CARNEGIE CONSULT
Investment Advisory Services

aBi Finance at a crossroads: balancing strong commercial viability with clear development objectives

Evaluation report of aBi Finance
2017

Contents

Acknowledgement

We would like to thank aBi Finance for the opportunity to conduct a 'deep dive assessment' into the workings of the products it offers, that have obviously made such a difference to so many of their clients, that include farmer organizations and individual farmers in particular as well as Ugandan agro-entrepreneurs in general.

We were very impressed by the creativity, stamina and resourcefulness of farmers and entrepreneurs out in the country, and appreciate their role in the development of Uganda. We would like to thank them for the time they took to answer our queries and for allowing us a view from the inside of their businesses.

We gratefully acknowledge the invaluable assistance of the aBi Finance staff in providing us with a huge amount of information, and in organizing the many interviews and meetings with stakeholders that we had in the course of the review. Our tight and continually changing schedule was not easy to accommodate and keep track of. In particular, Josephine Mukumbya and Ann Marie Mwaka Sabano assisted us greatly, not only with the ever changing programme that required regular rescheduling, but also in the field, connecting us to partner organisations, banks, MFIs, groups, individual clients and entrepreneurs.

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List of abbreviations

ABDC	Agri-Business Development Component
aBi	Agricultural Business Initiative
ALG	Agriculture Loan Guarantee
ALGC	Agribusiness Loan Guarantee Company
BDS	Business Development Services
BOU	Bank of Uganda
CSR	Corporate Social Responsibility
DANIDA	Danish International Development Assistance
DCA	Development Credit Agency
D-SIB	Domestic Systemically Important Bank
FI	Financial Institution
FSD	Financial Services Development
FSD Uganda	Financial Sector Deepening Uganda
FX	Foreign Exchange
GAAP	Generally Accepted Accounting Principles
GCEO	General Chief Executive Officer
GDP	Gross Domestic Product
KPIs	Key Performance Indicators
LoC	Lines of Credit
LGS	Loan Guarantee Scheme
M&E	Monitoring and Evaluation
MFI	Microfinance Institution
MIS	Management Information System
NBFI	Non-Banking Financial Institution
RUSCU	Rural Savings and Credit Cooperative Union
SACCO	Savings and Credit Cooperative
SME	Small and Medium Enterprise
TA	Technical Assistance
ToR	Terms of Reference
UCCFS	Uganda Central Cooperative Financial Services
UGX	Ugandan Shilling
USAID	United States Agency for International Development
USD	US Dollar

Summary of evaluation questions

Evaluation question	Summarised response
Determine to what extent and how the financial instruments of aBi Finance have impacted on the agricultural lending policies, appetite, efficiencies and culture of participating FIs over time, and the composition and quality of their loan portfolio;	Answered – FIs have recognised aBi Finance as valuable and relevant and contacted aBi Finance for LoC / Guarantees to engage in agri lending See section 3.1, 3.2 and 3.3
Determine to what extent and how the financial instruments of aBi have contributed to increasing the volume, depth and outreach of agricultural finance in Uganda, and improving access and utilisation of financial services by beneficiary agribusinesses over time;	Answered – FIs have increased lending, partly because of aBi Finance See section 3.1, 3.2 and 3.3
Determine to what extent and how beneficiary agribusinesses of financial instruments of aBi have improved their business performance in terms of quality and value of produce and products; sales and profits; production and productivity; net additional income; jobs created over time; and is attributable to their access to financial instruments of aBi Finance;	Answered – The income of agribusinesses has increased, as well as other indicators See section 5
Determine to what extent and how the integration of aBi Finance support with aBi Trust interventions at FI and beneficiary agribusiness SME level has influenced FI performance, and beneficiary loan performance;	Answered – The integration of FSD within aBi Finance makes sense and will align the goals of aBi Finance and FIs. See section 3.4
Determine to what extent the management, rules, procedures, of aBi Finance are sufficiently robust and enforced to meet the objectives of the endowment fund and the aBi Group in the medium future.	Answered – The organisational structure worked and was suitable for aBi Finance, but it is time for the next steps See section 4
Determine to what extent strategy and decision making by Board and management is sufficiently influenced by internal results measurements, evaluations, research, knowledge sharing and national and international best practice.	Answered – The internal (non-financial) results measurement framework could be strengthened. aBi Finance could move more towards innovations and fintech. See section 3.5 and section 4
Based on observed trends and analysis, make plausible quantified projections of medium term future developments and possible opportunities in	Partly answered – Although the direction indicated was not quantified, it is clear that aBi Finance should move to FinTech and innovative solutions

the agribusiness and agri-finance sectors relevant for the aBi Group;	and follow-up on the path already started with the SACCOs. See section 3
From the above findings and analyses, provide recommendations, including their managerial and financial consequences, for possible strategic options and choices aBi Finance should consider to strengthen its position and relevance in the agribusiness sector, and its long-term sustainability as financier of the aBi Group.	Done See section 4, 5 and 6
Formulate key lessons, in the form of evidence-based policy briefs, which can be scaled up and used for influencing policy at political, development partners and FI level	Done See section 6.2 and Annex 3

Executive Summary

The opinions in the report are solely those of the evaluation team and do not necessarily reflect those of the aBi Board and or Management.

This is the final report of the 2017 evaluation of aBi Finance, not the aBi Group. The evaluation focuses on the effects of services offered by aBi Finance, in particular the guarantees and LoC products and related TA services not the interventions supported by aBi Trust in support of locally operating intermediary organisations and smallholders.

The objective of the evaluation as defined in the Terms of reference dated July 2016 has been defined as: ….*"To gauge if in the medium term aBi Finance will continue to meet its dual objective of providing finance for the aBi group to exist in perpetuity, and expand access to finance for agribusinesses, so as to increase incomes and create wealth in Uganda"….*It covers four specific areas of attention as defined in the same ToR (chapter 1.4) notably *(I) the performance of aBi Finance .. to expanding financial services to underserviced agribusiness SMEs and producers (ii) assess the profile and performance of thee aBi capital endowment fund …. (iii) make short term recommendations to enhance management and performance of aBi Finance in terms of achieving its dual objective.. and iv) develop at least one policy brief…..*

The aBi contracted Carnegie Consult to conduct this evaluation of aBi Finance. This was undertaken in the period March – May 2017.

Two interrelated key questions are answered in this evaluation

Additionality	The services extended by aBi Finance (LoCs or Guarantees and/or a mix of those occasionally complemented with TA services) to FIs lead to expansion of their financing of agricultural businesses and producers and their organisations and subsequently improved and enhanced access to end users of such services
Effectiveness	The mix of services offered by aBi to FIs is effective in expanding and deepening financing of agricultural businesses and producers and their organisations and leads to better use of such services by agricultural businesses and producers.

The major findings and issues discussed in detail in this report, some of which require follow up decisions by the board of aBi Finance are:

Main finding

- The comprehensive set of services and products offered by aBi Finance, namely the Lines of Credit (LoC) and Agricultural Loan Guarantees (ALG) and Financial Services Development (FSD) *has indeed been instrumental in stimulating FIs to initiate and/or expand financing of agricultural businesses and producers support participating FIs effectively* in expansion of agricultural finance which in turn has *led to improved conditions for the end user, the less privileged segments in the rural / agro producers*. Simultaneously as a result of *prudent financial management and investment policies aBi Finance has become a financially sustainable organisation.*

Other findings

- DANIDA has endowed aBi Trust with substantial capital which has been used properly by the company limited by guarantee over the past years. Prudent investment policies and clear eligibility and selection criteria have resulted in cooperation with FIs whose actions indeed are in line with the development objectives of aBi Finance.

- Within the Ugandan financial market, aBi Finance is recognised for their leading role in providing credit guarantees and lines of credit to financial institutions. The image of aBi Finance (with the Trust and Finance) and is strategy of deliberately playing a low key (especially to avoid the impression that it is a donor driven initiative supported by DANIDA) have contributed to aBi Finance attaining its goals, strengthened by the firm's behaviour, ethical standards and professional procedures applied.

- Presently a relatively large number of LoCs have indeed resulted in FIs commencing and expanding financing agricultural business to the rural areas of Uganda. A number of those FIs are indeed financially healthy and strong institutions with adequate resources to enter rural and agriculture finance but rather reluctant to do so. Following the aBi support, FIs invested in the appointment and training of credit officers and their (IT) systems to make growth in this segment possible. The success of the aBi Finance products led to demand for renewal of LoCs (with most partner FIs) and expansion of the ALGF. Automatic renewal of LOCs and expansion of the ALGF are commercially attractive but turns aBi finance automatically into a general financial institution with the risk of losing its developmental role. Renewals of LoCs or guarantee agreements should only be agreed upon, when FIs are not in a financial position to continue funding such operations and with those FIs intending to initiate one or more innovations in agro related financing.

- aBi Finance should retain and maintain its leading role focus on innovation in agro financing as well as expansion to new markets serving currently underserved parts of the population. In the (near) future, aBi Finance could take a prominent and initiating role in developing IT/ FinTech based new (branchless) delivery mechanisms, and roll-out such systems, together with its' partner FIs and other agencies (such as Financial Sector Deepening Uganda – FSD Uganda) working in this space.

- Another way going forward it to move towards supporting innovative SMEs, together with other FIs. aBi Finance is not well positioned to start operating as a retailer itself, given the organisational setup, its current IT systems, and the current stage of development.

- Should new capital be invested in aBi Finance, this new capital should preferably be allocated in support of the developmental role of aBi Finance, and not just "business as usual".

- Given its present stage of development in size, volume, outreach, and acceptance by the market in general and the effect of its strategy of playing a low key as a single donor driven institutions, aBi Finance is indeed in a position to attract other investors provided the direct engagement DANIDA is dealt with prudently.

- When aBi Finance transited from a single donor financed project to company limited by guarantee the governance structure chosen seemed to be an appropriate one. The evolution of the company at present calls for a reassessment of its governance structure (at both BoD and senior management level) to ensure that aBi retains its agility and is ready to enter a new stage. Clear separation of strategic responsibilities of the BoD and operational responsibilities of management are needed to ensure continued quality performance of aBi Finance.

- To inform management and board (as well as stakeholders) adequately about the extent to which aBi Finance continues to meet both the development objective and the objective to remain a financially sustainable organisation, the M&E system needs to be fine-tuned taking into account that it remains a low-cost, easy to implement M&E system structured in line with international standards of impact reporting (DCED or otherwise), and the needs of IPs / FIs for data for strategic decision making.

- It is also interesting to note that aBi Finance has indeed stimulated a broad range of financial intermediaries to serve the rural agro producers. Indirectly this has contributed to a growing awareness in the country that such agro-financing is indeed needed and that proper policies need to be in place for this to be effective.

- Despite the fact that Gender is mentioned as a principle in the strategy of aBi Finance, there remains room for improvement in terms of formulating and implementing an effective gender policy. At present, gender-specific activities and reporting are limited to numbers and percentages of female end-clients. This could be improved to include an elaboration of what a Gender orientation in agri-finance means, and how it could be promoted. Issues such as reduced interest rates for LoCs for female clients of FIs, specific financial products for specific crops and other uses, an orientation towards resource poor (groups) of women and the promotion of FinTech solutions can be considered.

- The present size of the organisation and its capital has been adequate to initiate and manage a strong programme of financing by aBi Finance, but it must be expected that in the coming years more applications for support (LoC, guarantees, and TA) will be presented to aBi Finance. In order to maintain its present - leading - position in the market, new capital injections that would allow the firm to expand its investments and activities should be considered.

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1. Introduction

1.1 DANIDA and agricultural development in Uganda

DANIDA, under its Agriculture Sector Program Support (ASPS) in Uganda that ended in 2009, recognized access to adequate and appropriate finance by especially agriculture micro, small and medium enterprises (MSME's) and the small scale farming community as one of the major bottlenecks to their development. The banking sector had reduced its lending to the agricultural sector in general, as evidenced by the reduced proportion of lending, from 20% to 10% of its collective portfolio over the previous decade[1]. This was in spite of Agriculture contributing 35% of GDP, 60% of exports and employing over 70% of Uganda's working population.

The business practices (especially of MSME's) made it hard for them to qualify as clients of a fairly rigid banking regime that generally viewed agriculture as risky and therefore required titled land or brick and mortar collateral and proper financial records, to lend, or, preferred to just invest in government paper. In order to address this, the Agri-Business Development Component (ABDC) of the ASPS developed a Loan Guarantee Scheme (LGS) in 2007 to encourage banks to lend by providing cover of 50-75% of loss on principal of loans made to MSME's in the Agriculture sector. The LGS also had a training package in agricultural lending for staff in participating banks to help them understand lending to agriculture as most had only training in general finance but not agriculture lending. Another essential part of ABDC was the Business Development Services (BDS) for the more developed medium sized agribusinesses, to improve on the management and value addition, especially if they needed capital investment financing through medium and long term loans.

During the detailed design it was recognized that for a guarantee program to be effective in supporting the banking industry to understand and be able to finance MSME agriculture with a level of comfort, would take time and that the facility would be needed for a fairly long time. However, in its original format, the guaranteed loans under the LGS could only be made and had to expire during the ASPS program life which, was only until June 2009, a mere year and half later. This said, there was an implicit understanding that DANIDA would continue its agribusiness development support into the future, with an expectation that if the LGS had demonstrated some traction, further support was likely to emanate. It was agreed to form the Agribusiness Loan Guarantee Company (ALGC), a company limited by guarantee. It was designed to move away from the traditional project approach and instead be an activity to perpetuity, with the funds to back the guarantee scheme actively managed and the proceeds from the investment of the initial capital used to cater for its administration and that of the BDS function that was considered key to the effectiveness of the company. The formation of the company and the development of the scheme into a well-functioning body would also make it possible to attract funds from other sources with similar vision and allow for its expansion and further sustenance.

1.2 From project to formalisation

aBi Trust was formed in 2010, to continue DANIDA's support to agribusiness development in Uganda. The ALGC was morphed into a new company; aBi Finance, which received new injections of capital, against an expanded remit to also resolve the banking sector's liquidity issues with lines of credit, develop and roll-out new products and, generate net revenues that could, in a time of need, also support the basic structures and operations of aBi Trust in the eventuality that development partner funding to

[1] ALGC Operations manual, 2008.

that organisation dried up. The founders of the aBi Trust are the Governments of Denmark and Uganda whose key objective for this undertaking was to "Promote Private Sector Agribusiness Development to Enhance Wealth Creation in Uganda". Traditional development partner's project-cycle based funding was recognised as being a poor match for development of the agribusiness MSME sector, because business cycles and funding cycles seldom align and it was clear that a longer, more stable support and delivery system was needed. At this time, many development partners were exiting their budget support operations and were looking for off-budget "private sector" support activities to absorb their country commitments. They lacked capacity and delivery mechanisms, transactions costs were high, standards were variable and development partners began tripping over each other in their dialogue with, and support to the sector. The notion of establishing a competent platform to receive, manage and deliver their funds was widely perceived as at least a partial solution and it was received with considerable goodwill. aBi Finance set out to play a catalytic role, which would require aBi's institutional stability and sustainability for the longer term to provide support in the two key areas of technical agri-business support and provision of appropriate and adequate financial support. The aBi Trust was established initially with DANIDA, EU and Belgian funds, and over the years, a number of other partners with smaller and larger contributions have participated. aBi Finance has only ever been financed by DANIDA, though, and as a valued but secondary line of business, it has managed a DFID road construction guarantee fund.

This evaluation is of aBi Finance and not of the aBi Trust, or the aBi undertaking as a whole.

The key differentiating features of aBi Finance that were expected to distinguish it from other similar programs were as follows:

1. It was to combine technical assistance and financial support. Most programs at the time did one or the other but not both;
2. It had a fund which had been set up to combine provision of guarantees (mitigating risk appreciations) with lines of credit (improving liquidity) to participating financial institutions (FIs) at competitive prices and with sufficient tenures to meet agriculture borrower's needs.
3. It was not time bound as projects tend to be and was therefore able to intervene for a longer term, and yet could continuously be flexible to respond to new demands and challenges within the sector.
4. The volume of the investable fund was able to guarantee the firm's sustenance as the income it generated would meet operational costs.

1.3 Macro-Economic Environment

The Economy

When aBi was set up in 2010, it seemed like Uganda had survived the worst of the subprime economic crisis that started in 2007. The economy was stable with inflation (6.5%), exchange rates (UGX 2,000 to a dollar) and interest rates (lending rates at 20%) stable and low in comparison to the previous 3 years. However, with the national presidential and parliamentary elections slated early in 2011, government expenditures soared. At the same time there was a drought early in 2011 curtailing agriculture production, while international crude oil prices rose by 44% to $115 per barrel over a 12 month period to May 2011 which increased pump prices by an even bigger margin. As a result, inflation rose from an average of 4% in 2010 to 30% at the end of 2011, and average lending rates rose by 10 percentage points to 30% over the same period, as government monetary policy now tried to mop up the excess liquidity. The rising lending rates coupled with a slowdown in the economy inevitably resulted in high default rates with the industry average default rate rising from 2% at the start of the program, peaking at 6.2% by end of 2013 and finally subsiding marginally to 5.8% by mid-2014. This turbulent economic development also saw the GDP growth figures fluctuating widely, falling to as low as 3.4% in 2013, from an average of just over 7% over the previous 5 year period. However, the government policies of concentrating on macro-economic stability and infrastructure development yielded positive results and the GDP growth rates rebounded to 5.1% by 2014. They subsided again thereafter as insecurity increased in South Sudan (Uganda's biggest export market), and as tight monetary policy measures were instituted, again, by the central bank to curb inflationary pressures that coincided with election year (2016) spending. These have unfortunately seen default rates in banks rise to just over 10% by the end of 2016 and resulted to the dropping of GDP projections to 4.5% at the end of 2016.

The Banking Industry

The two tight economic periods saw three commercial banks, National Bank of Commerce, Global Trust bank and Crane Bank, capitulate to the pressure and be placed under the administration of the central bank which managed to sell them to existing local banks. Another bank, Imperial Bank, did close in the period as a result of woes in its parent company in neighbouring Kenya rather than due to local conditions. Worthy of note is that a year prior to its closure, Crane, also a client of aBi Finance, was the third largest bank in Uganda by balance sheet size, and it was categorized as a Domestic Systemically Important Bank (D-SIB).

Significant industry-wide events during the review period were the introduction of the Mortgage Bill in 2012. Its main thrust was to protect borrowers from banks wrongfully selling off their property. The unintended impact of this was that the period of liquidating collateral held by lenders when recovering on defaults potentially quadrupled from 3 to 12 months, and sometimes even longer. This negatively impacted the bad debt ratio for banks, lengthened the security perfection procedure for new borrowers, slowed down growth of the loan book, and eventually increased the price of the loans in a period when interest charged by lenders was already making loans more expensive.

The capital requirement for commercial banks was raised from UGX 4 billion to UGX 25 billion, but this mainly impacted the new banks (of which there were 5) as all the old banks had sufficient retained earnings to meet this requirement. The core and total capital adequacy ratios were both increased from 8% and 12% to 12.5% and 14.5% respectively, (with the D-SIB's having a higher margin and the Bank of Uganda (BoU) reserving the right to increase it further in times of high credit growth), and market risk was included in the risk weighting of the capital. Islamic, Bancassurance and Agency banking have recently also been legalized.

Agriculture Sector

Agriculture has continued to be prominent in Uganda where it provides over 70% of both employment and export income. However, its proportion of GDP declined by 5% to 20% of GDP since 2010 to date, mainly at the expense of service-sector growth. Though a priority item, national budget allocations to the sector have averaged a paltry 2.5% over the last 3 years.

The Agricultural sector and agro-industry continues to be dominated by small holder farmers especially at the production level and this poses constraints to efforts to improve performance. Key challenges have been the relatively slow improvement (compared to GDP growth) of agricultural productivity[2] and this is attributable to a host of issues that include but are not limited to: high costs, limited availability and lack of regulation of inputs, most of which are imported; a continuingly weakening shilling; limited government extension services; over-dependency on rain-fed crops in an environment of changing weather patterns; limited access to markets and a lack of price stabilisation; limited access to adequate and appropriate finance; land tenure challenges that do not encourage large scale farming and borrowing on the basis of title deeds; the application of technologies and economies of scale that allow research, development and innovation; political economies and a history of failed public-sector intervention; and, human resource capacity and capability deficits.

