to access drought-resistant UH5051 maize seed and fertilizer. aBi advanced the use of UH5051, as opposed to the Longe 5, a popular open-pollinated variety that is less productive and disease-resistant. Significant constraints to drought-tolerant maize adoption in Uganda included lack of awareness, limited seed availability and accessibility, complementary input requirement, existing drought-tolerant maize attributes, and dubious market quality of seed and fertilizer<sup>4</sup>. UH5051 is also resistant to pest attacks, especially the fall armyworm. It is high also yielding (double comber) and has a high mill yield because of less bran.

Because of collective initiatives to support the Ugandan smallholder farmer, and despite unreliable rains coupled with pockets of drought in farmer-supported areas of the country, the yields for pulses in 2021 improved from an estimated 450kg/acre to 550 kilograms/acre. Likewise, maize yield increased from 1000kg/acre to 1500kg/acre.



\*Source: aBi Annual Report 2021

Because of aBi interventions under the cereals value chain, 67,000

farmers were reached, including 32, 600 women. Total sales value of UGX 26.8 Bn to the participating SMEs against the annual target of 135.7Bn. Participating farmers also realized a total sales value of UGX 28Bn against a target of UGX19.4 Bn. Sixty-six (66), including new full-time jobs, were created under the cereals value chain during the year.

### Lessons Learned

- Complementary partnerships among actors across the value chain are crucial to enhancing productivity, quality, and sustainability. aBi-facilitated linkages between businesses at different value chain levels (off-takers, extension services, mobilizers, and aggregators) ensure improved output quality. This model has also seen farmers access other embedded services like agricultural insurance. Inspired by the success and sustainability of this business model, aBi will replicate a similar partnerships model, especially in Uganda's North and Eastern regions.
- Clear business plans are significant drivers of system change. The systemic change study (2021) findings indicated those aBi partners with clearly articulated and feasible business models have a better technical capacity to manage demonstrated changes across multiple quadrants of the Adopt-Adapt-Expand-Respond (AAER) framework.
- Supporting the formation of VSLAs is an effective way of bringing farmers together. According to the systemic change study (2021), VSLAs are thriving, with new groups coming up regularly across all the agricultural sub-sectors. Instead of the relatively arbitrary top-down efforts of development organizations or agribusinesses to form groups, VSLAs offer a more sustainable model built on trust and familiarity between the members. They are incentivized to stay together as successful VSLAs can build up farmers' savings and asset bases, which is helpful for buying farm inputs and household needs. In addition, VSLAs can provide an effective mechanism for service delivery. aBi will continue to use the VSLA model to support farmers.
- Embracing technology and modern business and farming practices was vital in increasing yields. aBi's impact is most significant when it has invested in good agricultural practices and modern technologies such as low-cost irrigation systems.
- Coordinated partnerships for smallholder farmer capacity building on agriculture production and productivity are critical for market uptake. A case in point is the steady rise in farmers' use of what are new technologies for them. An example is Jabba Engineering's provision of soil testing services, which saw some 15,995 farmers undertaking soil testing, exceeding the target of 15,000. Linkages made with Jabba during other farmer training (e.g., on agronomy) were responsible for the rise in uptake.
- Climate change is fast becoming a key to agricultural productivity. Unreliable rain seasons in 2021 and incidences of drought in project areas affected farmer productivity. The emphasis on drought-tolerant maize and pest-resistant seed varieties such as UH 5051 was a key mitigation measure for

sustainable farming.

- The cereals export ban imposed by Kenya triggered aBi to adapt its market linkage strategy in response to the trade barriers, aBi will support its partners to access new or emerging markets within and beyond the East African region. aBi also emphasised interventions to improve product quality and standards, to help its partners meet East African and global market quality standards. Some of the initiatives included the development of Aflasafe for aflatoxin controls and ongoing support for post-harvest handling and storage management

### Financial Services

One of the biggest challenges for smallholder farmers is access to capital. On average, 10-15% of aBi-supported agribusinesses, beneficiary farmers reported lack of capital as a critical challenge – especially women and youth<sup>5</sup>. Nationally, an estimated 6% of small-scale Ugandan agribusinesses have access to a loan or line of credit, compared to 44.1% in Kenya<sup>6</sup>. In addition, research by Group to Assist the Poor (CGAP) national survey revealed that only 10% of smallholder farmers in Uganda have bank accounts.

