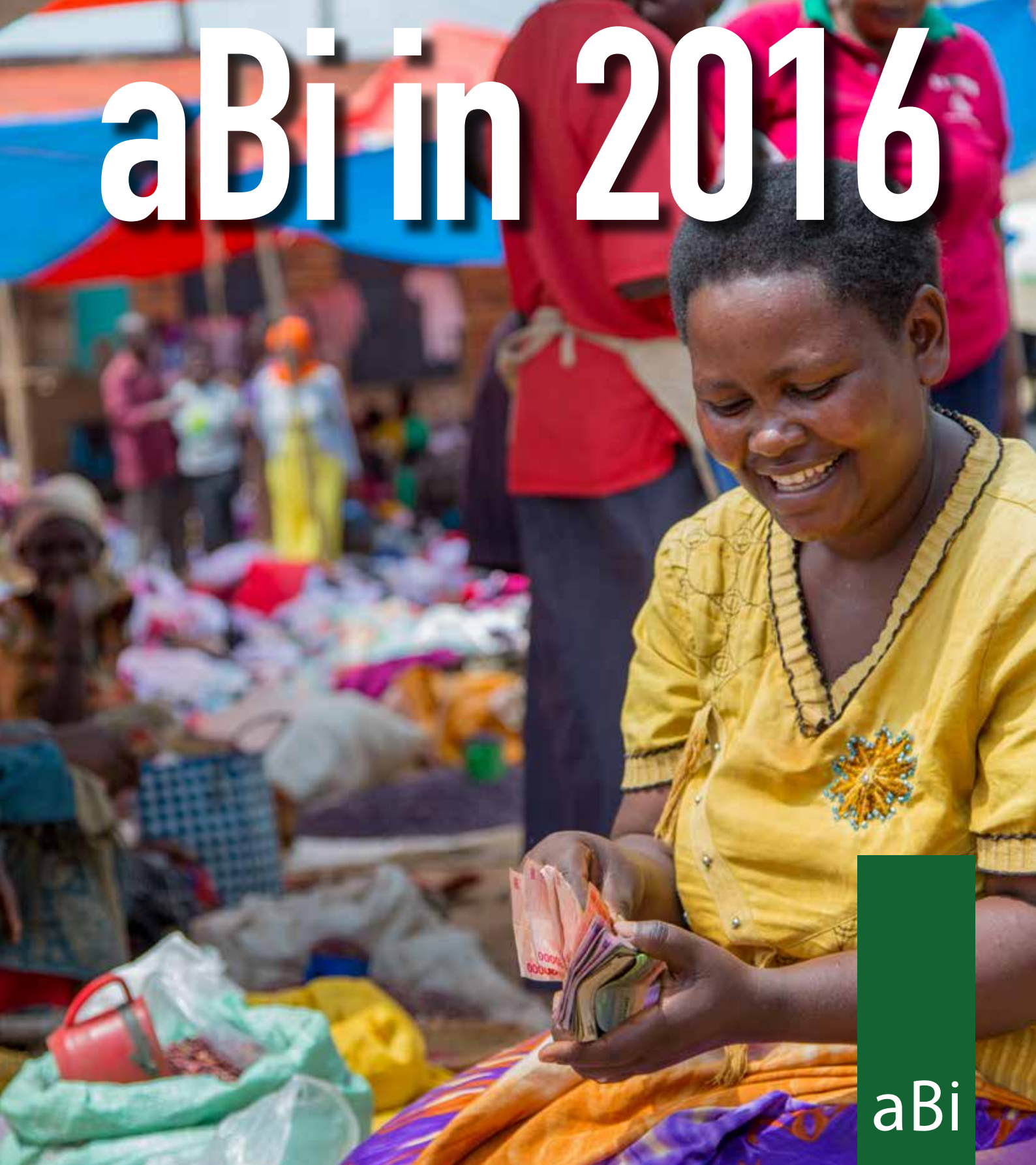


aBi in 2016



aBi

Growing Agribusiness
in Uganda



aBi Vision

A competitive, private sector-led agriculture sector in Uganda



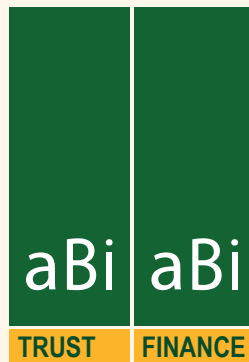
aBi Mission

To promote private sector agribusiness development to enhance wealth creation in Uganda