Other Market Players

While aBi Finance is quite unique in the provision of guarantees and lines of credit backed by technical assistance from the FSD function, it is not the only one that offers its principal products of guarantees and lines of credit for agriculture development. The two main other players are;

Agriculture Credit Facility (ACF): This Government of Uganda program started in 2009 and is managed by the BoU that provides funding through commercial banks for onward lending to eligible borrowers. The main objective of the ACF is to commercialize agriculture through provision of affordable medium and long term financing of investment projects in agriculture, agro processing, modernization and mechanization. It was set up to address the problems of;

- limited availability of medium to long term funds within banks due to the nature of their liabilities
- the high costs of funding when available, and
- the lack of sufficient collateral at end user level acceptable by the banking industry in general.

The fund provides participating banks 50% of financing up to a maximum of UGX2.1bn (this can be raised to UGX 5bn on a case-by-case basis) for a maximum of 8 years to provide loans eligible borrowers. The banks are required to raise the rest. The program funds are provided at 0% interest rate with the interest charged to borrowers originally capped at 10%. This has since been increased to 12%. The program funds take the first loss in case of any default so in effect provide a full 50% coverage of losses on principal to the bank.

As at June 2016 the ACF was operating through 18 banks. Since its inception it made disbursement of UGX 208bn possible to the sector against a UGX 102bn placed as guarantees in support of 337 eligible investment projects. In general, it is observed that the ACF targets larger investments than those supported under aBi Finance.

USAID/DCA Guarantee Scheme: The Development Credit Agency (DCA) is an autonomous guarantee facility within USAID that provides 50% credit guarantee cover on loan principal only, to in-country USAID mission development programs that include a financing component, in a wide variety of sectors. The DCA will on its own, occasionally originate guarantee schemes to usually cover financing of large projects in sectors of cross-cutting interest to USAID's overall objectives worldwide. In Uganda, since 2010, there have been two DCA guarantees to agriculture supported programs. One of these

[2] Productivity of cereals for example has increased steadily in the last years, from 15.3 MT/ha in 2007 to 21.4 MT/ ha in 2013, an increase of 40% in 6 years. (FAO 2015). Population increase in this period was about 20%. GDP growth was higher though, at 73% for this period.

guarantees is ongoing, and both have been operating in the same agriculture MSME market space as aBi Finance, but have not always worked with the same banks. The first of these two DCA guarantee programs was a 4 year, 3 bank, $15m program that expired in 2014 and achieved overall utilization of 60% worth of loans to 4,300 eligible borrowers. The second program is a 7 year, 3 bank, $9m guarantee that expires in 2021 that has thus far utilized 18% of its portfolio worth of loans made to just over 500 eligible borrowers.

The DCA is an un-funded guarantee system supported by a pledge made by the US Treasury. It is also both time-bound and cumulative e.g. all loans covered under the guarantee are recorded at full even without any adjustments even when a loan guaranteed has already been repaid during the guarantee period; the actual ratio loans extended/ loans guaranteed thus does not reflect that banks were covered more than actually exposed. Banks have tended to use it for longer term lending to MSMEs and have started to use the aBi Finance guarantee for the shorter working capital requirements.

The total guarantee amount over the last four years amounted to approximately UGX 120 billion (USD 33 million). Given the fact that once a guarantee expires, it can be re-employed for other guarantees, one can conclude that aBi Finance is by far the largest provider of agribusiness guarantees in Uganda. (see table 1)

Table 1 Comparison of aBi Finance with similar programs in Uganda

		ACF	DCA - 1	DCA -2	aBi Finance
Sponsors/ financiers		Uganda Government- BoU	USAID	USAID	DANIDA
Type of scheme		Funded – indirect	Unfunded – indirect	Unfunded – indirect	Funded – indirect and direct[3]
Period		Ongoing	Till 2014	Till 2021	Permanent
Volume of Fund		UGX 102 billion	US$ 15 million	US$ 9 million	UGX 120 billion
Management of Guarantee Fund		BoU	Project	Project	Private Company Ltd by Guarantee
Type of Guarantees		project / individual	Project / Individual	Project / Individual	Project-individual (under portfolio arrangement) and Portable/ Individual
Max Guarantee vs loans[4]		50% of loan amount	50% but without adjustments on pro rata basis in relation to repayments	50% but without adjustments on pro rata basis in relation to repayments	50% with a maximum of portfolio
Decision making		Ex ante- BoU	Ex-ante BoU	Ex-ante BoU	Mixed ex-ante participating banks and ex-post reviews aBi
Lines of credit linked to guarantees		Actual credit guarantee with BoU disbursing as well 50%	FI need to raise the liquidity	FI need to raise the liquidity	FIs may obtain LoC as well but not linked
Volume guarantee fund / max guarantee		UGX 102 billion	US$ 15 million	US$ 9 million	For 2017: UGX 80 billion worth of loans / UGX 40 billion guarantee
Type of borrowers (in agricultural sector)		Larger SMEs	Larger SMEs	Small producers and SMEs	Small producers and SMEs
FIs		Banks	3 Banks	Banks, Sacco's NFBI's	Banks, Sacco's NFBI's
# of end users		~ 335	~ 4,300	~ 500	~ 44,000
Guarantees vs loans		49% (June 2016)	60% (2014)	18% (Q1 2017)	50%

The aBi facility has the following main distinguishing features

- It is managed by a private company (limited by guarantee)
- It offers a mix of guarantees
- It offers a portfolio arrangement
- It covers shorter term loans
- It operates with a mix of ex-ante and ex-post decision making procedures
- It works with a mix of FIs (banks, NFBIs and SACCOs)

[3] Only for the portable guarantees
[4] Banks tend to demand a coverage of > 100% ; guarantees are often calculated on the basis of loan amount not the gap in coverage

2. Purpose and objective of the evaluation and methods

2.1. The 2017 evaluation

This is the final report of the 2017 evaluation of aBi Finance, not the aBi Group. The evaluation focuses on the effects of services offered by aBi Finance, in particular the guarantees and LoC products and related TA services of the interventions (co)financed by aBi Trust in support of locally operating intermediary organisations and smallholders.

The objective of the evaluation as defined in the Terms of reference dated July 2016 (Chapter 3 p.5) has been defined as: ….*"To gauge if in the medium term aBi Finance will continue to meet its dual objective of providing finance for the aBi group to exist in perpetuity, and expand access to finance for agribusinesses, so as to increase incomes and create wealth in Uganda"….*It covers four specific areas of attention as defined in the same ToR (chapter 1.4) notably *(i) the performance of aBi Finance .. to expanding financial services to underserviced agribusiness SMEs and producers (ii) assess the profile and performance of thee aBi capital endowment fund …. (iii) make short term recommendations to enhance management and performance of aBi Finance in terms of achieving its dual objective.. and 4iv) develop at least one policy brief…..*

It is well understood that aBi Finance offers two very specific financial services: Lines of Credit and Guarantees (a single service or in combination), occasionally complemented by technical assistance (TA) services at FI level and sometimes even at agricultural businesses/ client level.

Two specific questions ought to be answered in this evaluation:

- Additionality: Will the services extended by aBi Finance (LoCs or Guarantees and/or a mix of those occasionally complemented with TA services) to FIs lead to expansion of their financing of agricultural businesses and producers and their organisations and subsequently improved and enhanced access to and use of such services by agricultural businesses and producers?
- Effectiveness: Are the mix of services offered by aBi to FIs effective in expanding and deepening financing of agricultural businesses and producers and their organisations and will they lead to better use of such services by agricultural businesses and producers?

In addition, the evaluation focused on two aBi Group related aspects:

- The central objectives of aBi groups' intervention (next to its own sustainability and effects on FIs performance) being an "increase in farmer's income and "job creation"' (see Annual reports aBi Group) whereby we will interpret the latter aspect to include the issue of "jobs affected".
- The specific organisational and institutional set up of the aBi Group with the clear relationship between aBi Trust and aBi Finance and the subsequent effects on the continuity and sustainability of the group, need to be taken into account while answering the above questions

2.2 Activities

The evaluation was carried out by a team of professionals of Carnegie Consult and KIT between March and May 2017. Various types of activities were conducted to collect information that led to our findings.

- Document review. The evaluation team received a set of documents to study prior to the field visit phase of the review (see ToR in Annex 1). Additional documents were found on the aBi Finance website. In the course of the exercise, more information was gathered from formal publications, prints of database structures and screens, datasets, reports, miscellaneous documentation, and manuals of aBi Finance itself and documents received from other stakeholders.

- Key person interviews. Individuals representing the various stakeholders were interviewed as presented in the work programme and list of people interviewed (see Annex 2). This included stakeholders in the whole value chain of aBi Finance, from banks to end clients. Also, group discussions/ focus group meetings with farmers were organised to get information about the process and dynamics of loans extended to them by the participating FIs.

- Field visits. A selection of clients in the Kampala regions were interviewed, farms, agricultural businesses and financial partner institutes in rural areas were visited, to get an idea of the scale and magnitude of the activities referred to, and the impact on the ground of the use of the guarantees and lines of credit.

- Best practice review. On the basis of previous knowledge and experience through previous assignments of similar nature concerning similar wholesale financing arrangements and guarantee funds, the team reviewed best practice on the relevant issues, and used this knowledge as a benchmark in the final report and presentation of preliminary findings at the end of the field work period.

- A survey was performed to obtain additional data to gauge development effects of interventions supported by aBi and assess the role of the participating financial institutions.

- Review preliminary findings Sharing preliminary findings (during field visit and with draft final report) with the Board and staff/ management of aBi Finance to validate findings and receive additional input.

3. The core products offered by aBi Finance reviewed

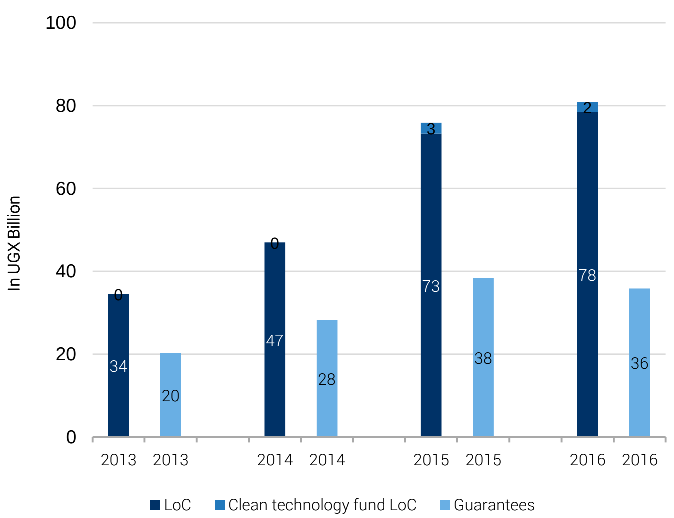
aBi Finance offers a comprehensive set of services and products composed of two main financial products, namely the Lines of Credit (LoC) and Agricultural Loan Guarantees (ALG) as well as focused technical assistance mainly aimed at institutional capacity building labelled Financial Services Development (FSD). (matching) grants to client FIs are used to cover the cost of such capacity building. As indicated in the business plan 2014-2018, the LoCs are seen as the more important financial vehicle to reach out to rural communities.

The main purpose of all actions is to stimulate FIs to serve more intensively the rural, agricultural population, whereby each product has a specific purpose:

- The LoCs provide FIs with longer term liquidity at marginally preferential rates, which is less expensive funding for FIs and subsequently should lead to more lending to finance agro-related economic activities at affordable interest rates preferably with a tendency to go down;
- The guarantees mainly serve as a comfort factor for FIs which should reduce their reluctance to embark on agricultural financing considered by many of the FIs as risky and expensive, especially in view of the limited acceptable assets the agricultural producers and SMEs can pledge as collateral;
- The capacity building grants are seen as investments in building up the understanding amongst FI staff about agricultural financing and as investment in building up the required methodologies and techniques. With FSD's activities now operationally under aBi Finance (though legally a part of aBi Trust) it becomes possible to offer FIs a more comprehensive package of LoCs or Guarantees in combination with focused institutional capacity building.

In the graph below, the year-end outstanding LoC and guarantees are presented. The total portfolio of aBi Finance grew significantly during the evaluation period.

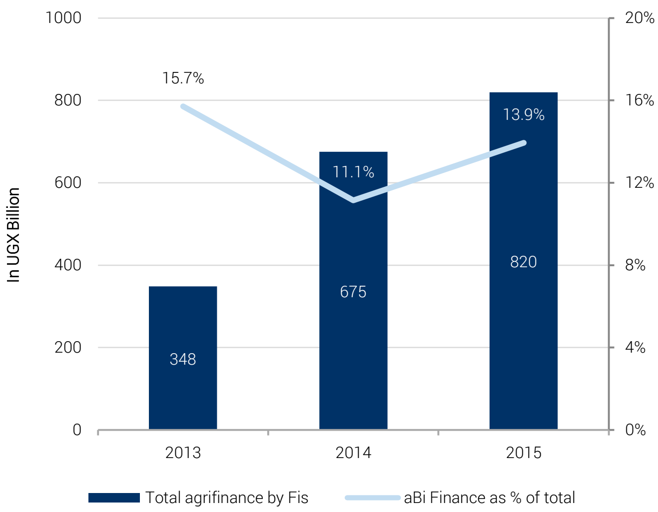
Figure 1 aBi Finance product portfolio at year-end[5]



[5] Source: aBi Finance data and FI annual reports

The LoC portfolio more than doubled during the evaluation period, showing an increased demand for aBi Finance funds from FIs. The guarantee portfolio increased during the first years and decreased slightly in 2016 showing a preference for (term) loans from aBi Finance among FIs. In figure 1, only the guaranteed amount is shown (in line with the reports by aBi Finance). In terms of actual loan amounts, the guaranteed amounts should be doubled.

Figure 2 Total agri finance lending in Uganda[6]



In figure 2 above, the lending support by aBi Finance (both LoC and guarantees) is compared to the total agricultural lending (total lending including and excluding aBi Finance support) in Uganda. Interestingly, as percentage of total agricultural lending by banks, the aBi finance product offering decreased since 2013[7]. From the data, one may conclude that aBi Finance succeeded (and succeeds) in drawing FIs into increased lending to agricultural production and processing businesses. This was confirmed in the discussions with the banks, MFIs and SACCOs.

aBi Finance applies eligibility criteria on financial institutions to qualify for its products:

1. Financial institutions must have at least 3% of their loan portfolio within agribusinesses
2. Financial institutions must have a branch network outside Kampala
3. The Financials institution must be reputable institutions which meet basic lending criteria and are able to demonstrate strategic intent in agribusiness development, with evidence of capacity to handle agribusiness portfolios. The financial institutions could range from tier-1 to tier-4, but should be of a certain basic level.

Over the past 5 years, aBi Finance was active in the market of LoCs and guarantees. With 27 FIs selected agreements have been drawn up to operate either LOC (18 FIs), guarantees (17FIs), or mixed services. The selection done by aBi has resulted in a reasonable spread over the rural areas in Uganda. Over the past years we also noted a gradual move into more deprived areas by FIs receiving support from aBi Finance.

[6] Source: aBi Finance data and FI annual reports
[7] Unfortunately, 2016 agrifinance figures were not yet available when the evaluation was conducted.

As a financial organisation with a development objective it is logical and understandable that aBi Finance accepted relatively higher risks than traditional wholesale financiers. Over time it is interesting to note that its' actual risk exposure has been at an acceptable level. In only one case with a Tier-1 institution (Crane Bank), aBi Finance has been exposed excessively, but even that has been dealt with properly by Management with the support of the Board.

3.1. Guarantees

aBi Finance's capital was originally an endowment fund provided by its donors. In accordance with aBi Finance's policies, about 20% of this capital is placed in low risk investments and serves to underwrite guarantees (see chapter 4 of this evaluation).

aBi Finance offers the Agribusiness Loan Guarantee to promote financing to agribusinesses. In practice aBi stimulates FIs to render gradually more services to the rural / agro producers engaged in agricultural production. It is expected to enable farmers to cultivate more than needed for private consumption and generate additional cash derived from production surplus to family needs, through improved and intensified production and processing, and, to encourage trade (of inputs and outputs) and value addition. As indicated in the business plan of aBi Finance, the main purpose of the guarantees is to deepen access to rural finance and to increase lending into agribusinesses / value chain actors. During the evaluation period, the product portfolio was expanded with the portable guarantee.

Table 2: Types of guarantees offered by aBi Finance

Type	aBi procedure	Target client
Individual guarantee	Individual guarantees are guarantees where the partner financial institution requires approval of aBi Finance for each loan.	Intended for individual clients seeking larger loans in support of increase agricultural production seeking access to external financing from a specific FI
Portfolio guarantee	Portfolio guarantees are guarantees where the partner financial institution sends monthly reports on eligible facilities booked under the scheme. For portfolio guarantees, aBi Finance has the right to inspect the files of the borrowers placed under the portfolio guarantee by the financial institution.	Intended to offer FIs the opportunity to offer an aggregate number of smaller, often micro loans to rural clients under a pre-agreed guarantee who are not in the position to offer any collateral or that do not meet the minimum required level of collateral – in theory the FI decides which loans are brought under the guarantee
Portable guarantee	Portable guarantees are guarantees that are 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.	Intended for SMEs operation in the agricultural sector (trading, processing, storage) that seek for (additional) guarantees to access external financing for longer term loans from banks at the choice of the client/ end user

When aBi Finance is considering the acceptance of a new guarantee, the following criteria are applied:

- Only loans to pre-defined sectors can be guaranteed;

- The criteria for additionality are adhered to;
- The total guaranteed amount is within the pre-set guarantee ceiling[8];
- The fee on the guarantee ceiling is paid where applicable;
- The procedures for applying for loan guarantees and for claiming the guarantees are followed;
- The monthly reports are prepared and submitted.

In addition, different eligibility criteria need to be used by the participating FIs to appraise end users. (table 3).

Table 3 Criteria for the loans guaranteed by aBi Finance

Criteria	For individual / portfolio loans	For portable loans
Number of employees	Less than 50	Less than 100
Annual sales turnover	Less than UGX 4 billion	Less than UGX 5 billion
Total assets	Less than UGX 2.5 billion	Less than UGX 3 billion
Minimum loan size	UGX 100,000	UGX 100 million
Maximum loan size	Ind: UGX 1 billion, portfolio: dep.	UGX 4 billion

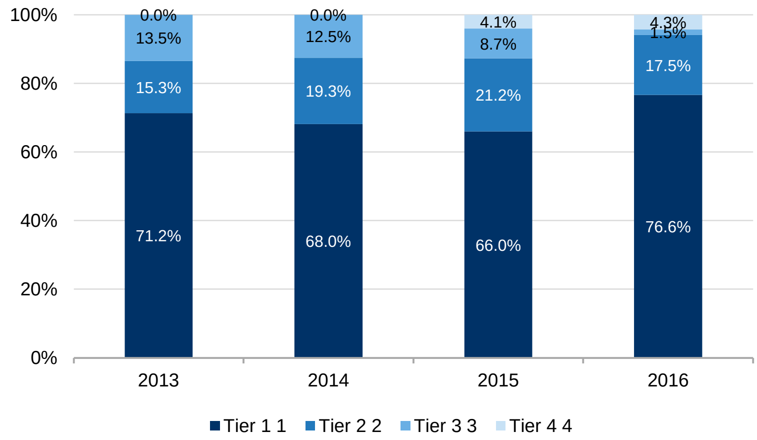
With this range of guarantees offered by aBi Finance to FIs and eligibility criteria to apply by the FIs offered, aBi Finance is in position to assist a wide range of FIs to reach out and meet the needs of agricultural businesses ranging from additional income generating businesses (with the portfolio guarantees) to the medium sized industries (with the portable guarantee). Those again are serviced by different financial institutions in Uganda which are divided into Four Tiers:

- Tier 1 – Commercial banks;
- Tier 2 – Credit Institutions and Finance Companies;
- Tier 3 – MDIs; and
- Tier 4 – SACCOS, financial NGOs and all other non-deposit taking financial institutions.