aBi interventions targeted to expand access to business financing for agricultural producers and agribusinesses by offering financial institutions financial and guarantee facilities, incentives, and infrastructure that make lending to the agricultural sector more attractive and less risky. To improve resilience and recovery in 2021, aBi Finance designed and deployed a responsive relief package of blended financing instruments. The package comprised concessional lines of credit, grants, and business development services.

aBi Finance reduced interest rates to 8.2%, offered a repayment pause of both principal and interest, and offered short-term working capital worth UGX 6.6bn accessed by 12 among other financially distressed financial institutions. In addition, to reduce credit risk, aBi Finance increased its risk share from 50% to 70% and waived all fees for agribusiness guarantees.

Under financial services development, 16 financial institutions were offered no-cost extensions, and some had activities rescheduled to keep their projects going. In addition, business development services in risk management were provided to 12 financial institutions to enable them to build stronger and better from the effects of the pandemic.

### Lessons Learned

- Collaboration with financial institutions (primarily SACCOs) led to better financial inclusion for less privileged end clients.
- Financial institutions gradually used agriculture guarantees to expand their portfolio to accommodate end-clients that experience collateral constraints. Grant funding was used to bring about institutional and organizational changes in financial institutions, mainly through capacity building. In addition, peer-to-peer learning is more effective than instructor-led training in skills development.
- To maximize the implementation of business development

services recommendations, financial institutions need actions plans to guide follow-on activities

- To increase the uptake of business development services, the providers must highlight both the immediate and long-term benefits to the financial institutions' profitability and planet (business ecosystem/environment benefits)
- COVID-19 restrictions and subsequent lockdowns affected most of the aBi partner financial institutions' business operations, resulting in poor portfolio quality and an increase in non-performing loans.
- Conflicting regulations for SACCO operations from the Bank of Uganda<sup>7</sup>, Uganda Microfinance Regulatory Authority, and Commissioner of Corporate exposed aBi to the risk of working with SACCOs without valid licenses.
- Failure of partner financial institutions to raise their matching grant contributions affected project implementation as some financial institutions concentrated on their liquidity/working capital requirements as opposed to projects due to the liquidity squeeze position caused by the slowdown in business due to COVID-19.

### Adaptation

- Manual work processes, especially for the concessional facilities extended to aBi partners, resulted in a lot of time allocated to reconciliations, hence reporting delays. The 2022 process engineering will reduce process flows and result in automation for a better turnaround time.
- Reduction in the value of debentures resulting from partner financial institutions' portfolio quality deterioration. aBi shall strongly consider other forms of collateral for the lines of

credit, including other fixed assets, to buffer the debentures.

- Turnover of Agribusiness Guarantees contact staff within the partner financial institutions hampered business continuity and reporting. Moving forward, aBi will train two or more staff within the partner financial institutions to address this challenge of turnover
- Utilization of the agribusiness guarantees by financial institutions is still low (below 65%). aBi will continue to drive utilization by enhancing the capacity of financial institutions and offering pricing incentives.

### The author

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*For further reading, please visit <https://www.abi.co.ug/> for the aBi Development and aBi Finance 2022 annual reports.*

<sup>1</sup> East Africa Regional Maize Supply and Market Outlook, Situation Report, FEWS NET, 2021

<sup>2</sup> East African Grain Council (EAGC) March 2021 Bulletin

<sup>3</sup> UBOS Trade Bulletin, June 2021

<sup>4</sup> The Current Status and Constraints of Drought-Tolerant Maize Adoption in Uganda, Lee, Hyejin, 2020, VL - 14

<sup>5</sup> aBi Annual Impact Assessment 2021

<sup>6</sup> Walker et al. 2018, "Developing the Agri-Food System for Inclusive Economic Growth: Uganda Economic Update no. 12", Washington, DC: World Bank Group.

<sup>7</sup> <https://www.kaa.co.ug/reviewing-the-conflicting-legal-and-institutional-framework-for-saccos-in-uganda/>