Development Partners



aBi in 2016



Growing Agribusiness in Uganda

www.abi.co.ug



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aBi Governance



aBi Governance

The nature of aBi's business, with management of trusted capital and disbursement of substantial funds to implementing partners, means that corporate governance arrangements and risk management procedures are critical.

aBi is made up of three entities: aBi Trust, aBi Finance Limited, and aBi Agricultural Bond Company Limited.

aBi Trust

The Board of aBi Trust comprises nine Trustees: Ms Lydia Ochieng-Obbo (Chair); Mr Gerald Ssendaula (Vice Chair); Mr Warwick Thomson; Ms Victoria Sekitoleko; Mr Vincent Kaheeru; Mr David Kabateraine; Mr Nicholas John Okwir; Ms Sarah Walusimbi; and Ms Nadine Margaret Byarugaba.

During 2016, the Board of aBi Trust (BOT) held five scheduled and two *ad hoc* meetings. The Committees of the BOT (Audit and Risk, Finance and Programme Oversight, Nominations and Governance, and HR Committees) met prior to each scheduled BOT meeting, with the exception of the Nominations and Governance Committee which met twice in 2016.

aBi Finance

aBi Finance is a company limited by guarantee and its Board has four Directors: Ms Lydia Ochieng-Obbo; Mr Andrew Otengo Owiny; Mr Warwick Thomson; and Mr Mads Mayerhofer (the Chair) from the Royal Danish Embassy, Kampala – the sole source of aBi Finance's capital. The aBi Finance Board does not have committees. The Board met 8 times during 2016, five scheduled meetings and three *ad hoc*.

Board Evaluation

aBi carries out independent evaluations of the Boards every three years. In the intervening years, the Boards work on improving their efficiency based on recommendations emanating from the independent evaluations. An independent evaluation of the Board of aBi Trust was carried out in 2015 and of the aBi Finance Board in 2016, by Japheth Katto Consult.

Board Succession

aBi has a comprehensive Board succession programme, which is overseen by the Nominations and Governance Committee.

aBi Trust – Mr Nicholas John Okwir joined the Board in January 2016. In April 2016, Ms Eva Nagawa Mukasa and Mr Charles Ocici stepped down from the Board and were replaced by Ms Sarah Walusimbi and Ms Nadine Margaret Byarugaba.

aBi Finance – In April 2016, Mr Charles Ocici stepped down from the Board and was succeeded by Mr Andrew Otengo Owiny. In June 2016, Mr Albert Bruun Birnbaum stepped down from the Board and was replaced by Mr Mads Mayerhofer.

Board Training and Information Sessions

The aBi Boards participated in a corporate governance training in 2016. All of the new Board members received induction training.