All the individual guarantees are provided to Tier-1 or unrated banks (i.e. EADB). Regarding the portfolio guarantees, the FIs range from Tier-1 to Tier-4 (see below). A relatively modest number of portable guarantees have been awarded so far.

[8] For portfolio guarantees there are two ceilings: the ceiling per loan and the total of all loans guaranteed.

Figure 3 Portfolio guarantees by tier (in UGX billion)



As can be derived from the figure above, the amount of guarantees to Tier-2, Tier-3 and Tier-4 FIs increased during the evaluation period. During 2016 this trend was abruptly stopped, as a major Tier-2 FI stopped using the guarantee, plus the largest user of the guarantee increased the average loan amount significantly during 2016. Nevertheless, the average loan sizes under guarantee decreased until 2015 as well, as lower tier FIs usually provide lower sized loans. This is in line with the business plan 2014-2018, where access to financial services at the less endowed part of the rural / agro producers (actually reached most by Tier 4) was indicated to be a target.

Claims

From aBi Finance's financial reports it can be deducted that until Q1 2016 a provision of around UGX 780 million has been made for anticipated losses on the Guarantee facility.

A more in-depth assessment reveal that in the year 2015 claims on loans for a total of UGX 365 million was charged to the annual income (under operational costs) . It was confirmed that those claims on loans were amounts paid out to the participating FIs for cases where they experienced clients defaulting on repayments and that those were cases that subsequently were the reported as irrecoverable.

It is not clear why the procedure of charging losses to operational costs and simultaneously making a provision to which those losses were not charged, is adhered to.

In addition, we found that the total guarantee amount for an individual FI that put forward a claim which was honoured, was not adjusted (read: lowered) accordingly. This leaves the possibility for the FI to bring new cases again under the guarantee facility. aBi Finance indicates that as long as a certain limit is contracted, being paid and FI is adhering to contractual obligations, they continue to utilise limit until termination. In effect it is a revolving limit.

Table 4 Average loan size under guarantee (in UGX million)

	Averages (in million)			
	2013	2014	2015	2016
Tier 1	4.9	5.1	4.8	6.6
Tier 2	2.4	1.6	1.9	1.7
Tier 3	2.1	4.1	0.7	3.4
Tier 4			2.3	2.0
No tier	2.9	80.7	48.7	40.5
Total	3.6	3.5	2.5	4.1

The guarantees offered by aBi Finance are mainly labelled as portfolio guarantees (except for the so called portable guarantees) while sometimes it appeared to the evaluation they were rather project or individual guarantees. Since multiple interpretations exist of what actually is meant by "portfolio guarantees", the evaluation mission has deemed it necessary to assess this more in detail. See Annex 3 of this report for a policy brief on this subject.

3.2. Lines of Credit

The second main product of aBi Finance are the lines of credit, whereby partner FIs on-lend the funds provided by aBi Finance. The growth of the LoCs to partner FIs has been significant, as was the growth of the underlying portfolio of loans from FIs to agribusinesses (table 5).

Table 5 Loans to agribusiness that arose from the lines of credit portfolio during the evaluation period

	Numbers			
	2013	2014	2015	2016
Tier 1	12,730	3,237	10,072	17,603
Tier 2	72	979	2,247	0
Tier 3	3,313	3,879	7,396	7,854
Tier 4	2,761	2,901	8,996	15,497
No tier	0	0	0	0
Total	**18,876**	**10,996**	**28,711**	**40,954**

The number of loans under the Lines of Credit increased significantly during the evaluation period, as can be seen in table 6.

Table 6 Lines of credit portfolio during the evaluation period (volume)

	Total amounts (in million UGX)			
	2013	2014	2015	2016
Tier 1	45,203	31,715	44,453	48,184
Tier 2	554	4,059	5,377	0
Tier 3	8,564	9,904	20,866	21,745
Tier 4	4,642	4,967	10,973	16,452
No tier	0	0	0	0
Total	**58,964**	**50,645**	**81,668**	**86,382**

The loan amounts under the LoCs portfolio increased significantly as well, although not as fast as the number of loans, which already indicates that the average loan size has decreased during the evaluation period (see table 7).

Table 7 Average size of loans to agribusiness made from the lines of credit portfolio during the evaluation period

	Average amounts (in million)			
	2013	2014	2015	2016
Tier 1	3.6	9.8	4.4	2.7
Tier 2	7.7	4.1	2.4	
Tier 3	2.6	2.6	2.8	2.8
Tier 4	1.7	1.7	1.2	1.1
No tier				
Total	**3.1**	**4.6**	**2.8**	**2.1**

The reduction of the average loan amount under the LoC instrument is mainly caused by the increase of Tier 3 and Tier 4 FIs in 2015 and 2016. This thus shows that through aBi Finance support FIs reach out more to less serviced parts of the agricultural population in Uganda, in line with its objectives as laid down in the business plan 2014-2018. This is expected to continue being a key parameter for aBi Finance in the coming years.

The evaluation mission looked at the financial statements in the period 2012-2015 to get an impression of the financial results of the guarantees and the LoCs at aBi Finance. The results are summarised below (Table 8):

Table 8 Summary of financial results of aBi Finance (2012-2015)

in UGX 1,000	2012	2013	2014	2015
Treasury bills and bonds	2,779,258	2,595,799	2,396,958	1,631,360
Interest on loans to FIs	1,899,032	3,600,412	4,992,779	7,446,663
Fixed deposits	6,047,300	4,334,287	2,638,903	2,784,534
Agriculture Bond investment				3,167
Interest income	10,725,590	10,530,498	10,028,640	11,865,724
Arrangement fees for loans to FIs	180,000	159,000	45,320	0
Guarantee fees for loans to FIs	209,896	356,122	612,107	573,877
Claims paid during the period	177,080	94,912	225,896	365,527
Provisions				
Begin year	0	1,994,058	510,323	739,647
Provision LoCs			125,037	294,280
Provision Guarantees			104,287	779,527
Provisions Loan Guarantees and LoCs	1,994,058	-1,483,735		
End year provisions	1,994,058	510,323	739,647	1,813,454

The evaluation mission noted that Guarantees are still utilized extensively. The risks on loss making on Loan Guarantees is partly covered by guarantee levies and by returns on the aBi capital (the original endowment fund) as 20% of that Endowment Fund is set aside to indemnify future losses on Guarantees. At present this policy has resulted in aBi Finance earning as well on guarantees. Since the aBi Finance funding did not come at a cost (i.e. initially the capital came in without a profit expectation), all the returns on these investments are relatively high. The profits on these investments are to be set aside to cover (potential) future losses, which is deemed prudent.

During the evaluation period, the weight of the LoCs in the portfolio increased compared to the Guarantees, which is understandable given the high costs of funding in Uganda.

The LoC product is much more profitable compared to the guarantee product given the absence of costs of funds (aBi Finance is fully funded by DANIDA). Without such costs of funding, the risk of the LoCs being non-additional (and potentially market distorting[9]) is much higher than Guarantees, though it is also noted that aBi Finance is prudent in benchmarking its lending rates to the market to avoid being criticised for competition distorting practice. With Guarantees, the usual market dynamics are not being distorted and therefore this product has its merits.

3.3. Outreach (gender, green and regionally)

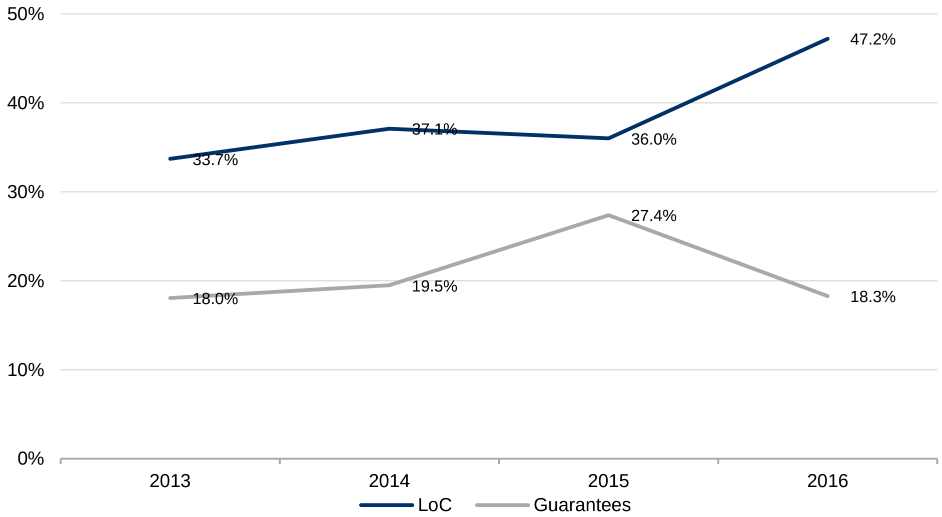
Gender

The policy at aBi Finance is to make financial services available to larger sections of the population of Uganda than was previously the case; geographically and socio-economically. This focus on financial inclusion has to take place through the participating partners: aBi Finance aims to include FIs in more rural areas to increase outreach in areas away from Kampala. To include previously less-serviced groups in society, such as women, is much less easily achieved. Given the different roles of men and women in agriculture and the respective power relations that might be affected by (increased) lending to women, aBi Finance ought to develop a specific gender policy that goes beyond focusing on reaching more women only. This would help aBi Finance as well as its partner FIs in focusing attention on a deeper understanding of gender, and on developing specific products to operationalise that understanding. The Key Performance Indicators (KPIs) presently adhered to are mainly financial in character and do not take into account either development goals, nor issues such as regional or gender inclusion targets. Gender inclusion is a principle to which aBi Group adheres and it aims to have special programs for it. It does appear as an item in the business plans of the Group and is partly taken into account in the work plans of the Trust, but not yet in that of aBi Finance. Though the Group managed a 'Gender for Growth' programme, this was undertaken by the Trust, not by aBi Finance.

There is reporting on volumes of loans per geographical area and gender by aBi Finance, but apart from the numbers, there is no indication that either gender or the geography (or green growth for that matter) are integrated in the strategy and work of aBi Finance. For example, there are no preferential fees or interest rates offered to FIs for women-focused financial products yet.

[9] Defining what constitutes "market distortion" is difficult; both Government and investment partners frequently offer funds as a wholesale financier to the banks to achieve targeted ambitions. For example, the GoU's own ACF which effective allows banks to discount the market lending rate by 50%, while also de-risking those loans. So long as the benchmark for interest rates is Government paper that attracts returns in the teens and agriculture remains underbanked, at least in part because of high-interest rates, it is our opinion that there is a good case for targeted concessional lending.

Figure 4 Percentage of LoC loans and guaranteed loans (in #) provided to female clients



Having said that, the gender balance of the aBi Finance products improved during the evaluation period. The decrease of guaranteed loans to female clients in 2016 was mainly caused by Centenary Bank, that provided more loans to male clients in 2016, and the fact that FINCA –who had an almost even balance between male and female clients- was no longer part of the portfolio.

Also, by supporting recent innovations in service delivery such as group loans, aBi Finance in fact is showing that even when gender is only starting to be explicitly integrated in policy, in practice it is already quite successful implicitly through support of FIs' use of portfolio guarantees in this direction. Group lending in particular makes women overcome the problem of collateral, as group collateral serves the FIs well enough and by functioning in a group, women tend to feel more secure, respected and empowered.

It is further expected that FinTech solutions, another area that aBi Finance is exploring, will also allow women to establish and maintain financial relationships, as this may help them overcome problems around the risks and cost of travel.

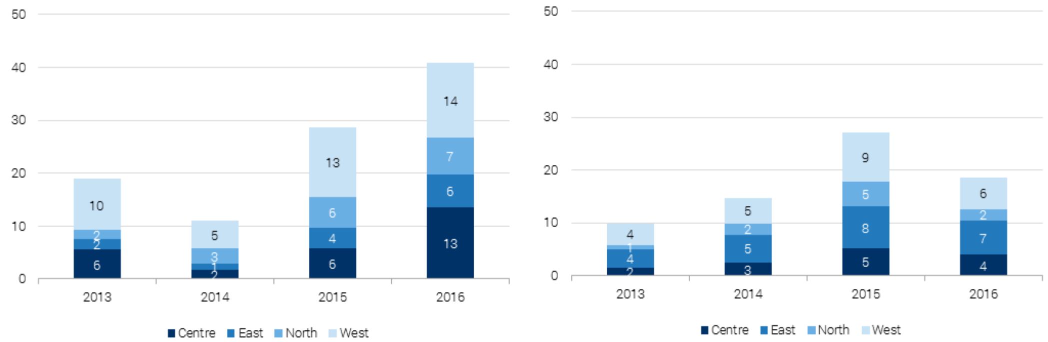
Green

A similar situation exists around Green Growth. Green Growth, another cross-cutting issue, does appear in documents and activities of both aBi Trust and Finance, but until recently was worked out mostly for the Trust. However, in the most recent iteration of its business plan, aBi Finance stated its intention of assisting stakeholders in the agribusiness sector by setting up a matching grant and financing facilities for green growth to help overcome the financial constraints of investing in cleaner technologies. Subsequently, aBi Finance's Clean Technology Fund was established at the start of the period evaluated. The financial facility places a line of credit in regulated financial institutions, with preferential terms allowing borrowers to access the credit at a modestly subsidised rate. However, during the evaluation period, limited funds were drawn down under this facility (see figure 1).

Regions

When looking at the clients reached by both the Guarantees and the LOCs, we see the following geographical developments:

Figure 5 Geographical breakdown of the new number of loans under the LoC program (left chart) and Guarantee program (right chart). Amounts in thousands



As can be derived from the figure above, most of the loans are provided in the West of Uganda, one of the areas where most of the productive agriculture takes place. The increase in loans in the Centre of Uganda is attributable to the loans provided by Premier Credit, a bank focusing on the Central Region of Uganda.

3.4. Financial Services Development

With the Financial Services Development (FSD) facility, aBi Finance assists financial institutions in their expansion and rural outreach, in developing staff capacities and products, and in formalising their systems. Support offered under FSD by aBi Finance is mainly in the form of co-financing the initial costs to set up new branches in rural areas, the procurement of equipment to carry out services in the rural areas, like motorcycles for staff and the costs of expansion or introduction of related management information systems as well as related training. The support is offered as matching grants. During the evaluation period, the decision was made to transfer FSD from aBi Trust to aBi Finance to align the support to FIs with the financial services offered. The challenge for aBi Finance will be to expand the range of services supported under FSD to assist FIs with institutional development processes and capacity building programs including staff training and orientation of senior management. A second challenge will be to assist FIs in their introduction of new FinTech methods to broaden and deepen financial services in rural areas.

In the work plan 2017, it is mentioned that FSD has taken note of the advancements in technology and digitization of financial services delivery and will emphasise branchless delivery mechanisms to drive financial inclusion. FIs visited also confirmed that the major banks shift their focus from opening new branches to digitalization. However, we noted also that the smaller (Tier 3 and 4) institutions are interested and active in branchless financial services provision, hampered as they are though in most rural areas by an inadequate coverage and high costs of service providers (mostly MTN Uganda). Thus, there is an increasing interest in FinTech solutions, and aBi Finance is taking measures to be able to support these institutions in this direction. This may have consequences for the requirements that these institutions have to meet (i.e. their network of branches may in the future not necessarily need to be expanding into rural areas, if their mobile service providers are already in the said area).

3.5. Other developments during the evaluation period and future possibilities

During the evaluation period, aBi Finance investigated the possibilities to introduce new products. Examples of these products are an agricultural bond and a leasing product. Though serious attention was given to these new initiatives (eg. the bond product was developed to the point of being able to offer it to the capital markets), prudence determined not to introduce these products at that time.

Currently, the management of aBi Finance – currently a (respected) wholesale financing facility - is considering direct lending to specific agribusinesses. Although the evaluation team understands the wish to finance certain businesses that are not being served by the market, we doubt whether direct lending is the right instrument for aBi Finance. Our two main concerns are:

1. aBi Finance will, once the product is in place, be competing with existing FIs, amongst whom are their traditional partners for the Loan Guarantee and LoC facilities. The risk of market distortion will be perceived as being high (though, see earlier footnote on this).
2. aBi Finance currently does not have the required structure nor systems in place to be able to effectively and efficiently lend and collect directly.
3. Direct lending and the related financial requirements will bring the organisation in conflict with its organisational, development mandate.

As an alternative, aBi Finance could consider picking a leaf from the GoU-ACF model and become a co-financier for certain priority transactions. The main advantage for such structure is that the back-office and systems will require less resources and energy which can all be used to concentrate on the key functions of the core business; and, the sharing of risk with partnering FIs.

Presently a relatively large number of LoCs have indeed resulted in FIs commencing and expanding financing agricultural business to the rural areas of Uganda. A large number of those FIs are indeed financially healthy and strong institutions with adequate resources to enter rural and agriculture finance but rather reluctant to do so. Following the aBi support FIs invested in the appointment and training of credit officers and their (IT) systems to make growth in this segment possible. The success of the aBi Finance products led to demand for renewal of LoCs (with most partner FIs) and expansion of the ALGF. Given its present success, aBi Finance might be tempted to refinance outstanding LoCs and extend the present guarantee periods of existing client – FIs. This is indeed commercially an attractive operation, with low risk and rather ensured returns. The downside of such a strategy however, would be that it will almost automatically turn aBi into a quasi-commercial financial institution and will dilute its developmental role in the financial sector in Uganda. Renewals of LoCs or guarantee agreements should only be agreed upon, when FIs are not in a financial position to continue funding such operations and with those FIs intending to initiate one or more innovations in agro related financing.

At its establishment, it was explicitly stated that aBi Finance would operate as a development finance institution; something to which all subsequent work plans refer to as well. To preserve that developmental role, it is recommended that aBi Finance should include three new areas where it can make a difference in the years to come, and remain consistent with, and true to its development finance role. This primarily implies that in addition to its intention to focus on selected Value Chain Financing, it has to focus on new approaches and innovations in creating and improving access to financial services for agribusiness and rural communities, including innovative mobile applications.

In the opinion of the evaluation team, the three areas for aBi Finance to focus on as a developmental finance organisation are:

1. Exploring new rural markets through organisations closest to the target groups

Over the past years, working with SACCOs has proven to be quite effective in reaching out to the less privileged and more financially excluded parts of the population. The present data reveal that providing LoCs to SACCOs and similar organisations has not only resulted in a relatively significant increase in number of people attended to, but also in lowering the average loan amounts extended to the rural / agro producers. On comparing the effect of lending through SACCOs to that through the larger formal banks and, it is fair to conclude that the lower strata in society are indeed better served by SACCOs and similar organisations. Therefore, rather than only renewing loans (LoCs) with formal banks it is also recommended to seek new partnerships with more SACCOs and similar sized and located organisations.

This recommendation is also consistent with the strategy for 2017 which targets continued focus on expanding Lines of Credit through SACCO Apexes like rural Savings and Credit Cooperative Union (RUSCU) and Uganda Central Cooperative Financial Services (UCCFS).

The evaluation team however acknowledges that with the current team in place at aBi Finance, the maximum number of SACCOs that can be served is limited, given the higher attention that is required from aBi staff and TA to bring the SACCOs[10] to the level where they can prudently be financed. Nevertheless, in the opinion of the evaluation team, SACCOs provide a good opportunity to reach the financially excluded. This also is a unique selling point for aBi Finance compared to other actors such as USAID/Development Credit Authority and its Credit Guarantees Facility is also in conformity with Government intentions to restructure and realign operations in agricultural finance with changes in the regulatory framework. Amendments to the Financial Institutions Act are also expected to encourage developments in Agency Banking, Bancassurance and the regulations for the Tier 4 sector by the Bank of Uganda.

2. Stimulating application of FinTech in real finance

In the coming years access to finance in the rural areas will undoubtedly be improved by FinTech applications being tested and/or introduced by innovative-minded FIs. Future advances in creating and

[10] It is also worthwhile remembering that the SACCO sector is still recovering from its politicization several years ago, when government embarked on a programme of installing a SACCO in each sub-county of the country and also pressed its funds on existing SACCOs.

deepening access to financial services for the rural / agro producers will be determined, amongst others, by IT / Web / Mobile phones (often labelled as FinTech) innovations in service delivery based being adopted and applied by FIs in rural areas in the near future, as well as other innovations that lower the costs of providing financial services to segments of the economy otherwise considered unbankable. aBi Finance can play a leading role in this area; in promoting, supporting and initiating these initiatives, and in joining collaborative undertakings. Firstly, it can be receptive to applications from FIs that wish to pilot or experiment with FinTech methods to reach out to larger groups of agricultural clients. This can be in the form of co–investor or as a lender willing to incur higher risks and subsequently willing to accept and absorb higher losses. This could for instance be facilitated by making a special provision, labelling this (for instance) the Research, Development and Innovation (RD&I) provision.

The FSD can indeed be instrumental in the process of promoting and supporting FinTech like innovations aimed at reaching out to the less privileged in society, as discussed briefly above. Though Uganda's progress in financial inclusion has been remarkable, still only 4 in 10 (39%) Ugandans across the country were financially included in 2015; reaching the remainder becomes increasingly difficult, the more unbankable by conventional measures they are perceived to be.

The Ugandan rural population is even less (financially) included with less than 26% of Ugandan smallholder farmers currently having access to full, formal financial services and products in their own name. But the other face of the coin is that almost nine-tenths of smallholder farmers are aware of mobile money services providers and cite benefits to having a mobile money account. This came out strongly also in the discussions with end-clients we had in the field. Transaction costs of present branch-based financial services to clients are high. FIs must be made aware of this since there remains much to be done to bridge the gap between awareness and usage[11].

It is recommended to concentrate on innovative undertakings that can be instrumental in reducing financial exclusion. The aBi Finance work plan 2017 already hints in that direction when it states that more attention ought to be given to programs where branchless banking is given priority and are focusing on digital payment solutions like mobile money. Indeed, new partnerships beyond FIs are then also needed with, for instance, insurance companies (to promote agricultural insurance), telecom providers or large IT and data driven companies intending to enter the financial services markets. Especially with an eye on guiding them towards serving the rural agro producers as well. In this area aBi Finance must then be willing to incur relatively higher risks and be in a position to absorb related losses if innovations prove not to be effective and the investments just generate losses. This might be possible by setting aside part of its present capital as a special provision for Research, Development and Innovation (RD&I provision). This is line with the plans of FSD to embrace partnerships with FIs who will implement innovations like agency banking following the amendment of the Financial Institutions Act (see Work plan 2017).

The announced Ugandan Government subsidy of UGX 5Bn allocated to agricultural insurance in the financial year 2016/2017 might be an opportunity for aBi Finance. For instance, it could be used to engage in innovation in agricultural insurance as an opportunity to promote increased uptake of crop

[11] See also CGAP, National Survey and Segmentation of Smallholder Households in Uganda (April 2016) also quoted in the aBi Finance Workplan 2017

insurance products, which should lead to improved lending to agribusinesses (as the expected loss given default would decrease significantly).

The evaluation mission fully supports the ideas of aBi Finance that FSD will continue to actively participate in and support forums for promoting agricultural insurance, financial services and innovations, institutional strengthening and other stakeholder partnerships such as the Agricultural Finance Platform, so as to influence the agenda for the Agribusiness industry.

In the role of initiator it is recommended that aBi Finance first focuses on organizing the discussions with selected FIs on the application of FinTech and the many new, not yet developed options. Here, in a developmental role, aBi Finance could share the higher risk of developing new FinTech based methods. Such must always be on the basis of demand expressed by the FIs, not a wish of aBi Finance, to avoid it becoming a supply driven organization. Reacting positively to –but also carefully scrutinising with good analyses- of proposals submitted by participating FIs will ensure internalizing the new options eventually.

As a first step, staff of aBi Finance might orient themselves further on this subject. Noteworthy at present are the initiatives of the following three development organisations that have taken a lead in the debate about FinTech in rural finance:

- Accion – see also https://www.accion.org/fintech
- Master Card with its AgriFin Accelerate program – see also http://www.mastercardfdn.org/accelerating-rural-access-to-fintech/
- And Giordano Dell'Amore that through a Microfinance Best Practices International Award seeks a platform to present initiatives promoting financial inclusion of smallholder farmers in a developing country see http://www.ruralfinanceandinvestment.org/events/1813

3. Supporting innovative Agricultural SMEs

Aligned with M4P thinking, the third area is that of supporting innovative agriculture production related SMEs, especially those that might have a direct and considerable effect on the number of agricultural producers in their chains. Here the challenge lies in linking up with innovative companies to support those with new financing tools in designing, developing and introducing new approaches that have a positive effect on agricultural production and thus also a direct effect on the income of rural agro producers. This is preferably done through indirect partnerships with third parties with aBi Finance maintaining a clear role of financier; not as implementer or co-developer, but a special financier with the possibility to absorb higher risks related to such new projects/ investments. This might be possible by setting aside part of its present capital as a special provision for Research, Development and Innovation (RD&I provision), the same fund/ provision as suggested in the previous point

4. Organisation of aBi Finance

aBi Trust and aBi Finance are designed to exist in perpetuity. This has not always been the case in practice, since both instruments had a project approach when first designed. Since this evaluation focuses on aBi Finance, we will set out the structure and organisation of aBi Finance below.

4.1. The Endowment Fund

aBi Finance has been legally registered as a Company limited by Guarantee under Ugandan law. This has indeed implications for its legal and governance structure. Also, the set-up of its balance sheet was subsequently brought in line with related legal requirements. This had also an effect on the ownership relations in particular with respect of ownership of and control over its capital.

The main part of the capital of aBi Finance was originally an “Endowment Fund”, according to official documentation and the business plan of aBi Finance. The goal of this fund was to indemnify loan guarantees, stimulate agro lending by providing credit lines, to banks, the earnings from which the operational costs of aBi Finance would be covered. It was furthermore expected that part of the returns of the investments made with the endowment fund could support - partly – the operations of aBi Trust in the eventuality that development partner finance was not available.

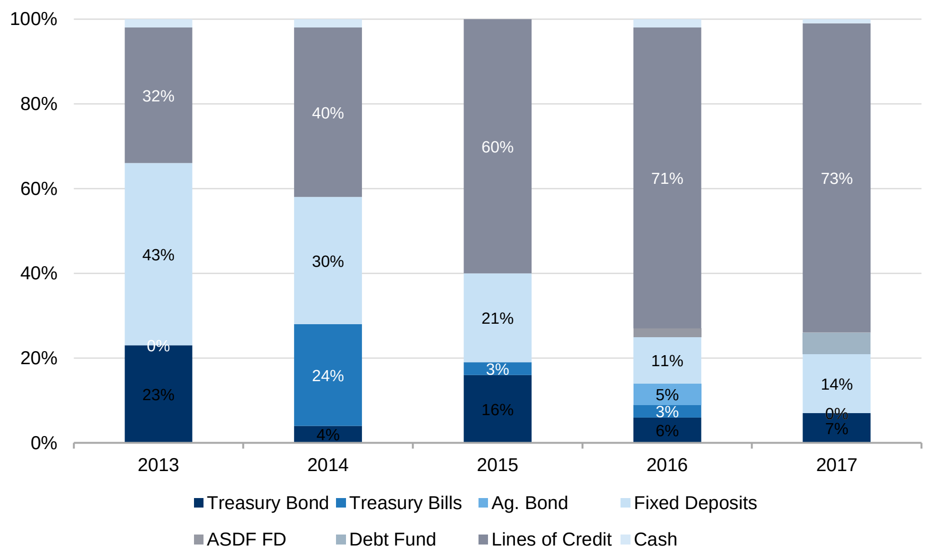
With the establishment of aBi Finance as a company limited by guarantee, the Endowment Fund was converted into capital/ equity of aBi Finance, and is not a separate (off-balance) fund. This has certain implications for the contributor to the Endowment Fund (DANIDA). Firstly, it “lost” its direct control over the Fund and the way it is used. Secondly, it has foregone the possibility to withdraw the funds at its own discretion. In case disagreement would emerge on the direction aBi Finance might choose to follow, withdrawal of this capital is only possible after a decision would be taken to fully discontinue operations and dismantle aBi Finance. In the Articles of Association of aBi Finance it is provided that only in the event the organisation is wound up, the proceeds would be transferred to the Embassy of Denmark or to an organisation with similar objectives as aBi Finance, to be selected by DANIDA[12].

Keeping the foregoing in mind, in this report we will refer to the capital of aBi Finance as “endowment fund” to be in line with the language so far used in work plans and reports

The financial assets of aBi Finance are to be invested in a variety of investments logically being LoCs, Loan Guarantees and other securities. This is determined annually in the business plans. Over time with aBi becoming more operation as (developmental) wholesale financier assets have gradually been invested more in LoC and Loan guarantees (table 6).

[12] The evaluation team noted that there is some uncertainly amongst various people about the continuity of aBi Finance claiming that the main contributor to the capital/ endowment Fund may decide to withdraw the funds. The Articles of Association of the company limited by Guarantee are nevertheless very clear and leading. It would be recommendable if such uncertainty is taken away by an explicit statement to this respect by the main financier of aBi Finance.

Figure 6   Spread of financial assets (planned)



As can be derived from the figure above, a shift was made towards LOCs, while unused funds were prudently invested in fixed deposits before. This is in line with the ambitions and expectations laid down in the business plan 2014-2018. We refer also to section 3.2 for an overview of the different incomes per type of instrument. The main reason to shift towards LoC is, according to the business plan 2014-2018, the presumption that the LoCs "will be the most important financial vehicle for aBi Finance to reach out to the rural communities, and the portfolio is expected to grow quite substantially". The evaluation team concludes that this intention made sense in a period with severe capital constraints on the financial markets.

As a quasi- independent entity aBi Finance is to cover its own direct operating costs from operational income (including returns on other financial investments) and to pay for "shared services" aBi Trust provides it. In the business plan 2014-2018 it was also foreseen that remaining profits were to be transferred into a new Agribusiness and Social Development Fund (ASDF). The idea was that the proceeds paid into the ASDF were to be used to fund programme activities of a non-commercial nature and with an inclination to social development, similar to, for example, corporate CSR. However, a lack of funds to support such activities has not been an issue. Both aBi Finance and aBi Trust have had busy programs of work and underwent organisational reforms, and were not in position to set aside funds for ASDF. Till date, ASDF has not yet been created and the evaluation's opinion is that this notion should continue to be parked for the time being.

According to the business plan, the long-term vision for aBi Finance is to become a comprehensive and innovative vehicle for Ugandan agricultural financing, offering financing for agribusinesses development through sourcing of funds from the domestic money market as well as international DFIs by using various financial instruments. Such can be in various ways with either medium or long term concessional loans, from, for instance, international DFIs. With its present capital structure, such would indeed be possible. Even additional capital injections by third parties (international DFIs included) are an option. This might require an acceptance by DANIDA as it will imply a dilution of its influence and control over aBi Finance, depending on the terms and conditions of such injections.

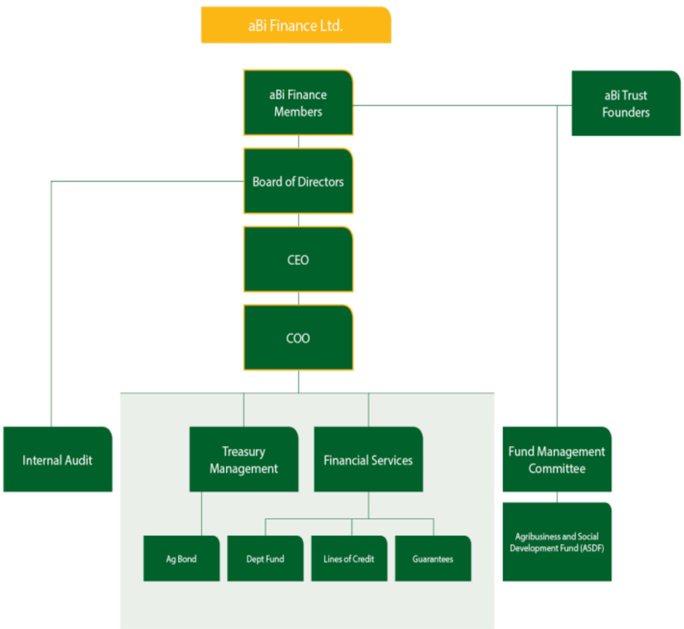
4.2. Governance of aBi Finance

In 2013, it was decided to rearrange the governance arrangement, registering aBi Finance as Company Limited by Guarantee, under the name aBi Finance Limited and normally referred to as aBi Finance. All operations related to commercial and developmental financing were transferred to aBi Finance.

aBi Finance de jure and de facto belongs to the aBi "group" actually composed of aBi Trust. The overall governance is in the hands of Founders, Trustees and Members of the Board. There are also at the higher governance level non-voting members particularly the Company Secretary and the Groups Chief Executive.[13]

At present (2017) the Board of Directors of aBi Finance consists of four persons, two de facto representing the Embassy of Denmark. Two of the four Board members are also members of the Board of Trustees of aBi Trust.

Figure 7 Governance of aBi Finance



In practice the Board of Directors of aBi Finance are not independent from aBi Trust. The set-up was created just after the restructuring in 2013. So far it has indeed functioned well as proven in the 2016 Evaluation (J. Katto, 2016). Over time the ultimate responsibility for aBi Finance has shifted from Founders and Trustees to Board of Directors although sometime their role continues to overlap. For the positioning of aBi Trust within the financial sector it might be desirable to make a more clear-cut distinction between such roles. This might be best coincide with realignment of management roles and functions.

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[13] See also http://abi.co.ug Actually it took the evaluation team considerable effort to discern the respective roles and functions at founders', trustees' and board level(s).

The Group Chief Executive Officer (GCEO[14]) is also overall responsible for managing aBi entities, although the actual distribution of time for the two functions is unclear. This GCEO is on a technical advisor's contract with DANIDA, rather than being employed by aBi Finance of aBi Trust. Actual management of aBi Finance lies in the hands of the Chief Operational Office

All staff working for aBi Finance are in the employ of aBi Finance, excepting the two FSD staff who are aBi Trust employees. aBi Finance makes use of support services operated by aBi Trust and share offices that are jointly hired. aBi Finance reimburses aBi Trust for the costs of staff working for aBi Finance.

This hybrid structure of aBi Trust an aBi Finance has worked for some years, particularly during the transition from project towards a more formalized organisation. Over time the evolution of aBi Finance is such that this hybrid structure not appropriate anymore and leads to internal inefficiencies and ineffective control and management of staff. That alone already leads to the conclusion that realignment in the organizational structure is indeed required.

Furthermore aBi Finance has to face the challenge that the market, FIs and other stakeholders tend still to talk about aBi Trust rather than aBi Finance, although most FIs have commercial relations with aBi Finance. The aBi Trust is associated with grant funding and donations, not so much with lending. Such may lead to confusion among the FIs as well and might even affect the image of the operations at end user level.

In short, there are indeed calls for realignment of both management and governance to prepare aBi for its next steps in its evolution. Lessons can be distilled as well form its "sister" organisation in Tanzania, PASS (see text box)

Box: The case of PASS in Tanzania

PASS in Tanzania was also set-up by DANIDA and is in a lot of ways comparable to aBi Finance in terms of its operations. In terms of governance however, a big difference comes to light. The Board of Directors of PASS consists solely of independent members that have been selected based on their qualifications and experience. The Board consists of a select group of very knowledgeable individuals, who are at the top of their fields and provide the management of PASS with innovative thoughts and a sounding board for the decisions that have to be made.

The founders of PASS (DANIDA) are placed at arm's length of the organization, and mainly shield PASS from political forces that could influence the organization.

Based on our observations and lessons learned in other programs the steps to be taken to prepare the organisation for the future are manifold at board, management and institutional level:

During the evaluation, the evaluation team noticed and observed the board being very close to the operations of aBi Finance. Some of the interviewees also expressed their concern that Board tend to micromanage some operations. Such might have been needed in the early stages of aBi Finance; at

[14] The CEO in the figure 7 is the Group CEO.

present, this may lead to inefficiencies internally a confusion externally. The internal evaluation of the BoD (2016) reported that Board Members prefer to give attention to long term and strategic issues. To make such possible it is recommended to take the following steps at Board level:

- The Board of Directors should continue with its efforts to concentrate on policies, strategy and long-term planning for aBi Finance leaving the day-to-day operations of aBi Finance to management. In future appointments attention need to be given to ensure that the Board of Directors should continue to be composed of include independent (Ugandan) sector leaders who can vigil the developmental and innovative role of aBi Finance.
- Future Board composition should also allow for new investors to join aBi Finance
- Appointment of new Board members should take place based on a board profile.

At the level of management, we already noted that the Group CEO is on an advisory contract with DANIDA. This is not in line with best practice. First of all, aBi Trust and aBi Finance should have their own, separate CEOs preferably working on a full-time basis given the work load and future plans. Both should be contracted respectively by their own organisation.

The same applies to the technical and operational staff of aBi Finance, who are considered by FIs and other stakeholders to be aBi Finance staff, while in fact they are paid by aBi Trust. Realigning aBi Finance (by segregation of its operations and staff from aBi Trust) also implies restructuring the management, control and governance functions. When doing so, the effective service rendering of aBi Finance should be centrally, with limited micromanagement interventions by the governing bodies

At institutional level, a reassessment of the role of DANIDA is warranted. This might imply an actual distancing of DANIDA from aBi (respecting it as a self-sustainable financial institution). This would not only be needed to avoid that the market (including the ultimate users of the financing) detecting that aBi Finance is funded with grant money, with possible negative effects on repayments. It would also make the organisation more attractive for other financiers to join and support aBi Finance.

5. Development effects and M&E

5.1. M&E

One important channel along which strategic information comes to the management and board of aBi Finance is internal and external monitoring of progress on financial and non-financial goals. M&E is taking place as a service shared between the Trust and Finance within the aBi Group. Though to date much of the development of M&E skills, procedures and templates takes place within the Trust, the sharing of the service also makes these capabilities available to aBi Finance.

Financial monitoring is taking place on a regular basis as part of the day to day management of the organisation and its operation. Information on costs and benefits of aBi Finance itself, and on the size and use of the capital provided by the donor is being recorded. The development of the portfolio of LOCs and Guarantees, as well as of other activities and products offered by aBi Finance to its partner FIs (sometimes from other donors and financial partners), are monitored closely. Financial information on FIs operations and on that of FI end-clients is part of that database. Financial performance of the end-clients is obviously an important part of the monitoring process.

Most regular M&E within aBi Finance however focuses mostly on financial indicators at the various levels. The only strictly non-financial information reported on by aBi Finance on a regular basis in relation to the loans and guarantee portfolio is the gender of the end-client. This is a requirement and reported along with financial indicators.

Monitoring of aBi Finance's achievements on non-financial indicators is not done systematically on a regular basis. Documents published by the Group on regular basis (for instance, Annual reports) do contain information on a number of non-financial indicators, such as jobs created, extension of land area for key VCD crops, increases of productivity and production of these key crops and even Value Chain level indicators of productivity (which assumes aggregated production data with reliable and full coverage of data collection within the Value Chain). However, this is exclusively related to activities of the Value Chain development activities of the Trust, not to those of aBi Finance, and are based on IP reports mostly. For the period of 2013-2016, the M&E department focused mainly on the non-financial impact of activities of aBi Trust. Third party verification of the reported data by FIs is taking place, and is being augmented by internal monitoring verification visits by aBi Finance staff. From various sources (internal memos and the 2014 Evaluation Report, see below) we see mention being made of the process of data collection at FI level not being up to standard. This merits attention and can be improved to develop a reliable database. A more regular collection of non-financial data (from applications and FI files on end-clients) could be considered to more closely monitor non-financial impact. This was also one of the conclusions of the external impact assessment to which we now turn.