aBi Trust Founders & Board Members



Dr Peter Ngatezize
aBi Founder

Mr Mads Mayerhofer
aBi Founder
Chair, aBi Finance

Ms Lydia Ochieng-Obbo
Chair, aBi Trust
aBi Finance Director



Mr Nicholas John Okwir
aBi Trust Board Member

Hon Victoria Sekitoleko
aBi Trust Board Member

Hon Gerald Ssendaula
aBi Trust Board Member



Mr Warwick Thomson aBi
Trust Board Member aBi
Finance Director

**Ms Nadine Margaret
Byarugaba**
aBi Trust Board Member

**Ms Sarah Irene
Walusimbi**
aBi Trust Board Member

Mr Vincent F. Kaheeru
aBi Trust Board Member



Mr David Kabateraine
aBi Trust Board Member

**Mr Andrew Otengo
Owiny**
aBi Finance Director

Mr André Dellevoet
Group Chief Executive
Officer

Ms Alison Dillon-Kibirige
Company Secretary

Message from the Board Chairs

The Agricultural Business Initiative (aBi) recognises the agricultural sector, and specifically private sector actors within it, as being the primary Ugandan driver of sustainable and inclusive economic growth and poverty reduction. Co-founded by the Governments of Uganda and of Denmark in 2010, aBi is made up of two separate but interdependent and complementary entities – aBi Trust and aBi Finance. The combined focus of aBi is on improving the conditions for primary producers, processors and traders/exporters through value chain and business development as well as improved access to finance. The interventions of aBi have (and will continue to be) primarily focused on the mid- and up-stream value chain actors (primary producers/smallholders and processors/agribusiness SMEs) and the market linkages between them. aBi will continue to pursue its vision and mission through more equitable and sustainable linkages between its value chain partners (as well as the linkages between these and the more down-stream traders and exporters), thereby reinforcing the pro-poor aspects of aBi's developmental impact.

aBi is exceptionally well placed to promote the growth of private sector agribusinesses through a variety of strategic investments and interventions – all made in the context of advancing the Government's National Development Goals and achieving the common objectives of its Development Partners. Our development investments include funding and support to the agriculture sector that banks generally do not provide because of perceived risks, capacity shortfalls, and lack of product options. A consensus is emerging that the risks associated with agricultural lending can be mitigated and that agriculture holds considerable potential for the

financial services sector and for the economy as a whole.

Uganda's agriculture sector employs about 69%¹ of the country's labour force and, as of 2015, accounts for nearly 26%² of its gross domestic product (GDP), and provides about 40% of its export earnings. aBi's investments are designed to increase land and labour, and to improve the competitiveness of smallholder farmers and small- and medium-scale agribusinesses. We also work to increase the flow of financial resources to agriculture by providing lines of credit through financial institutions, and agricultural loan guarantees that leverage the funds that banks can make available if they are less concerned about risk. The ultimate aim is to contribute to poverty reduction, economic growth, employment, and wealth creation.

In these ways, aBi is contributing to an agricultural transformation in Uganda that will lead to a more competitive, productive, sustainable and private sector-led component of the economy. The Boards of aBi Trust and aBi Finance are strong believers in the potential of aBi to promote and strengthen agribusiness across the country along agricultural value chains that matter most to Uganda: coffee, cereals, pulses, oil seeds, horticulture, and dairy.

Still, 2016 was a difficult year for aBi Trust. We learned early in the year about instances of malpractice amongst a number of our implementing partners (IPs) and fraud abetted by a few Trust staff. This resulted in a moratorium on all disbursements for existing and new projects while investigations were made, the portfolio cleaned up and improved

1 <https://www2.deloitte.com/content/dam/Deloitte/ug/Documents/tax/Economic%20Outlook%202016%20UG.pdf>

2 http://www.theglobaleconomy.com/Uganda/Share_of_agriculture/

systems established. This impacted aBi Trust's progress significantly, while aBi Finance's performance, which was much less affected, turned in excellent results for the year.

At this juncture, the aBi Boards and Founders are satisfied with the quality of Management's response, and the progress being made towards resolving the circumstances that compelled the aBi Trust moratorium. The silver lining is that new and stronger policies and procedures have been established – both within aBi and to guide our IPs – and the quality of the new emerging portfolio of grants is vastly improved.

The Boards of both aBi Trust and aBi Finance take their governance and reputational responsibilities to aBi and its Development Partners seriously, continuing to work closely with Management to ensure that the new policies and procedures we have approved are fully and consistently implemented so



Ms Lydia Ochieng-Obbo

aBi Trust Chairperson
Director, aBi Finance

that aBi can continue to effectively promote private sector agribusiness development across Uganda.

aBi's efforts to stimulate growth, innovation and wealth creation in the agriculture sector will continue. aBi will build the capacity of its IPs to make the most of new opportunities; it will work to strengthen production systems, and certification and quality standards; and it will work ever more closely with major farmer associations to bring them fully into the development process.

We wish to thank our Development Partners – the Royal Danish Embassy, USAID, SIDA, and KFW – for their support and guidance during a challenging 2016.