There are data collection exercises on non-financial indicators, including increased sales and income as well as asset accumulation that take place at longer intervals. This is done through externally implemented Impact Assessments, the latest in 2013/ 2014 reporting on the period 2010-2013. As far as we can establish, this was a quality study based on a Double Difference methodology, with recall for the baseline data. The data collection process and the subsequent analysis merits the conclusion that aBi Finance's support has enabled farmers to increase their incomes and their asset base, with the exception of cases where either one of the FIs could not realise some of the VC linkage goals (hampering sales by farmers of their produce), or when adverse growing conditions affected farmers results (as in the case of bacterial wilt in banana for instance). We support the positive conclusions from that study.

In conclusion, there is no regular (monitoring-type of)data collection process to assess the non-financial impact of the financial services offered to aBi Finance's clients, at the level of the end-clients, the smallholders and SMEs. This could be improved for a better understanding of the development impact of the organisation. On the other hand, the less-regular impact assessment taking place over 3-4 year periods are quite adequate exercises for their purpose (supporting policy development for the next business plane period for instance) , but cannot easily inform day-to-day decision making on the best way to generate impact. The quality of the impact assessments are good, though the 2013/ 2014 report's main challenge was that the Double Difference method was based on recall data. If such a regular exercise could be done using actual measured data, this type of study would be more robust and could function as a source of reliable data on non-financial impact even more. Of course, there are challenges in using panel data too: attrition being one. To convince all stakeholders, such a system could for example be based on an annually selected representative set of end-clients across the FIs, be updated regularly to include the outcome of the investment at that level, and be compared to a similar control group of smallholders and SMEs not receiving support from aBi Finance. This would allow comparative analysis of the impact between supported and non-supported FIs, across programs (VCD and Agri-loans or guarantees, either with or without FSD and TA support), financial products (e.g. group or individual loans) and types of FI, which would aid aBi Finance in realising its strategic decision making and ultimate goals.

In fact, the present (2017) evaluation was taken by the M&E Department as an opportunity for the collection of baseline data at the level of the end-clients (smallholders and SMEs) for a proper assessment of aBi Finance performance at that level, something for which this type of evaluation is unfortunately not suited, let alone that the budget would suffice. It does however merit two conclusions: there is awareness at the level of aBi Finance that these data are increasingly important, to aBi Finance, the donors as well as the general public, and that there is a commitment to collect these data.

The discussions at aBi Finance on this issue focused on the practical problems that aBi Finance staff saw in integrating the type of non-financial indicators for the day-to-day measurement of non-financial impact into a system that presently focuses on financial data. Such a set of non-financial impact indicators would have to be developed and accepted as a standard by both aBi Finance and their clients. In the impact assessment report, it was already mentioned that regular collection of non-financial data could start with the FIs with which aBi Finance presently has a relationship, and we support this conclusion. At the same time, aBi Trust and the Group is very much aware that there are international standards to which an increasing number of organisations adhere for their reporting and M&E formats, such as the DCED Standards in Results Measurement, for which a program of development and implementation within aBi Group had been started in 2013. Also at the level of MFIs, there is a growing interest in information on client performance, both for the benefit of the client and that of the MFI: high performing clients (on non-financial indicators) are also less likely to default on their loans, and information on impact could inform strategic decisions at the level of the MFI who take both their financial and non-financial (social/ development) goals seriously. In view of the mission and vision and mandate of aBi Finance, such a broad system of impact assessment at both the level of the FIs and the end-clients is necessary and in view of the above, seems to be possible.

Currently, a start has been made towards developing such an M&E system that will meet DCED standards (even though the goal, a working system by 2016, has not been met yet on account of administrative, capacity and procurement delays. A manual has been developed that sets out the M&E system for the benefit of staff, and to aid information gathering and learning. It aims to collect data on an annual, semi-annual and quarterly basis. Shorter term databases are possible when the process is integrated in aBi Finance's partners' non-financial data collection protocols. Using this system and including a longer term impact methodology will allow aBi Finance to adequately monitor impact of non-financial performance.

5.2. Development effects

The information presented below was collected to inform the present study on the use for and effect of the Loans from the FIs supported by aBi Finance. The data derive from a focused survey that was done in the period of March and April 2017, among the end-clients of the FIs that were visited for the in-depth discussions in the framework of this assignment. The survey was done on the basis of a selection of end-clients from the areas where previously the team had visited the FI and end-clients. This was used to facilitate triangulation.

End-clients were visited in the Districts of Bulambuli, Aletptong, Oyam, Bushenyi, Sheema and Kabarole. These end-clients were being provided financial service by Banks (Postbank and DFCU), MFI (HOFOKAM) and SACCOs (KYAPS, Mushanga and Muhame). A total of 286 men and women were interviewed, an average of 48 people per financial institution. The SACCOs traditionally have more male clients taking loans but KYAPS' recent group lending innovation, has seen its relative number of female clients go up (table 9).

Table 9 . Key information on respondents, averages, by gender.

Row Labels	Age	Year of first loan	Size of first loan (UGX)	Number of loans
Men	44	2012	1.702.133	4
Women	41	2014	1.010.602	2
Total	43	2013	1.370.098	3

For most end-clients, being linked to financial institutions is a relatively recent phenomenon, with men on average being engaged for a slightly longer period, and for larger amounts. The loans provided by the SACCOs were substantially larger than other FIs, by a factor 3 to 5; the average for the other FIs is around UGX650.000 and for the two SACCOs it was UGX 2.1 and 3.6 m respectively. The first 'First loans' were taken before the present FIs were even in existence, but half of the First loans in the sample were taken in the last year 2016, with rapidly decreasing numbers going back in time. Average age was quite similar across gender and type of FIs. Ages range from 18 to 88, with an average age per FI of between 40 and 44, a narrow range. The purpose for which these loans were taken differs slightly, related to the size of the loan. Men more often wanted to expand their small shop or business, otherwise the reasons for which these loans were taken didn't differ very much between gender groups. They did however differ between type of FIs (related to the larger amounts), with the SACCOs catering relatively more often for those who wanted to expand their shop or business, and to people who had taken more loans consecutively. Generally, most people in the sample were engaged in agriculture, and also other activities. We expected and found that most loans were used for more purposes than just the one stated on the application form, school fees being a popular one. School fees payments seem to be important: around 21% of clients stated to have used at least some of their loan for this purpose, with 8 percent stating that it was the main purpose to take the loan. About 6 % used at least some money for improvement of the house, and about 3 % used at least some money for funerals. For shopkeepers and businesspeople, these figures were higher; 78 % used at least some of the loan for school fees, and 24% and 25% respectively used at least some of the loans for house improvements and family costs. However, agriculture and business activities remain the most important reasons why people take loans, even when some of it is diverted to other purposes. (table10)

Table 10 . Reasons for taking a loan, per gender.

	Agriculture	Trade	Shop/ business	School fees	Transport means
Men	82	33	32	15	7
Women	82	27	19	12	2
Total	164	60	51	27	9

In the remainder, we will study the modalities and effects of the latest and present loans taken by the ends-clients (95% in the last two years, 80% in the last year (2016)).

In the course of the years, most end-clients coming back to the FI are engaged for increasingly large amounts. The average First loan was discussed above, but the most recent loans are substantially higher, with the average increasing from almost UGX 1.4 m for the First loan to UGX 3.3 m for the most recent loan. During the discussions in the field, we also noticed that almost all clients were eager to borrow more, and FIs were careful not to accommodate too large a growth in the size of loans for their own risk management as well as that of the end-clients. The conclusion can only be that market for agricultural financing is large and expanding. Still, within this growing market, aBi Finance could still choose to select those geographical regions and types of end-client-financial product combinations that realise its development goals towards inclusive finance (rather than growth as an organisation indiscriminately) which are its unique selling points.

Loan repayment discipline is generally good: the low default rates reported by aBi Finance and the FIs is reflected also in the low reporting of default by clients: almost all (11 excepted, mostly clients of SACCO's) had no problem with the repayment of the loans and interest, even though 2016 was a rather difficult one in terms of climate and political-economic circumstances. The repayment problems may also be related to the high amounts and long periods of the loans (defaulting usually taking place later in the loan tenor): the maximum tenor for the SACCO loans was 24 months, with an average of between 9 and 13, twice the average length of the other FI loans. All loans but one were on the basis of submitted collateral, end-clients generally not being aware that in many cases, aBi Finance was providing a guarantee to the FIs, and this is as it should be. The following table provides some details on the type of collateral provided. (table 11)

Table 11 Type of collateral provided by end-clients to FIs.

	Land title	House title	Household implements	Livestock	Group contract	Farm implements
Banks	17	5	17	21	45	9
MFI	19	3	2	1	13	2
SACCOs	88	17	6	7	17	9
Grand Total	124	25	25	29	75	20

(Note: one farmer borrowed on the basis of the standing crop.

The success of an FI and its products can also be measured by the reason why people come to borrow from them. Conclusions on this issue are limited in relevance as most people had only very recently obtained loans, but 49 people had previously obtained a loan with another FI, and most often shifted to the present FI because repayment conditions were good (the quality of the product itself, for 27 people), because it was close by (13), had a lower interest (9), provided bigger loans (6, mostly SACCOs), or gave financial raining (5).

We asked specific question about the group loans, as this provides an interesting route to access to financial services for the more remote and poorer sections of the population, among which are women. From the total number of people interviewed, 171 had obtained a loan through a group lending process, and 115 had individual loans. Most older group loans were from HOFOKAM (26 prior to 2015, out of 36 from HOFOKAM), which has been offering this type of loan for the longest period of time. The group visited was related to KYAPS. . The other group loans were obtained from the remaining three FIs, including the banks, all in the period of 2015 and 2016. The following tables give details on why the clients joined the group originally, and what activities they engaged in with the group at present (table 12).

Table 12 Reasons to join the group (n=171).

	Saving	Loans	Advised
Postbank	22	34	1
DFCU	17	40	3
KYAPS	16	30	3
HOFOKAM	18	27	0
Total	73	131	7

Table 10: Present activities with the group (n=171)

	Saving	Loans	Training	Inputs	Labour	Marketing
Postbank	48	46	46	32	30	30
DFCU	48	49	49	36	32	39
KYAPS	32	35	33	16	11	12
HOFOKAM	32	34	32	6	10	8
Total	160	164	160	90	83	89

Though the reason for joining the group was purely financial for most of the present members, these groups clearly have a much broader function for them, and the financial services, though important, are not the only reason for participating in them now. Information sharing, group experimenting, providing support and sharing the task of selling produce are also important. This is an important consideration for FIs and aBi Finance when they consider the potential of financial services for development.

The importance of these groups to the members is also obvious when we look at the growth in number and the number of cycles of loans obtained. HOFOKAM, being the organisation pioneering in this respect, shows that groups can have a substantial number of cycles of loans on average, even though the older groups clearly also lose members for various reasons. Average loan sizes per member are between UGX225,000 and UGX430,000 on average, with the loans provided to the Postbank and KYAPS group members being on the lower side.(table 13)

Table 13 Indicators for group success, averages (n=171)

	Start	Number at start	Number now	Number of cycles	Group loan size
Postbank	2012	16	33	2	7.373.958
DFCU	2014	28	76	2	32.874.510
KYAPS	2015	15	18	2	5.394.286
HOFOKAM	2013	20	16	7	6.815.278
Total	2013	20	39	3	14.498.235

Turning to development impact in a narrower sense, the following describes the effects as reported by the people interviewed. We report on activities by farmers and shop keepers/ businessmen and women separately.

Discussing crop production, the following table shows the details. The result are corroborated by the discussions we had in the field. People mostly added productive capital to their stock (land to their holdings by leasing from neighbours, added inputs and labour for cultivation and transport. All farmers stated having added land, inputs and labour to their farm relative to the situation prior to the loan. All these production factors were bought on the market, which in turn has contributed to the regional income. All farmers stated that they had realised a positive result in terms of additional produce. We miss the details to state whether the benefits exceed the costs, though we have asked for income effects, which we present below. The product included in this table is not differentiated by crop, which may differ by farmer and region. The difference between men and women may have been caused by the fact that usually women have used relatively less additional inputs and labour, and certainly have less access to land. We have no indication that they were producing different crops, from the discussions with the informants prior to the survey.(table 14)

Table 14 Indicators of impact of loan for farmers, per gender (n=159)

	Expanded production factors	Produce more crops	Loan met expectation
Men	80	80	80
Women	79	79	79
Total	159	159	159

Development impact is related in no small measure to what farmers do with their increased production, apart from paying back their loan and interest. They may increase consumption, which may improve health and wellbeing, but they may also increase sales and buy consumer and producer goods for further growth and wellbeing. We asked about increased sales, and the following table (table 15) presents this.

Table 15 Consumption, sale and income of additional production related to loan (n=159)

	No. people with Add. consumption	Avg. price per bag	Avg. add. income generated	Add. income as % of total farm income
Men	80	149.240	6.200.996	52
Women	79	152.005	2.484.736	50
Total	159	150.659	4.293.316	51

The above figures show that considerable additional produce has been generated. All stated that apart from having additional consumption, which has increased their wellbeing, a considerable number of bags of maize, rice and others cereals were also sold (the above additional income is turnover minus costs). The results are a turnover and profit 1 m UGX above the size of the loan (which was on average UGX3.3 m, or UGX5.1 m for men, and UGX1.3 million for women, in other words a profit of between 20% (men) and 50% (women).. This could possibly have been more, however climatic conditions this year were bad and affected cropping negatively. In general, crops produced are for a large part commercial crops such as soy beans and rice, to a lesser degree maize and cooking bananas (matooke), and coffee and tea (or 29, 21, 11, 10, 6 and 4% respectively). In half of the cases, produce was sold to traders, processors and the cooperative, another indication of the potential effects within value chains that will have had an added multiplier effect on the local economy.

Shopkeepers and Business people

For the shopkeepers and business men and women, a similar picture emerges. The following indicate success for this group of clients The figures are based on the additional production generated through the loans, from respondents who used the loan for these commercial purposes (n=123). Of the 69 cases for which we have this information, the majority (61 cases) indicated that they hadn't increased their consumption of food; the expected result as these activities/jobs are generally done by people with the capital to start and maintain such a business. However, school fees were prominent among the uses that people made of the additional income (54 cases). Other uses were costs of funerals and other family obligation (17 cases) and improvements to the house (18 cases).

The most important question of course is whether incomes increased, and the following table shows that for 72 percent of the sample, this was the case. For 16 percent, there other causes to explain the growth of incomes (table 16).

Table 16 . Impact on income of shopkeepers and business people of loan (n=123)

	Yes	No	Total
Did the loan improve your income	89	34	123
Was there another cause for improvement	16	107	123

The latter issue, of the possible contribution of other formal sources of finance in the impact described, has not been discussed for farmers above as there generally were few other such sources. Formal financial services are scarce in the rural areas, though informal sources are available but generally with their related consequences such as high interest rates. . We assumed that this may be different for shopkeepers and business people. However, here too, there was only one source of formal finance in most cases: only 16 people indicate that they cross-invested from agriculture (9) and other business (7). No other external formal financial services were mentioned.

All cases: loan dynamics

The situation is slightly different when we consider the source of money to repay the loan with. As indicated, people used the loan sometime for other purposes than it was given for. School fees are an important one; so important that some banks introduced separate school fees loans (funded from their own resources) next to the loans supported by aBi Finance. This reduces the possibility to earn money with what is left for agriculture, which is needed to repay the loan. Many people have livestock for this purpose, and in certain groups there is an additional savings facility to allow people to repay loans (in addition to their official savings scheme in SACCOs, for instance). Of the 285 respondents for which we have this data, 218 stated that they repaid the loan from the proceeds generated with that loan. 67 indicated they had to rely on other sources of money.

Most FIs demand that clients have a savings account with savings that are a certain percentage of the loan. Of 284 cases, 267 people indicated this to be the case. When someone doesn't have enough savings, an amount is deducted from the loan and kept as collateral in a savings deposit. When people are not aware of this requirement, their net borrowing may be to implement their plans. However, most people had an adequate amount on their savings account (258 out of 285 cases). Another indication of success is the fact that most people indicated that they now had larger savings on their accounts than when they started with borrowing money from the FIs (225 out of 285 cases).

The last questions referred to how people perceived the FI to be helping them (using a scale from 1 (very negative) to 5 (very positive)), and we deducted the negative scores from the positive scores for the overall score on each question for each FI, and divided by the total number of cases per FI to normalise the result. We coloured the scores to facilitate understanding and sorted the FIs in order of total average scores. The colours are given as follows: up to 65: red, between 65 and 85: yellow, above 85: green. The following table (table 17) gives the results:

Table 17 Appreciation of FIs by clients.

	Questions	FIs					
		Postbank	DFCU	Muhame	KYAPS	HOFOKAM	Mushanga
1	You are happy with the results of the loans	73.1	72.5	85.1	85.4	85.4	87.0
2	You trust the FI in its dealing with you	75.0	90.2	95.7	90.2	97.6	96.3
3	You are happy with the terms and conditions of the loans	51.9	62.7	55.3	80.5	70.7	77.8
4	You want to continue borrowing from the FI	71.2	86.3	85.1	85.4	90.2	94.4
5	You want to increase your borrowing	73.1	78.4	78.7	85.4	95.1	79.6

	from the FI						
6	The training related to the FI has helped you in your business	75.0	70.6	46.8	80.5	80.5	70.4
7	Your involvement with the FI has made you more familiar with financial services	80.8	80.4	89.4	90.2	95.1	98.1
8	Your involvement with the FI has made you more independent in the family	90.4	76.5	93.6	95.1	90.2	100.0
9	Your involvement with the FI has made you more independent in the community	82.7	64.7	93.6	95.1	97.6	100.0

Clearly, the overall scores of banks are lower than that of other FIs (though in all fairness, the scores are still very positive with one or two exceptions). Muhame SACCO is the lowest scoring of the remaining group of SACCOs and MFI, with low scores on conditions of the loan and training. Again, to be fair, these issues are generally assessed less positively as people always want better conditions and more training. However, some FIs score lower than others. With the exception of DFCU, all FIs score quite positively (Mushanga SACCO even perfectly) on a very important indicator of development: the development of independence in clients. In that sense, the work of aBi Finance through their partner FIs is contributing to a very positive impact indeed.

6. Major findings and recommendations

6.1. Findings

The comprehensive set of services and products offered by aBi Finance, namely the Lines of Credit (LoC) and Agricultural Loan Guarantees (ALG) and the recently added Financial Services Development (FSD) have been instrumental in stimulating FIs to initiate and/or expand financing of agricultural businesses and producers. The support of aBi Finance to FIs in expansion of their agricultural portfolio has led to improved conditions for the end user, the less privileged segments (e.g. rural agro producers). Simultaneously as a result of prudent financial management and investment policies, aBi Finance has both grown and become a financially sustainable organisation, with recognition by the industry in Uganda

In general, both the LOC and the ALGF are considered to be additional. For agribusinesses and producers access to external financing is a major factor hindering factor. Likewise access to liquidity has been similarly a bottleneck for smaller financial institutions such as SACCOs to expand lending to agribusinesses and small producers in Uganda, which the LoC product mitigates. From interviews with banks, it became apparent that guarantees provide comfort to them stimulating them to engage in agro financing, operations they are reluctant to take up (even if they would have indeed the funds to do so). Some banks would not have been able to grow their agribusiness portfolio without this factor. The ALGs have been used to guarantee the banks operations without often seeking formal collateral with the end users, particularly the smaller ones. As to lending to small and medium agribusinesses banks tend to ask for collateral which is often either not well documented formally or valued too low to meet the minimum requirements[15], which makes the guarantee product additional (without the guarantee, the agribusiness would have received a smaller loan, or no loan at all).

The success of the products of aBi Finance led to a demand for renewal of LoCs (with most partner FIs) and expansion of the ALGF.. A number of those FIs are actually financially healthy and strong institutions with adequate resources to enter rural and agriculture finance but rather reluctant to do so. Once convinced that such is indeed an attractive business proposition they are in position to mobilise the needed funds and would not require a renewal of LOC or ALGF from aBi Automatic renewal of LOCs and expansion of the ALGF are commercially attractive but turns aBi Finance eventually into a general financial institution with the risk of losing its developmental role. Unless the financial and liquidity position of the FI concerned would force the FIs to withdraw from the agricultural financing initiated with aBi support renewals of LoCs or guarantee agreements are justified. Secondly renewals are indeed recommended when the respective FIs intend to initiate one or more innovations in agro related financing. .

A special case are the smaller FIs often SACCOs for which renewal seem to be a logical option Although the handling costs and potentially risks are higher with such smaller organisations, their outreach to the small producers, the development results, financial sector deepening effects as well as the additionality are the high.

[15] Banks tend to demand a 200% coverage e.g. collateral a two times the value of the loans

aBi Finance has evolved and turned into a financial self-sustainable organisation. It stands at the crossroad of development: either consolidate what it has achieved so far or continue to play a stimulating and innovating role in the sector. It has become evident form the plans presently under formulation that the stakeholders prefer aBi to go for the second option. That does require that a number of decisions related to structure and governance of aBi Finance are taken that will give the institution the possibility to operate with a clear identity in the market and in an agile ad effective way.

In line with wishes expressed by the Board proper in its evaluation in 2016 the Board of Directors should continue act more as the Board of aBi Finance proper. It needs furthermore to continue with its efforts to concentrate on policies, strategy and long-term planning for aBi Finance leaving the day-to-day operations of aBi Finance to management.

At the level of management, we already noted that the Group CEO is on an advisory contract with DANIDA. This is not in line with best practice. First of all, aBi Trust and aBi Finance should have their own, separate CEOs for Abi Finance preferably working on a full-time basis given the work load and future plans. Both should be contracted respectively by their own organisation.

The same applies to the technical and operational staff of aBi Finance, who are considered by FIs and other stakeholders to be aBi Finance staff, while in fact they are paid by aBi Trust. Realigning aBi Finance (by segregation of its operations and staff from aBi Trust) also implies restructuring the management, control and governance functions. When doing so the effective service rendering of aBi Finance should be centrally, with limited micromanagement interventions by the governing bodies

At institutional level, a reassessment of the role of DANIDA is warranted This might imply an actual distancing of DANIDA from aBi (respecting it as a self-sustainable financial institution) _ . This would not only be needed to avoid that the market (including the ultimate users of the financing) detecting that all is funded with grant money, with possible negative effects on repayments. It would also make the organisation more attractive for other financiers to join and support aBi Finance. To make this happen realignment of management and internal arrangement of staff secondments and service provision with aBi Trust are needed as well.

Within the Ugandan financial market, aBi Finance is recognised for their leading role in providing credit guarantees and lines of credit to financial institutions. The image of aBi Finance (with the Trust and Finance) and is strategy of deliberately playing a low key (especially to avoid the impression that it is a donor driven initiative supported by DANIDA) have contributed to aBi Finance attaining its goals, strengthened by the firm’s behaviour, ethical standards and professional procedures applied.

At the level of aBi Trust, a start has been made towards developing an M&E system that meets DCED standards (even though the goal, a working system by 2016, has not yet been met). For aBi Finance, the M&E focus has primarily been on financial indicators (output and early-life outcome),. Non-financial effects of aBi Finance[16] support to the FIs is not done with the same regularity or detail, which considering the development orientation of the organisation could have been expected. FI reporting on

[16] Especially those related to the main purpose and objectives of aBi Finance.

these issues takes place and is being verified, but the quality of the data collection process depends on the capacity of the FI. Impact Assessments on a 3 to 4 year basis that does a deep dive into impact level results (income) and beyond (what is being done with those incomes in terms of re-investment and growth, and wellbeing) are however being implemented. The latter has been done on the basis of a double-difference methodology with recall for baseline, which can be improved to include baseline data from the monitoring process, and additional indicators for wellbeing and growth. Establishing a panel or some sentinel sites (perhaps for aBi Trust as a whole) could also provide a better understanding of long-term development processes for aBi's target group and clients. The former can be further developed to yield short-term data on impact based on key indicators collected with each loan.

6.2. Recommendations

aBi Finance should retain and maintain its leading role focus on innovation in commercial agrifinance, as well as expansion to new markets serving currently underserved population. In the (near) future, aBi Finance could take a leading role in developing and supporting IT/ FinTech based new (branchless) delivery mechanisms, and roll-out such systems together with its' partner FIs

Another way going forward is to move towards supporting innovative SMEs, together with other FIs. We do not regard aBi Finance as being well positioned to start operating as a retailer itself, given the current IT systems used, the current stage of organisational development, and, the risks of crowding out or otherwise upsetting her FI partners who constitute the core business or aBi Finance. In the limited Uganda market, this space is also increasingly competed for by new entrants such as social/ impact investors and new private investors.

We advocate for LoCs or ALG agreement renewals to always be accompanied by a development case, whereby preference ought to be given to those that have an incremental development effect or initiate innovations. It is important that aBi Finance retains its development focus and does not become a comfortable and lazy investor, albeit that would probably be the most commercially attractive strategy. The market must perceive aBi Finance as an intelligent, risk-willing, but also prudently minded, partner in development.

Given its present stage of development (in size, volume, outreach, and acceptance by the market in general and the effect of its strategy of playing a low key as a single donor driven institutions aBi is indeed in a position to attract other investors provided the direct engagement DANIDA is dealt with prudently. Such new investors must preferably strengthen the present developable role of aBi Finance.

In the selection of FIs to work with, aBi Finance could take into consideration the financial strength of FIs and focus primarily on those FIs that have the potential and policies and strategies to deliver the appropriate services at affordable prices (cost for the users) to the target groups but need both financial support (longer-term funding at concessional rates) and TA (to be provided under FSD).

FIs tend to extend mainly ST loans to end users while they received LT loans from aBi Finance. Those LT funds should stimulate FIs to extend not only working capital loans to users but as well investment capital building up among the end users the capacity to really expand production.

The evaluation team recommends distancing the direct relation with DANIDA and attracting independent board members that fit the required profile. The Board of Directors should be balanced in terms of professional and institutional representation. PASS (another DANIDA funded entity) in Tanzania could serve as a good example of how best-in-class governance could be arranged.

The internal evaluation of the BoD (2016) also reported that Board Members prefer to give attention to long term and strategic issues. The experience of PASS also serves as an example for effective governance and management.

It is recommended to take the following steps at Board level

- The Board of Directors should continue with its efforts to concentrate on policies, strategy and long-term planning for aBi Finance leaving the day-to-day operations of aBi Finance to management. In future appointments attention need to be given to ensure that the Board of Directors should continue to be composed of include independent (Ugandan) sector leaders who can vigil the developmental and innovative role of aBi Finance.
- Future Board composition should also allow for new investors to join aBi Finance
- Appointment of new Board members should take place based on a board profile.

At the level of management, attention is to be given to endowing aBi Finance with a clear structure and identity, This requires in brief

- Management of aBi Finance to be employed by aBi Finance.
- Furthermore, a separate CEO for aBi Finance is recommended, and that person should be employed by aBi Finance.
- The CEO for Abi Finance preferably working on a full-time basis given the work load and future plans. Both should be contracted respectively by their own organisation.
- All staff of aBi Finance to be in the employ directly of aBi Finance

Realigning aBi Finance (by segregation of its operations and staff from aBi Trust) also implies restructuring the management, control and governance functions. When doing so the effective service rendering of aBi Finance should be centrally, with limited micromanagement interventions by the governing bodies

To avoid that the market (including the ultimate users of the financing) detect that all is funded with grant money, with possible negative effects on repayments and to make also make the organisation more attractive for other financiers to join and support aBi Finance. actual distancing of DANIDA from aBi Finance might be considered.

We recommend that a system for the permanent measurement of non-financial performance of clients and end-clients and that takes into account the need for a low-cost system that is practical to implement and verify at the FI level, is developed and implemented. The type of data that is being collected by the Trust (using similar indicators to broaden the evidence base for aBi Group impact reporting) can be guiding. The incidental in-depth Impact Studies (3-4 years, including income and investment and wellbeing indicators) do give evidence for impact at end-client levels, and in the aggregate, at the level of the FIs. However, these studies would benefit from true baseline-endline designs, and not rely on recall by end-clients.

ANNEX 1: Terms of Reference

Finance Ltd

aBi

Terms of Reference for the aBi Finance Evaluation 2013-2016

October 2016

2 Table of Contents

1 Background Information

1.1 Country of assignment

Uganda

1.2 Contracting party

aBi Finance Ltd, the Group CEO, for the Board of Directors of aBi Finance.

1.3 Planned contract period

30 days in January 2017

1.4 Summary of the assignment

1. Assess the performance of aBi Finance in the period 2013-2016, and in particular the contribution of aBi Finance to expanding financial services to under serviced agribusiness SMEs and producers;
2. Assess the profile and performance of the aBi Finance capital endowment portfolio in light of its dual objective to generates funds for aBi and increase financial services to its target groups;
3. In light of the findings from 1 and 2 above, make short-term recommendation to enhance management and performance of aBi Finance in terms of achieving its dual objectives within an acceptable risk profile; and recommend a 3-5-year strategic direction in the context of the expected developments in the rural financial sector in Uganda;
4. Develop at least one policy brief on enhancing rural financial services in Uganda to be presented to influential stakeholders, development partners and policy makers in Uganda, and beyond.

1.5 Submission of proposal

Detailed proposals for this assignment have to be submitted before 25 November 2016, 12:00 (noon) hrs East African Time, to procurement@abi.co.ug at the aBi offices, Umoja House 2nd floor, Plot 20 Nakasero Road, Kampala.

2 Context

2.1 The Financial Service Sector in Uganda

72 percent of Ugandans are engaged in agriculture, and 43 percent of Uganda's working population is engaged in subsistence agricultural production. Despite its importance for employment and income, the agricultural sector has underperformed as compared to other sectors in the economy. The annual growth of the agricultural sector averaged 2 percent during 2000/1-2013/14 compared to an average of over 8 percent for both the services and industrial sectors[17].

Overall, the provision of financial services in Uganda is increasing. Commercial banks, MFIs and SACCOs, are penetrating the rural areas slowly through branch expansion. The number of bank branches increased from about 400 in 2008 to over 650 in 2013, but is still low with one branch per 53,000 Ugandans as compared to 1:7,000 for the COMESA as a whole[2]. On the other hand, probably the biggest revolution in the financial sector is mobile money services, which grew from zero to more than 15 million subscribers in Uganda in less than 10 years, driving a remarkable improvement in financial inclusion between 2009 and 2013: about 15% of the Ugandans were financially excluded in 2013 as compared to 30% in 2009[18]. Overall, the Ugandan population that cited to have access to

[17] Bank of Uganda, Ministry of Agriculture, Animal Industries and Fisheries, Economic Policy Research Centre (2015): Agriculture Finance Yearbook 2015 [2] Ibid.
[18] Economic Policy Research Centre (2013): Uganda 2013 FinScope III Survey Report Findings [4] Ibid.

formal financial institutions (either banks or non-bank FIs such as MFIs, SACCOS and mobile money services) almost doubled to 54% between 2009 and 2013. The share of adult Ugandans making use of informal financial institutions, such as Rotating Savings and Credit Associations and Village Savings and Loans Association was 74% in 2013. With the exclusion of mobile money, which is largely used for money transfers and not for financial intermediation, formal financial inclusion in Uganda remains low when compared with other countries like South Africa, Namibia, Swaziland and Kenya[4].

Generally SMEs have difficulties to access formal financial services. They need banks for working capital, short term liquidity management and long term finance for capital investments. But they often lack the required collateral, management skills, audited financial statements and convincing feasibility plans for banks to extend loans to them.

The provision of *agricultural* finance has been even more ignored by Financial Institutions in Uganda. In addition to the general shortcomings of SMEs, banks lack a thorough understanding of the agricultural sector: they perceive its risks to be high, and have a low trust in its highly dispersed actors, while they fail to provide innovative and suitable lending products for the sector. Although in absolute numbers agricultural lending has more than doubled in the last 5 years from UGX 350 bn in 2010 to UGX 876 bn in 2014, agricultural lending as a percentage of total bank lending has remained stagnant at round 10 %. More than 90% of this is provided by commercial banks.

The interest rates of commercial banks remain high by international standards: between 15-25%. By and large this reflects the cost of money to banks, and other options for its placement, as is exemplified by Government papers' yields of 11-17% over the past few years. Concessional rates are being offered by some subsidized schemes, the largest being the Agricultural Credit Facility of the Bank of Uganda, which provides 0-interest funds to commercial banks for on-lending to the agricultural sector at a maximum of 12%. The total disbursements of the ACF reached UGX 180 billion in 2015. The interest rates of VSLA and other forms of informal lending are generally much higher than in the commercial sector, and can reach 10% per month.

Another development in the financial sector is the proliferation of impact investment funds that are targeting the agriculture and agribusiness sector. Over 10 funds have been established in the last few years with a combined projected investment capital of € 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. In this respect, some analysts point at the missing middle: the group of SMEs that because of their small size, poor 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.

2.2 Background to aBi

In this broad context, the Government of Uganda and the Government of the Kingdom of Denmark established in 2010 the aBi Trust and aBi Finance to support agricultural business development in Uganda, with the ultimate goal to *promote private sector agribusiness development to enhance wealth creation and employment in Uganda*. aBi Trust provides business development services (BDS) and financial services development (FSD) through cost-sharing grants to agribusinesses SMEs and farmer organisations. aBi Finance's core task is to manage a capital endowment fund. The capital endowment was capitalised to provide a yield that lets it run itself, cover losses, have an impact in the financial market and provide a contribution to aBi Trust's core operating costs. These costs are broadly identified as being what it would take to maintain a minimal central staff establishment sufficient to raise funds for the aBi Trust programmatic activities.

Both organisations are legal entities under Ugandan law, whereby aBi Finance is a Company limited by guarantee and regulated by the Company's Act, with four members, and a non-executive Board chaired by a representative of the Danish Embassy. The Board provides direction to the management of aBi Finance, by determining the investment strategy, and setting targets for the placement of the funds in various instruments, for returns and for maintaining, as a minimum, the real value of the capital endowment.

The core document underpinning aBi's activities, management and operations is the aBi Business Plan 2014-2018. This is derived from the Danish development strategy for Uganda, U-growth II, which runs out in December 2018. In 2015 management started the development of a 5-year Strategic Plan that would provide a medium-term strategy that builds on the achievement made and plans for continuity beyond the U Growth Programme. The Strategic Plan is still under construction, and is expected to be completed by mid-2017.

The current Business Plan lays out the following three purposes of the endowment fund: (i) to partly cover the operational costs of aBi Trust, (ii) to be invested in various Lines of Credit with financial institutions, supporting the overall objective of aBi, and (iii) to indemnify the loan guarantees. To that end, about 25% of the fund is invested in Government Securities and fixed deposits. The remainder is placed in financial instruments in participating FIs to stimulate agricultural lending. Over the last 3 years the capital endowment managed by aBi Finance has grown from UGX 80bn to UGX 108[19]bn by mid-2016, realising an annual growth of 13%. In addition, aBi Finance has been managing the Construction Guarantee Fund on behalf of CrossRoads (a DFiD program) over the same period. aBi Finance does not provide dividends or interest on the investments to its investor (the Danish Embassy), and therefore any profits are used to build the capital endowment.

The aBi Finance financial instruments are;

- **Lines of Credit (LoC)** - aBi Finance wholesales funds to Financial Institutions for on-lending to agribusiness with the aim of increasing access to finance for agribusiness SMEs and commercial agricultural producers. The LoCs are interest bearing, and as such create income for the capital endowment. Interest is negotiated within a narrow band of commercial moneymarket rates, and with modest discounts and terms being offered for the banks' inclusion of social-development parameters in their lending, longer tenures, and their deepening rural outreach. As of May 2016 aBi has extended LoCs to 15 FIs and 1 SME at a total value of UGX 103 bn for on-lending to 5,000 agribusiness SMEs and producers. The income for the capital endowment from this instrument has increased from UGX 3.6bn in 2013 to UGX 7.4 bn in 2015.

- **Agribusiness Loan Guarantees (ALG)** - aBi Finance partners with Financial Institutions to provide 50% cover for loans provided to agribusiness SMEs, in a bid to lay off inherent risks in the sector. The FIs pay a premium to aBi Finance for the service, which also generates income for the endowment fund. As of May 2016, aBi Finance has underwritten UGX 70bn in agricultural loans to 11,000 beneficiaries via 12 lenders, whereby in the past 3 years the default rate and resultant indemnities have been between 0-1.2%. The net income for the capital endowment from this instrument has increased from UGX 350mn in 2013 to UGX 570mn in 2015.

  The ALGs come in two flavours:

  i) ALGs to FIs: this is defined by the maximum agreed amount that participating FIs can lend under the ALG agreement with aBi; and by the criteria that the loans under the ALG must fulfil to be eligible for the ALG. For smaller loans, a "portfolio guarantee" is used to underwrite most loans, whereby aBi ex-post verifies whether the FI's recovery efforts for defaulting loans has followed agreed procedures. For larger loans, aBi undertakes ex-ante a due diligence on the borrower, and extends an individual ALG for that borrower to the FI if the borrower is proven creditworthy.

  ii) portable ALGs to borrowers: in this case aBi carries out due diligence on the borrower and, if found creditworthy, provides an ALG for the company which it can present to any of participating FIs in support of its loan application.

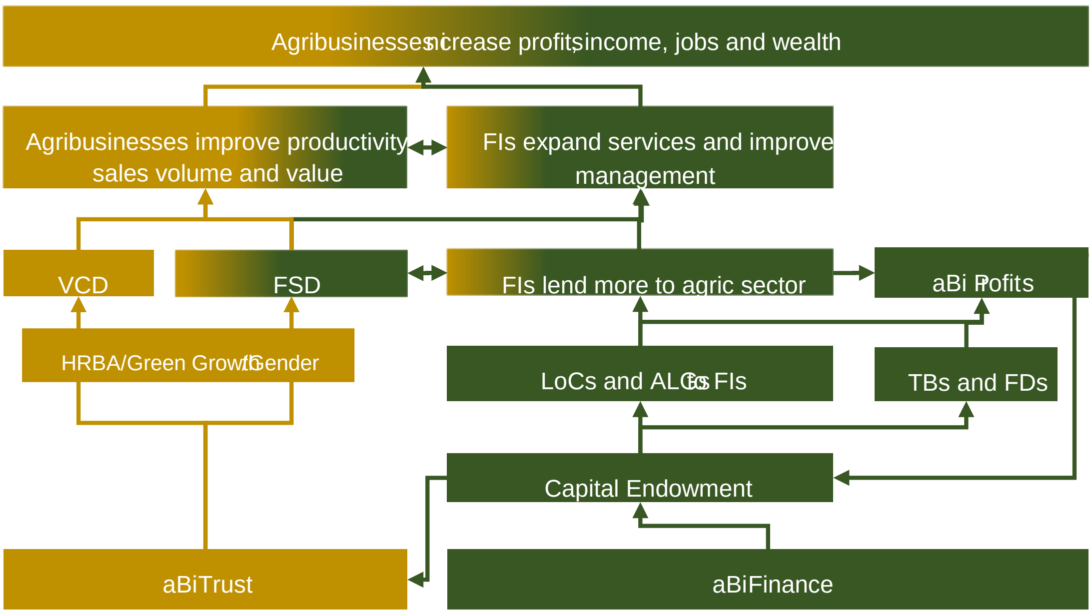
[19] UGX 1,000 = € 0.27; BP 0.22; US$ 0.29 (1 July 2016)

The Theory of Change and performance of aBi Finance in relation to its objective of extending financial services to SME agribusinesses are contained in the aBi Business Plan, and are attached as Annex 1 and 2.