Mr Mads Mayerhofer

Founder, Chairperson, aBi Finance



Message from the Group CEO

It is fair to say that 2016 was a particularly challenging year for aBi. In a relatively short period of time, we conducted over 150 end-of-project audits and a further 77 audits for ongoing projects. What came from those audits was both sobering and disheartening; more than half of the projects had issues involving:

- 1) Questionable expenditures due to inadequate supporting documentation, ineligibility of non-project related budget overruns, and mismanaged funds or fraud; and
- 2) Internal control weaknesses or inefficiencies related to budget monitoring and management, cash handling, management of procurement, asset management, compliance with applicable national laws on taxation, and the proper management of document filing and storage systems.

The amount involved, relative to the total of the awarded grants, was about 6%. It was gratifying to see that aBi Finance wasn't affected by these issues, in part because it works through well-managed and regulated financial institutions, but also because of the team's adherence to the aBi risk management framework.

Still, such findings, in combination with other capacity constraints of the Implementing Partners (IPs), show how challenging it is to work in private sector development in Uganda, particularly for aBi, which is accountable to a wide range of stakeholders, including our development partners who generously provide aBi's funding. The decision to suspend all funding to existing projects and the approval of any new projects until satisfactory measures were put in place to avoid future problems was necessary but difficult and had

major consequences on the institution and its performance for the year.

The response by aBi's Board of Trustees and management was comprehensive and resolute along three lines:

Internal reforms

- 1) Responsible staff within aBi were held accountable and had to leave the organisation;
- 2) Internal controls and systems were reinforced, such as legal compliance and risk management, procurement, document management, financial management, and financial controls;
- 3) A new and more careful recruitment system and HR policy were developed, including a performance management system;
- 4) aBi's M&E system was strengthened, as was the audit function, as the 3rd line of defence in the risk management framework;
- 5) The aBi operations manual and all underlying manuals and procedures were overhauled to meet international standards;
- 6) A new highly automated grants management system was developed to enhance efficiency, management information, and transparency;
- 7) A new senior management function was created in the form of an externally recruited Chief Operations Officer of Corporate Services to manage the support departments of Finance, Administration, ICT, Human Resources, M&E, Legal Compliance and Risk;
- 8) An organisational development and change management plan was created and implemented, which includes extensive training of new staff; and

- 9) The Financial Services Development unit was moved from aBi Trust to aBi Finance so that management could combine expertise, technical assistance, and business development services with lines of credit and loan guarantees, with a view to stimulating financial institutions to lend more to agribusinesses at affordable rates.

Continue Making Investments

aBi is able to have an impact on Uganda's smallholder farmers through its agribusiness IPs who, with support from aBi, help to increase both the productivity and profitability of smallholders. They do so by providing targeted extension services, as well as facilitating collective action by farmers in the purchasing of inputs and marketing of produce. This collective action is aimed at improving operational efficiencies and obtaining better input and output market prices.

Aware of the precarious state of Uganda's agriculture sector and the enormous need for effective support and finance for millions of the country's smallholder farmers, aBi management strove to keep aBi open for business and continued to work with serious IPs.

This allowed aBi to resume funding in 2016 to about 40 IPs. aBi management was also able to develop and submit 15 new investments that received Board approval based on a more controlled vetting process and framework. Thirty existing projects had to be terminated after all options for settling outstanding audit-related issues were exhausted.

Reinvent aBi's Business Model

As they say, "never waste a good crisis!". Management seized the opportunity to apply some fundamental lessons learnt, amongst them the need for stronger due diligence of applicants and better business and financial analysis of proposals. We moved away from being a "grant maker" in support of livelihoods

projects towards being a "solutions provider" where a range of financial and non-financial instruments can be tailor made and deployed in response to any given business proposal.

Our new projects are now managed using a "mixed team" approach that combines the expertise of both aBi Trust and aBi Finance. We also identified new approaches to maximising aBi's impact on the value chains we support, and are devising interventions in partnership with others that will improve the way markets work, particularly for the economically active poor engaged in agriculture.

Because of these efforts, aBi entered the new year a strengthened organisation, with a renewed culture based on collaboration, professionalism, transparency and accountability, and with better ways of supporting agribusiness. We are well on our way to cleaning up our portfolio of past projects and are building a new portfolio of high-quality investments that demonstrate both exceptional development impact and stronger commercial viability. I thank the Board and Founders for their continued belief in us and I am very grateful to the highly professional aBi team who kept doing their jobs despite the difficulties we faced.