The management of the financial instruments is guided by mainly two manuals, The Investment and Guarantee Manuals, which sets the rules and procedures for aBi to extend varied instruments to participating FIs, and for FIs its sets the criteria for extending aBi backed loans to their clients, the rules for managing claims and the monitoring and reporting requirements to aBi. Participating FIs submit periodical performance reports that indicate the number and volume of outstanding loans (principals and accumulated interest), the number of borrowers, defaulters and indemnities.

The operations of aBi Trust and aBi Finance are closely intertwined at various levels (see diagram below). The aBi Finance's yields pay its direct costs (salaries mostly) and make a pro-rata contribution to the shared services provided by aBi Trust (such as rent, IT and communications, support staff, HR, legal, utilities). In addition, the aBi Trust provides Financial Services Development grants to financial institutions in order to strengthen their management and operations. As some of these FIs are also receiving LoCs and ALGS from aBi Finance, the provided 'mixed toolkit' should be mutually reinforcing the objectives and operations of aBi Trust and aBi Finance. In order to strengthen the synergies between the two support systems to FIs, aBi Finance has recently taken over the management of the Financial Services Development component from aBi Trust.

At some point in the future it is expected that aBi Finance transfers an amount from the proceeds of the capital endowment to finance the operations and programs of the aBi Trust, thereby financing a significant portion of the Trust's operational and programmatic costs.



The internal audit function of aBi tested in 2015 to what extent aBi Finance ALGs had eased the collateral requirements for small and medium size lenders, and, based on a small sample, in one institution, concluded that for smaller borrowers under the ALGS, the availability of the ALGS did not make a substantial difference since these loans were often already fully collateralised by the borrower, and therefore in principle acceptable to banks without an aBi backed loan guarantee. For larger loans, above UGX 20 million, the ALGS did help intended borrowers to access a bank loan when their collateral was not sufficient according to the bank's lending policy.

In 2013, aBi Finance was independently evaluated at the FI level and the ultimate beneficiary level, the latter being the ultimate receivers of aBI supported loans from the FIs. Despite some methodological challenges in terms of a missing base-line, the evaluator concluded that aBi Finance increased the number of farmers and SMEs with access to finance, and that borrowers significantly increased their income as compared to non-borrowers. The study also suggested that partnering FIs had become more positive about lending to the agricultural sector as a result of their increased experience with the sector because of the aBi interventions.

Three years after the previous comprehensive evaluation, the Board of Directors has directed aBi management to launch a new evaluation so as to further enhance and strengthen the operations and outreach of aBi Finance, and provide a strategic direction for the next 3-5 years.

3 Objectives of the Evaluation

The overall objective of the evaluation is:

> *To gauge if in the medium term aBi Finance will continue to meet its dual objective of providing finance for the aBi group to exist in perpetuity, and expand access to finance for agribusinesses, so as to increase incomes and create wealth in Uganda*.

The purpose of the evaluation is:

> *firstly, to provide aBi Finance with short term recommendations for improving fund management, and increasing the outreach and impact of the financial instruments to SME's and producers; and secondly, to provide a strategic direction for the next 3-5 years in the context of the rapidly changing financial landscape in Uganda*.

The evaluation has to fulfil the following specific objectives:

1. Determine to what extent and how the financial instruments of aBi Finance have impacted on the agricultural lending policies, appetite, efficiencies and culture of participating FIs over time, and the composition and quality of their loan portfolio;
2. Determine to what extent and how the financial instruments of aBi have contributed to increasing the volume, depth and outreach of agricultural finance in Uganda, and improving access and utilisation of financial services by beneficiary agribusinesses over time;
3. Determine to what extent and how beneficiary agribusinesses of financial instruments of aBi have improved their business performance in terms of quality and value of produce and products; sales and profits; production and productivity; net additional income; jobs created over time; and is attributable to their access to financial instruments of aBi Finance;
4. Determine to what extent and how the integration of aBi Finance support with aBi Trust interventions at FI and beneficiary agribusiness SME level has influenced FI performance, and beneficiary loan performance;
5. Determine to what extent the management, rules, procedures, of aBi Finance are sufficiently robust and enforced to meet the objectives of the endowment fund and the aBi Group in the medium future.
6. Determine to what extent strategy and decision making by Board and management is sufficiently influenced by internal results measurements, evaluations, research, knowledge sharing and national and international best practice.
7. Based on observed trends and analysis, make plausible quantified projections of medium term future developments and possible opportunities in the agribusiness and agri-finance sectors relevant for the aBi Group;
8. From the above findings and analyses, provide recommendations, including their managerial and financial consequences, for possible strategic options and choices aBi Finance should consider to strengthen its position and relevance in the agribusiness sector, and its long-term sustainability as financier of the aBi Group.

9 Formulate key lessons, in the form of evidence-based policy briefs, which can be scaled up and used for influencing policy at political, development partners and FI level.

4 Scope and Methodology of the Evaluation

It should be clear from the objectives that although the evaluators will base their recommendations in part on the past experiences and performance of aBi Finance (which they are required to analyse and comment on), the focus of the evaluation is forward and outward looking.

Data of past performance, in terms of growth, status and performance of the portfolio and beneficiaries shall be provided to the consultants at the start of the evaluation, and therefore does not require an extensive data extraction exercise from aBi's archives[20]. The consultant can therefore focus on key performance indicators related to systemic change at FI and beneficiary level caused, or not, by the aBi interventions.

A successful evaluation will therefore search for, where possible and available, plausible and preferably quantifiable cause-effect relationships between aBi interventions and systemic changes in the access and utilisation of financial services and the business performance of end users, and in lending policies, knowledge, practices and culture of participating FIs. At both levels the evaluators will look for evidence that may attribute (part of) the observed and measured changes at FI and beneficiary level to the aBi interventions. To that end, the consultant is expected to apply a mixture of qualitative and quantitative data collection tools, of which the outcomes are interpreted and further analysed by applying the consultant's specialized knowledge and expert skills. The chosen methodologies need to apply one or several evaluation-industry standards.

Secondly, a successful evaluation will make recommendations that are relevant at two levels and time frames:

1 at management level and the immediate future; focusing on performance of the current operations and management, based on an analysis of the processes that underlie the provision and monitoring of financial instruments, with a view on enhancing outreach and managing risks;

2 at Board and Group level and the medium term future; focusing on strategies for broadening and deepening the impact of aBi Finance and the aBi group, and preparing it for future developments in the sector. These strategic recommendations are to be informed by a broader analysis of the sector and the expected developments in the future, based on document studies, including international literature, and in-depth interviews with key resource persons in the sector. The outcomes of this work is to be linked back to the performance analysis, to provide strategic options for future interventions.

The outcome of the assignment must be of international standards, thoroughly researched and supported by local and international literature and best practice to withstand rigorous peer critique, and convincingly presented, to guide the Board and management of aBi, investors, development partners and policy makers in their decision making.

5 Outputs and Deliverables

1. An inception report detailing filling in the local details of the approach, methodology and workplan of the evaluation study.
2. Data collection tools, discussed and agreed upon by both parties in the study.
3. Draft evaluation report with details of the study findings, interpretations, key lessons learned, conclusions and recommendations at operational and policy level.

[20] These are the shaded boxes in the table in Annex 2

4. Satisfactory final report both in soft and hard copies, incorporating the comments of the client.
5. At least one policy brief on how financial services can better reach underserved agribusiness SMEs, to be presented to immediate stakeholders, investors and policy makers in Uganda.
6. Datasets and completed questionnaires.

6 Time Frame

The evaluation is planned for February through to April 2017, spanning a period of 6 weeks as follows:

Week 1	Document review, briefings, inception report and data collection tools development
Week 2	Preparation of beneficiary survey: testing of data collection tools, preparation of field work
Week 3-4	Quantitative and qualitative data collection; in-depth interviews, start with data analysis
Week 5	Data analysis and reporting; presentation to the BoD
Week 6, spread over 2-3 weeks	Submission of draft report, presentation of policy brief to stakeholders, comments and finalisation of report

7 Liaison, Logistics and Reporting

The evaluation shall be executed under the management of the GCEO. On a day to day basis the consultant shall report to the Monitoring and Evaluation Manager, who will also provide documentation and the necessary contacts to execute the work efficiently.

The consultant shall organise and manage the surveys and interviews, data entry and analysis, and report reproduction.

8 Requirements

8.1 Key experts with the following combined expertise

- The team leader must be a specialist of international repute and authoritative in the field of SME-lending, *and* either financial services or agribusiness development in Sub-Saharan Africa. The team leader has completed at least 5 large evaluations of a similar nature;
- At least 15 years of proven experience in evaluating large scale and complex development programs;
- At least 10 years of proven experience in the SME lending and financial service delivery to agribusinesses and understanding of financial services product development; of which at least 5 in Sub-Saharan Africa;
- At least 10 years of proven experience in the agribusiness sector, of which at least 5 in SubSaharan Africa;

- Proven experience in designing and managing and evaluating qualitative and quantitative surveys;
- Proven skills in agriculture and financial policy analysis;
- Proven skills in documenting lessons and success stories;
- Excellent report writing and presentation skills;
- Ability to mobilise auxiliary staff and organise an evaluation in Uganda.

8.2 Facilities to be provided by the Consultant

The Consultant shall ensure that experts are adequately supported, equipped and financed.

The consultant shall provide all necessary equipment, such as computers, printers, phones and tablets, which cannot be charged to the contract.

Transport to and in Uganda for the three key-experts is included in their fees and cannot be charged separately to the contract.

8.3 Trainings and presentations

The consultant shall be responsible for the mobilisation and training of auxiliary staff required for the surveys (if any). The costs of mobilisation, training and deployment shall be charged to the contract under the miscellaneous budget line.

aBi Finance shall be responsible for providing the venue and costs for the consultant’s presentation to the Board of Directors and the policy briefing to stakeholders.

9 Instructions for the Preparation and Submission of the Technical and Financial Proposal

9.1 Services to be provided

The services required by the client are described in chapter 3 – 8 of this dossier. The context in which the services are required is described in chapter 2 of this dossier. In his submission the consultant must show that he both understood the context and the required services.

9.2 Timetable for the submission and appraisal of bids

	DATE	**East African Time**
Release of the ToR	31 October 2016	
Deadline for requesting clarifications from aBi	11 November 2016	17:00
Last date for the aBi Finance to issue clarification	18 November 2016	17:00
Deadline for submitting tenders	25 November 2016	12:00
Interviews (if any)	6th December 2016	-
Completion date for evaluating technical offers	9th December 2016	-
Notification of award	January 2017	-

Contract signature (planned)	January 2017	-
Start date (planned)	1st February 2017	-
Completion date (planned)	April 2017	

9.3 Participation

This is an open tender. Participation is open to all qualified and competent national and international companies.

9.4 Language

The submission and all supporting documents must be in English.

9.5 How to submit

The tender must comprise of 3 copies of a technical and a financial offer, to be submitted in separate documents and envelopes clearly indicating the name and address of the tenderer, the tender subject and the content of the envelopes. The three copies are to be packed in a sealed outer envelope clearly indicating the name and address of the tenderer, the tender subject, and the text ‘not to open before

25th November 2016'. The technical proposal envelope should include a pdf softcopy of the technical and financial proposal in separate files.

The package should be delivered before or at the submission deadline, against an acknowledgement receipt, at the following address:

The Procurement Officer aBi
Group
Umoja House 2nd floor
Plot 20 Nakasero Road
P.O. 29851
Kampala
Uganda

9.6 What to submit

The technical offer will consist of the following information:

Interpretation and Comments to the Terms of Reference (1-2 pages)

The consultant will use this section to make any comments to the ToRs, indicating how the ToR was understood or interpreted, and how and why the submission diverted from the ToR (if any).

Technical approach and methodology (approximately 8 pages)

This section shall provide a detailed description of the approach proposed for the execution of the evaluation linked to each of the specific objectives of the evaluation. In particular, this section will clarify how the chosen methodologies will convincingly answer the question of attribution of aBi interventions on the observed or measured systemic changes. The description shall include data collection methodologies, sampling (if any), and a description of the data collection instruments for each of categories of interviewees.

The section should also explain how the consultant shall analyse the policy environment, and shall arrive at plausible conclusions, and relevant recommendations.

Workplan (1 page)

This section should comprise of a detailed work plan, including key activities, and timeframes, and proposed deadlines for key deliverables.

Institutional profile, references and capacity (approximately 3 pages)

This section should provide a description of the firm's capacity and experience in areas relevant for this type of work, and how the firm will provide support and quality assurance to the field team.

The section should in particular provide information regarding relevant evaluations, impact assessments successfully undertaken over the past 2-3 years, noting publications arising from those, along with names and contact information of previous clients.

Staffing (approximately 2 pages)

This section should provide a summary description of the background and capacities of the key experts, including the supervisory structure and roles and responsibilities of each team member for this evaluation. CVs not exceeding 4 pages for the proposed key experts should be attached as annexure.

2.1.1 9.7 Clarifications

The tenderers can seek clarifications about the tender up to 11th November 2016, 17:00 East African Standard Time (+3hrs GMT). Any inquiries will have to be sent to the procurement officer aBi, email: procurement@abi.co.ug

Answers to any inquiries will be sent to all invited tenderers not later than 18th November 2016.

2.1.2 9.8 Budget

This is a fee-based contract. The budget must be submitted according to the budget format provided below. The overheads in the fee include flights, and all travel and upkeep in Uganda. The budget should include explanatory notes for each budget item.

	Fee days	Fee rate per working day	Total amount
FEES (including expert overheads):			
Key experts			
Team leader			
Key expert 2			
Key expert 3 (if any)			
Key expert 4 (if any)			
1: Total fees (including overheads)			
OTHER EXPENDITURES:			
Survey costs			
Staffing (if any)			
Training (if any)			
Field operations (if any)			
Data entry (if any)			
2: Total survey costs			
3: Total consultancy budget (item 1 + 2)			
Contingency (5% of item 3)		5%	
MAXIMUM CONTRACT VALUE			

The budget indication is US$ 110,000.

2.1.3 9.9 Evaluation of the offers

The following criteria will be used to evaluate and rank the proposals submitted. Offers that score less than 65% will be rejected on technical grounds and will be excluded from the financial evaluation.

Section	Points
Technical approach and methodology	20
Firm’s capability and QA systems	10
Capabilities and experience of key expert 1 (team leader)	40

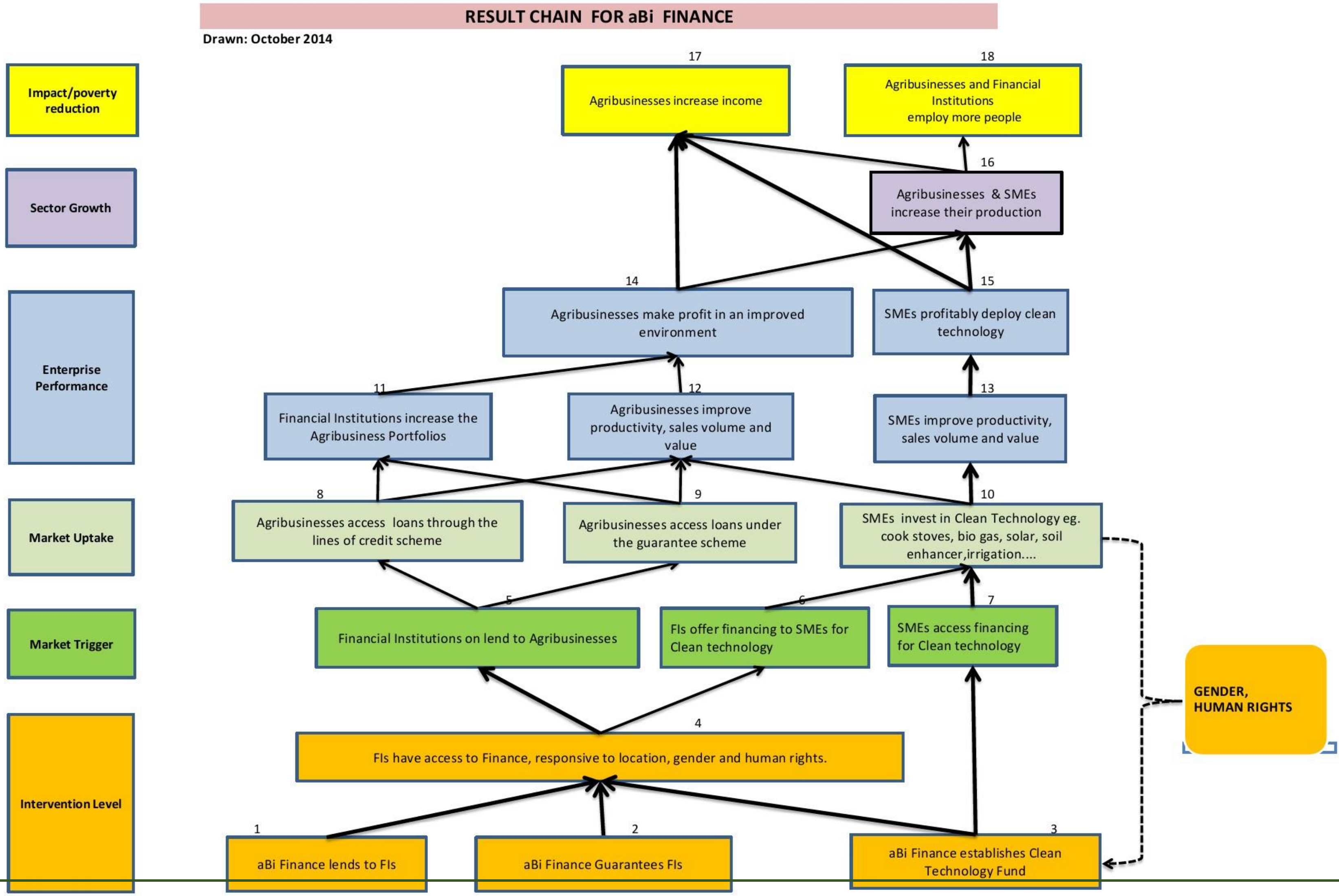
Capabilities and experience of other expert(s)	30
Total	**100**

Upon completion of the technical evaluation, the financial offers of firms that passed the technical evaluation will be opened. The best price/quality ratio is determined by weighing the technical quality against price on an 80/20 basis.

9.10 Ethics clause

Any attempt by a tenderer to obtain confidential information, enter into unlawful agreements with competitors or influence the Evaluation Committee or aBi Finance staff during the process of examining, clarifying, evaluating and comparing tenders will lead to the immediate elimination of the bid.