Mr Andre Dellevoet
aBi Group Chief
Executive Officer



aBi's 2016 Performance at a Glance

While 2016 was a challenging year, primarily for aBi Trust, aBi as a whole still made considerable progress towards the goals and objectives laid out in its 2014-2018 Business

Plan. The following dashboard and figures provide a snapshot of 2016 accomplishments trends over time by aBi Finance and aBi Trust.

Key 2016 Achievements



UGX 45bn
New savings for financial institutions



UGX 111bn
value of new loans disbursed under guarantee



Agricultural loan portfolio of **UGX 134bn** disbursed



40,956
New loans under lines of credit



192 805
new savings accounts opened



UGX 94bn
Value of new loans disbursed under lines of credit



8,954
Farmers insured themselves



74,842
Additional acres under crop production



128,044
New loan clients



100
Operational milk coolers cost shared by Milk Collection Centres (MCC)



21,680
Loans made because our guarantee facility underwrote them

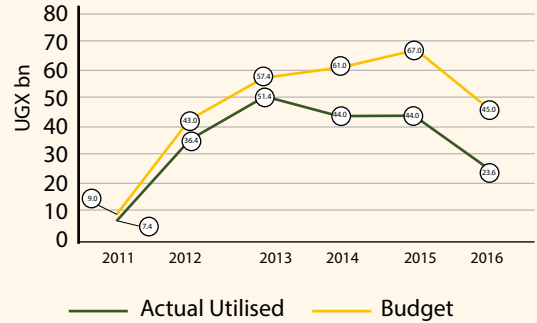
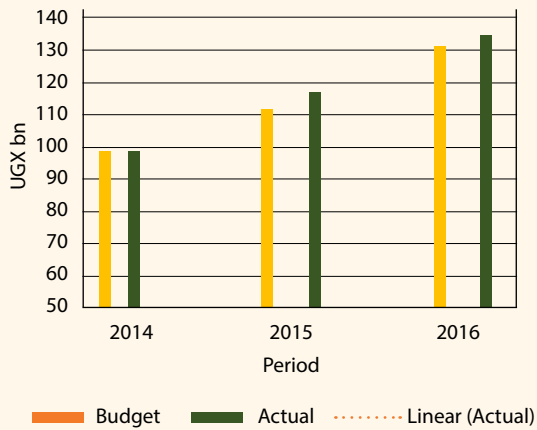


19
Improved road milk tankers

11.6mn

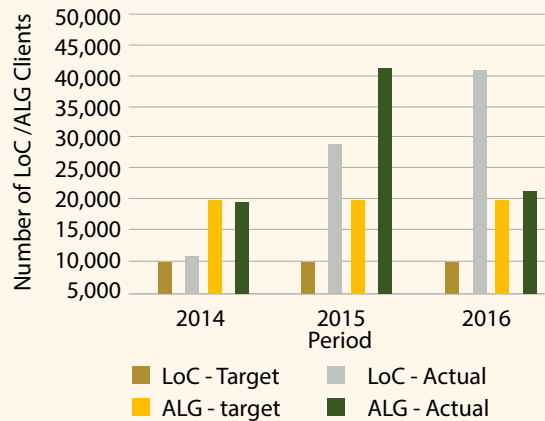
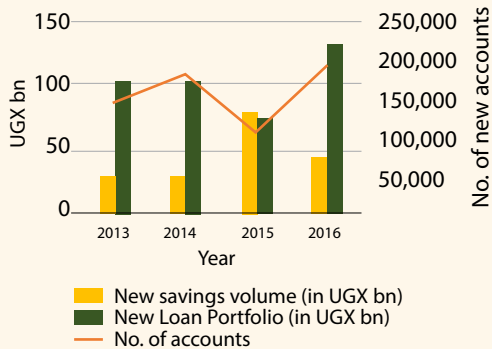
Litres of milk sold through the collection centres

Trends in Major aBi Performance Indicators, as of December 31, 2016



Size of Endowment Fund (2014-2016)

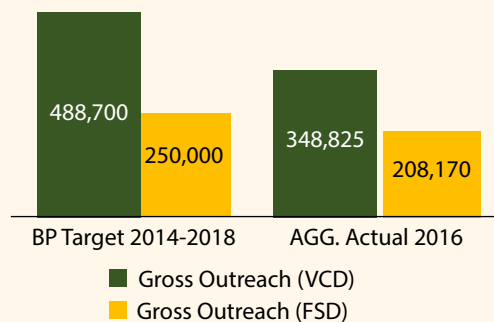
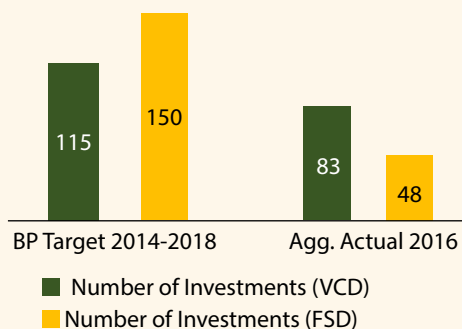
Trend in aBi Trust Fund annual utilisation 2011-2016



Changes in the volume of new savings, new loans portfolio and new accounts (2013-2016)

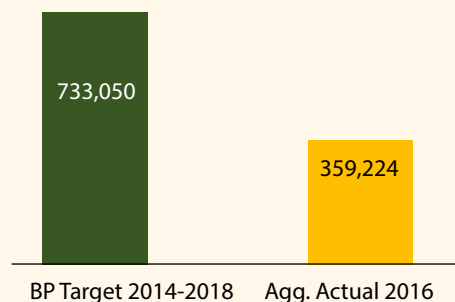
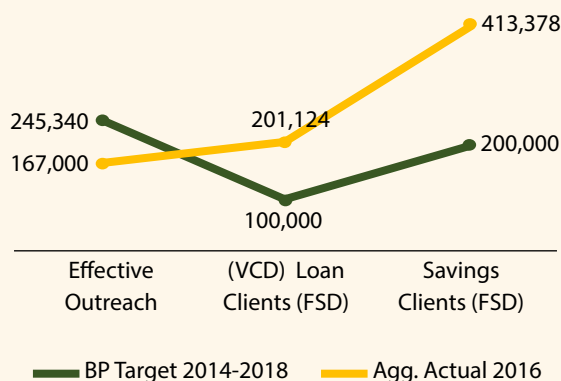
Changes in Lines of Credit (LoC) and Agricultural Loan Guarantees (ALG), 2014-2016

2016 Performance Compared to aBi Business Plan Targets



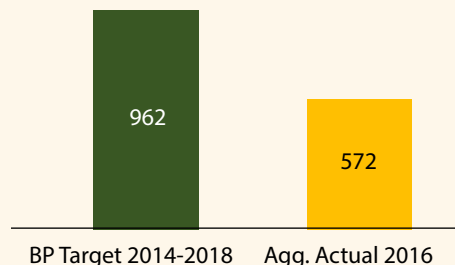
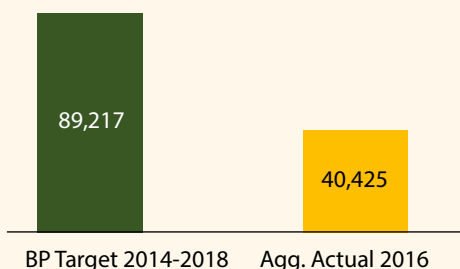
Number of investments made in Value Chain Development (VCD) and Financial Services Development (FSD) activities compared to Business Plan targets

Number of enterprises reached by VCD and FSD compared to Business Plan targets (Gross Outreach)