Annex 1 Results Chain of the LoC and ALG components



Annex 2: Performance Indicators for aBi Finance LoC and ALG components

Box 18	Additional FTE jobs created by beneficiary agribusinesses and FIs
Box 17	Net additional income earned by the beneficiary agribusinesses
	Number of Agribusinesses that realized a financial gain due to aBi Finance support
	Number of beneficiary FIs that realized a financial gain due to aBi Finance support
Box 16	Total acreage under production of supported enterprises
	Level of investment in agribusinesses by loan beneficiaries
	Size of Stock for beneficiary agribusinesses
Box 15	Profit margin by the beneficiary SMEs in clean technology
Box 14	Profit margin by the beneficiary agribusinesses
Box 13	Yield per unit of investment in clean technology by SMEs
	Sales volume by the beneficiary SMEs in clean technology
	Value of clean technology product invested in by the beneficiary SME
Box 12	Yield per unit of investment by beneficiary agribusinesses
	Yield per acre of land under production of supported enterprise
	Sales volume of the supported enterprise
	Value of agric. Products invested in by the beneficiary agribusinesses
	Total agribusiness portfolio by the beneficiary FIs
	Total loan portfolio by beneficiary FIs
Box 10	Number of SMEs investing in clean technology
	Type of Clean technology products invested in by SMEs
	Volume and value of investment in clean technology by SMEs
Box 9	Number of agribusinesses that have received loans under the guarantee scheme
	Size of loans received under the guarantee scheme by the beneficiary agribusinesses

Box 3	Appropriate clean technology products established by aBi Finance
	Clean technology portfolio established by aBi Finance
Box 2	Number of FIs offered with guarantees
	Loans disbursed under the guarantee scheme
	Interest rate on loans under the guarantee scheme
Box 1	Number of loans disbursed under the lines of credit
	Lines of credit portfolio
	Average interest rate on the lines of credit loans

Box 11

	Opinion of agribusinesses about the guarantee scheme
Box 8	Number of agribusinesses that have received loans through the lines of credit
	Size of loans received by agribusinesses through the lines of credit
	Opinion of agribusinesses about the lines of credit
Box 7	Number of SMEs that have received clean technology loans from aBi Finance
	Value of clean technology loans received by the beneficiary SMEs
	SME's opinion of the clean technology loans received from aBi Finance
Box 6	Number of SMEs that have received clean technology loans from beneficiary FIs
	Clean technology loans portfolio disbursed to SMEs by the beneficiary FIs
	SME's opinion of the clean technology loans received from FIs
Box 5	Number of agriculture loans disbursed to agribusinesses by beneficiary FIs
	Agricultural loans portfolio
	Opinion of agribusinesses about agricultural loans
Box 4	Number of FIs that have received financing that is responsive to location, gender and human rights
	FI's opinion of the financing received from aBi Finance
	Number of beneficiary FIs mainstreaming gender and/or Human rights

Performance targets for aBi Finance

Lines of Credit	Number of loans	50,000	Increase in percentage of Agribusiness Portfolio to total portfolio	TBD per partner FI	100%
			Increase in incomes of credit beneficiaries	TBD	50%
	Growth of the LoC portfolio		77 bn in 2018		63% of the EF
Guarantees	Number of loans guaranteed	100,000	Increase in % of Agribusiness portfolio	TBD per partners	100% portfolio to total FI
			Increase in incomes of credit	TBD per partner	50% beneficiaries FI
	ALG portfolio growth			??	
	Claims vs Guarantees			<3%	

Bonds	Number of corporate bonds	1	Increase in capital raised for agribusiness	TBD	20%
Fixed Deposits	Growth of portfolio	??			
Debt Fund for Value Addition	Volume of loan portfolio	USh 10bn	Increase in incomes of credit beneficiaries	USh 10bn	25%
Yield of EF					
Return on equity			6%		
Annual transfer to ASDF			20% of Net Income		

ANNEX 2: List of people met

Organisation	Person	Function
aBi Finance	Andre Dellevoet	Group CEO
aBi Finance	Josephine Mukumbya	COO
aBi Finance	Christine Zake	CFO
aBi Finance	Paul Dhabunansi	M&E team
aBi Finance	Gaston	Investment Officer
aBi Finance	Agnes Nakkazi	Investment Officer
aBi Finance	Bo Jørgensen Bleeg	COO Corporate Services
aBi Finance	Geoffrey O. Okidi	Financial Services Officer
aBi Finance	Ann Marie Mwaka Sabano	Business Development Manager
aBi Finance	Muriithi Kagai	Management Advisor
Banks and clients		
EADB	Duncan Mwesige	Head of Business – Uganda
EADB	Amos Aketch	Senior Investment Officer
EADB	Ben Raminya	Senior Investment Officer
KYAPS - Bushenyi	Sharon Nahabwe	General manager
KYAPS - Bushenyi	Nyakakita Balay Tukwame Group	
KYAPS - Bushenyi	Ryamatumba Bakyara Twimukye Group	
Muhame SACCO - Bushenyi	Zuwena Namusunga	General Manager
Muhame SACCO - Bushenyi	clients	
Mushanga SACCO - Bushenyi	Nankunda Gorden	General Manager
Centenary Bank, Mbarara	Geoffrey Wanyama	Manager Agricultural Credit
Hofokam - Fort Portal	Charles Isingoma	CEO (by mail)
Hofokam - Fort Portal	Beth Akareut	Branch manager
Hofokam - Fort Portal	Karambi Tukorre Hamu Group	
Hofokam - Fort Portal	Nyantwiri Farmers Group	
SolarNow	Siliro Habiyaremye	Finance Manager
SolarNow	Peter Huisman	Chief Technology Officer
DFCU Bank – Kampala	Audrey Byarugaba	Agriculture Development Officer
DFCU Bank – Mbale	Godfrey Okello	Branch Manager - Mbale
DFCU Bank – Lira	Roc Racu Group	
Stromme Microfinance	Harriet Mulyanti	CEO
Stromme Microfinance	Paul Katende	Operations Manager
Opportunity Bank	Bonna Amos	Credit Manager

Opportunity Bank	John Robert Okware	Head of Credit
Opportunity Bank	Emmanuel Lubwama	Regional Manager
Centenary Bank	Lubega Martin	Head of Loans
Centenary Bank	Evans Nakhokho	Chief Manager Agricultural Credit
Postbank	Alex Kayaayo	Executive Director
Postbank	Nabwire Teopister	Business Growth Manager
Postbank	Etyang John Onyokori	Assistant manager credit
Postbank	Samuel Mukasa	Assistant manager credit
Postbank	Naguti Naumi Group	
Letshego	Wamono Caroline	Head of Products
Other relevant stakeholders		
Uganda Agribusiness Alliance	Edward Katende	CEO & Founding member
Agri Financing	John Ssali	Manager agri-finance solutions
Ministry of Finance	Avu Elly Biliku	Principal Economist
Barclays Bank	Iraguha Adad	Head Commercial Asset Finance
DANIDA	Charlotte Rosen	Chief Financial Officer
DANIDA	Margaret Magera	Senior Programma Advisor – PSD
Board member	Warwick Thomson	Director
E-distributors Ltd	Peter Enyang	
Onugu Foundation	Patrick Anyu	

ANNEX 3: Portfolio guarantees – some observations related to aBi guarantees

Against the background of general understanding about guarantees for SMEs (ranging from very small producers to larger medium sized enterprises) and best practices aBi services have been reviewed. The following observations might be used by aBi in its process of refining operations.

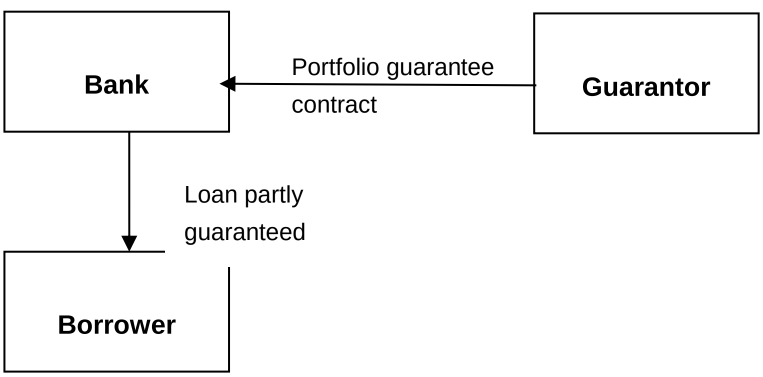
Portfolio of project guarantees

The guarantees offered by aBi are mainly defined as portfolio guarantees (except for the so called individual or portable guarantees). The evaluation mission has deemed it necessary to asses this more in detail there are normally multiple interpretations of what actually is meant with “portfolio guarantees”.

In a **portfolio guarantee scheme**, the guaranteeing entity is expected not to not look at the credentials of each and every applicant. Instead, the guarantor allows the bank to attach a credit guarantee to any client that fulfils certain eligibility criteria. Under such arrangement the bank informs the guarantee fund of the new loans it has approved with guarantee coverage, usually on a monthly basis.

The portfolio guarantee scheme is obviously less labour-intensive, since the screening of clients is done by the bank only. The other side of the coin is that guarantee funds have t less control over the quality of their guaranteed portfolio. A portfolio guarantee scheme can only work if the guarantee fund manager trusts the capacity of the partner bank(s) to evaluate the entrepreneurs who apply for a loan.

In a portfolio guarantee scheme the rights and duties of the bank and the guarantee scheme are described in a guarantee contract or agreement between the bank and the guarantee scheme. The guarantee scheme does not issue individual guarantee certificates.



- Under an ***automatic-*** *portfolio guarantee scheme*, there are two options:

- The guarantee fund demands from the lender that it absorbs a percentage of the total portfolio outstanding as its own risk. This is often up to a maximum of 5%[21] of the (weighted) average portfolio outstanding. It can be determined on an annual or semi-annual basis. The advantage of this system is that banks will be careful in assessing clients since they run the first risk; and the guarantee fund will be careful in referring clients to the lender since it will have to absorb the risks at full once the limit of 5% has been passed.

- The guarantee for any project under the portfolio guarantee is automatically for a maximum of 50% or 60% of the loan amount irrespective the valuation of the assets. Only accepting 50% of the risk may seem like a small proportion, but one needs to bear in mind that the lender has the full right to extend loans, without prior referral to the guarantee fund. This creates a moral hazard. This system can speed up procedures (unless the guarantor demand that all loans brought under the portfolio guarantee are first reviewed by her) but the banks can cover themselves extremely well when their borrowers would have possessed sufficient assets to pledge as collateral. The definition of eligibility of clients for this scheme is thus every important.

What aBi Finance lists as Portfolio Guarantees actually are aggregate individual guarantees as described above as under the second option. Each loan brought under the aBi Portfolio Guarantee is treated individually as a loan guaranteed and each again is guaranteed up to 50% of the principal. And aBi Finance reserve even the right to ex-ante evaluate each loan to be brought under the (portfolio) guarantee with the risk then for aBi to redo the work of the banks as well. Eligibility criteria have indeed been formulated albeit in a broad sense and are listed in the contracts with the FIs.

In the scoring forms (indeed elaborate ones covering a broad range of issues) used by aBi it was difficult to detect which explicit selection criteria was actually used by aBi or the FI to come to a decision to award a guarantee.

Without denying it apparent success that the guarantees have generated so far in stimulating FIs to enter into and expand its agricultural lending, the guarantee systems applied this by aBi Finance must be seen as an individual guarantee system even when all loans are brought under one portfolio

Reasons to need a guarantee

Focused financing of the agricultural sector can be instrumental to introduce changes in the sector (innovation, participation of youth/women, structural adjustments), provided that the system applies clear eligibility criteria. Financial services must target dynamic, innovative, quality and growth oriented farmers. Guarantee funds could add to the development of such enterprises if they incorporate such focus explicitly in their programme and ensure that is fully internalised with the supplementing advisory services.

Guarantee Funds and Guarantee Schemes are warranted and justified if they take away *one* or more of the constraints prospective borrowers or users face when applying for financial services. Such access also depends on the mentality of banks and the organisational culture within financial institutions. It is thus needed to define the actual bottlenecks: at the client's level or at the FI level and subsequently

[21] This percentage can be based on the maximum loss rate that any official in a bank may run without jeopardising his/ her career.

define how the guarantee facility will be used. In the various reports and Work plans if aBi we have not come across an explicit description of the actual bottlenecks that need to be taken way with a Guarantee facility e.g. is there a problem for end-users to pledge really sufficient collateral in relation to the loan amount sought for or is there is perceived lack of trust t FI level to extend loans to the agricultural producers/ SMEs? In the first case there must be an explicit % mentioned as minimum for collateral to be pledged and the maximum that the guarantee fund will cover in case of a gap. In case of reluctance at FIs side a period during which additional guarantees can be extended (and FIs can become conversant) and the maximum coverage need to be defined

In the interviews with FIs it became apparent that actually top management and Boards of Directors showed reluctance to approve agricultural lending. The Guarantees made available through aBi took away some of that reluctance. In practical terms, it appeared as well that such Guarantees come on top of collateral demanded from end-users leading to a higher risk coverage than would normally be the policy of that FI for its lending. [22]

Who decides about what?

While setting up guarantee funds, one must have a clear view on the tripartite relation that exists between guarantee funds e.g. aBi, financial institutions and the ultimate user. Each plays its specific role, and all have their own responsibility. Therefore, it is important to ensure that decision-making processes in financial institutions are clearly separated from decision-making processes in approving guarantees to avoid duplicating decisions. The FIs take a financial decision and might come to the conclusion that not sufficient collateral can be pledged by the end-user. The guarantee decision to be taken thereafter must be clearly based on specific eligibility criteria (does the end-user belong to specific target group operating an in specific sector?) and selection criteria (is there a specific resin to grant a guarantee to that specific person with that specific investment project?) criteria. The latter is normally taken by the guarantee fund. To efficiently operate the Guarantee Fund must then only focus on that specific decision: granting the guarantee for a specific reason and not repeat the bank's evaluation but rather use that in its own decision- making process. In cases where the FIs sector have proven to function effectively and are capable to segregate clearly between loan and guarantee decisions, the decision-making power to grant guarantees can be conditionally granted to the FIs themselves (see for instance the Netherlands with it's BMKB programme).

General issues

The ALGF seems to work well and is being received positively by FIs in Uganda. A qualitative assessment has been made. We have made used of criteria listed in the ILO Manual of Guarantee Fund where needed complemented with lessons learned globally with guarantee funds. A summary of our findings looking at the ALGF as offered by aBi from various angles is presented in the table below.

[22] The other face of the coin is that according to prevailing to BoU rules aBi extended Guarantees could not be ranked at face value as 100% collateral, actually something some FIs were not even aware of.

Criteria	Observation	Recommendation/ suggestions
There must be good clients (entrepreneurs/ producers) (e.g. selection of the users is needed not all who are eligible will be selected!)	In the aBi programs there is a mix of “entrepreneurs”: agricultural producers/ farmers that are either relative larger ones or very small ones, including even those belonging to SACCOs and SMEs/ entrepreneurs running micro and small entrepreneurs. There is no evidence that FIs evaluate the entrepreneurial qualities of the applicants. In the scoring forms the two main criteria for this assessment are only years in business and type pf management – no reference to entrepreneurial traits	For the very small farmers such entrepreneurial assessments are not really relevant, more important are then the referrals that are given through for instance the groups to which one belongs For SMEs, such entrepreneurial assessments focusing of entrepreneurial qualities would indeed be useful and relevant
The entrepreneurs must present good investment proposals (the viability of the investment to be financed must be proven- guarantees will not make it viable)	Assessing the smaller loans applications brought under the Portfolio Guarantees leads to conclude that for farming clients these are quite standard and determined by the possibility the land offers	The evaluation of the investment proposal ought the be carried out by the FIs only
There must be good banks interested to finance the entrepreneur and his/ her project (thus guarantees will not improve the functioning of the FI/ bank – if these do not operate adequately capacity building is needed rather than guarantees)	The aBi condition is that FIs could range from tier-1 to tier-4. Most FIs are considered to be the more established, well-functioning FIs	The FSD support can indeed be instrumental to assists FI in building up the necessary capacity. When it comes to building up an understanding the role of guarantees FSD might also be used for information sessions (?)
The evaluation by the banks must be done independently of the loan guarantee institution by good credit analysts	FIs have reported that aBi tends to evaluate applications as if they were a bank as well. They seem to repeat the work done by banks	Overall aBi pays good attention to building up the staff capacity within the FIs to be able to assess properly applications. In the coming years this may lead to allow the FIs to take the

	and not so much evaluating guarantee applications on the basis of one or more criteria that warrant a guarantee In various cases staff of FIs has received special training so far (co) financed by aBi trust. With the new package now on the shelf (financing and FSD services) this has become de facto a responsibility of aBi finance. In the coming years, such interventions need to be reported on as well through the M&E systems of aBi Finance.	guarantee decisions themselves with ex-post verification by aBi
The loan guarantee institution must take independent decisions based on clear criteria	The manual states on the Guarantee facility that aBi will carry out an ex-ante evaluation of application for all loans beyond In the case of applications brought under the Portfolio guarantee systems and for loans below a determined amount there will be ad random ex-post verification whether procedures agreed upon have been adhered to properly. Besides financial criteria listed in the aBi manual the evaluation team has not come across specific criteria except " creating access to finance" – none is related is to absence or shortfall in collateral aBi tend to repeat the work done by the banks (see Scoring forms and listed requirements therein)	Define specific eligibility criteria on the basis of which a loan applications can be brought under the aBi supported guarantees and specific selection criteria to be used in the actual guarantee decision allowing the two decision to be taken separately and avoiding duplication in the respective decision making processes
There must be an identifiable lack of collateral	There is a varied set of reasons why FIs like to	report internally as well on the actual reluctance of FIs to

	access to the guarantee facilities of aBi, the ones more often listed are related to FIs mainly not so much to the end-users/ clients of FIs a. The internal resistance in the FIs to engage in agro lending is taken away e.g. BoDs allow the respective departments to (start) lending to the farming community and clients in the rural areas. b. The internal risks criteria are being met Less frequently the argument put forward is that clients (agricultural entrepreneurs/ farmers) do not pledge sufficient collateral The scoring forms identify indeed a lack of collateral at end users side	engage in agricultural financing and relate such as well to the financial strengths and risk exposure of such FIs. Use such in decision to renew LoC / Guarantees
There must be clear agreements between the banks and the loan guarantee entity governing both the allocation / granting of guarantees and the collection, supervision and recovery process.	In all cases, there exist proper legally formulated contracts between aBi and the FIs to whom a guarantee is awarded	

Criteria

	Common understanding	Observations ref aBi and its partner FIs	Recommendation
Target groups	Normally a clear definition of both target groups that are eligible and the subsequent reason(s) why members of that target groups may need a guarantee to improve their access to financial services.	The agreements define mainly the eligibility criteria to access the guarantee e.g. it defines the target groups to which one needs to belong. No selection criteria defined to warrant a guarantee	Make distinction between eligibility and selection criteria a
Reason why a (individual) guarantee is justified	Explicit reasons defined why a guarantee for member of eligible target groups might be justified	No specific criteria are listed in the agreements with the FIs to warrant or justify a specific guarantee for an end-user.	List selection criteria in the contracts with the FIs based on the Scoring list presently used by aBi
Multiplier	In some cases, defined as the volume of guarantees outstanding divided by the capital available for the guarantee fund;	No multiplier targets defined at FI level ; The leverage factor applied is only at aBi level of > 300% calculated by dividing the volume of guarantees outstanding by 20% of the Capital and retained earnings of aBi	Define multiplier criteria for FIs receiving guarantees; adjust presents contract text as it limits multiplier to 2:1
Leverage	Determined by the Value of loans guaranteed divided by the capital available for the Guarantee Fund in advance the loan amount that the FIs is expected to extend as a result of receiving a guarantee; it is based on the actual distribution of risks / loss absorbed by the guarantee fund and the FI; this minimum is 1 (with all	No leverage targets in guarantee contract only reference made to total volume of loans guaranteed: in case for instance for Pride reference is made to a 1.000 Volume of loans for 50% guaranteed ; thus actually the maximum claim (read guarantee) is 500.	See above

	loans fully guaranteed) A more advanced method is to correct this again for the presumed loss rate[23]		
Fees	Normally ranging from 0.5 to 2% - which is seen as a maximum - calculated over the amount guaranteed. Normally explicitly stated who will pay the fee : the ultimate client – entrepreneurs/ farmer or the FI	Fee of 1% is charged to the FI over the total loan amount guaranteed although the maximum guarantee is only 50% off that amount ; thus fee is twice the fee listed in such agreement. Not clear whether the fee is passed on to the clients but in practice this seems to be the case Clients are not (made) aware that they pay guarantees/ even that their loans are guarantees	Treat end-users as responsible clients and inform them as well. Allow them to decide to accept a higher interest or not.

[23] In case of losses assumed to be 10% the leverage can be 10 times higher

For further reading see:

- Deelen, L. and Molenaar, N. *Guarantee Funds for Small Enterprises, A manual for guarantee fund managers*, ILO-ITC, Geneva, 2004
- European Commission, *SMEs and Access to Finance; Observatory of European SMEs*; Report submitted to the Enterprise Directorate General by KPMG Special Services, EIM Business & Policy Research, and ENSR; Brussels, 2003.
- Levitsky, J. And Doran, A. *Credit Guarantee Schemes for Small Business Lending (Vol I/ II)* , Graham Bannock and Partners Ltd. London, 1997.
- Guarantees and mutual guarantees, Best report 3-2006, European Commission , Best Reports No 3- 2006