Clients benefitting from VCD and FSD outreach efforts

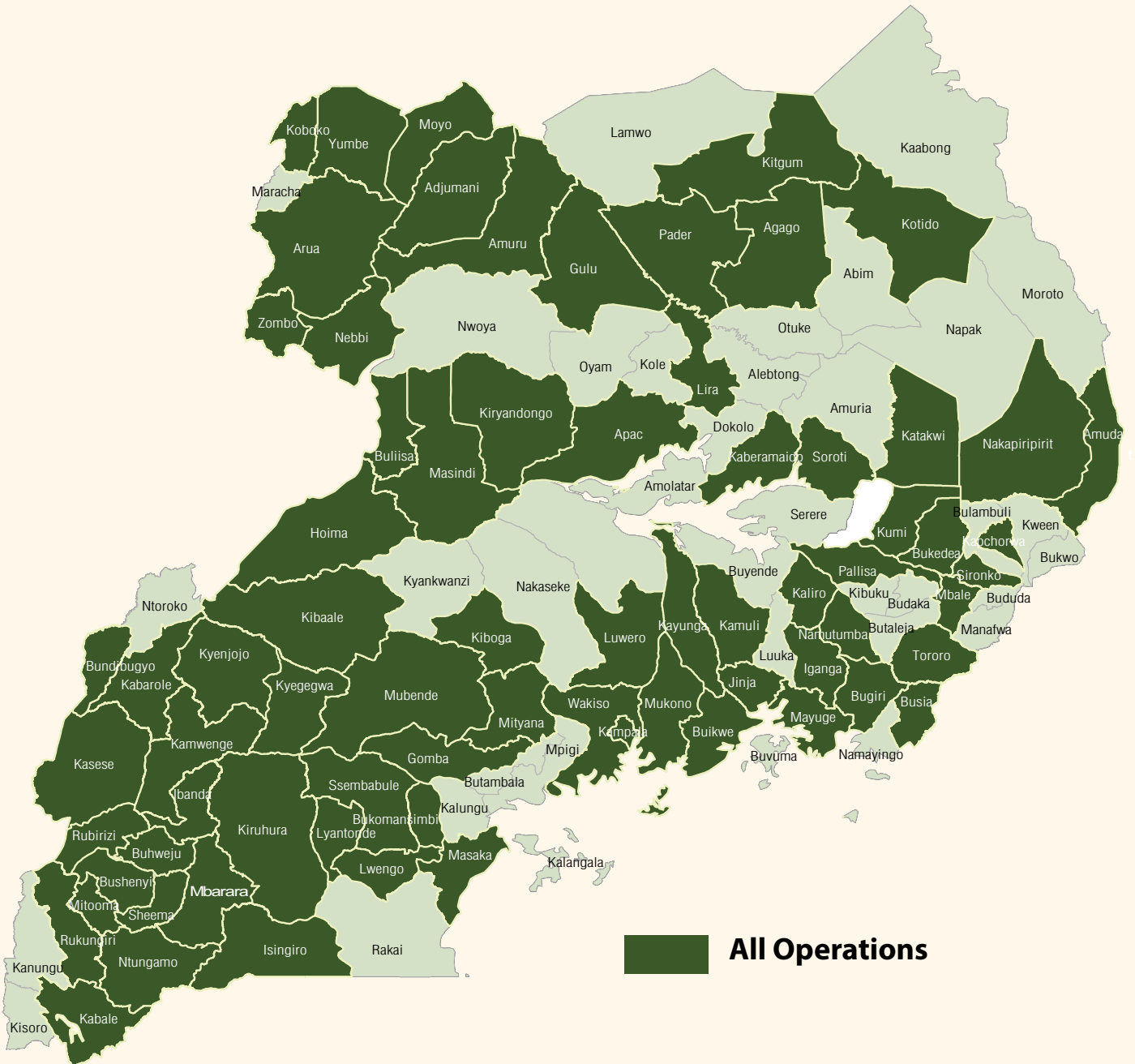
Area under production by supported crop enterprises in 2016 (acres)



Additional full-time jobs (FTEs) created, cumulative 2014-2016, compared to Business Plan target

Additional farmer income produced (UGX billions) compared to Business Plan target

aBi Operational Reach, 2016 (73 Districts across Uganda)



The Agricultural Business Initiative (aBi)



The Agricultural Business Initiative (aBi)

aBi is composed of two separate but complementary legal entities – aBi Trust and aBi Finance. It is a multi-stakeholder organisation, co-founded in 2010 by the Governments of Uganda and Denmark to “Promote private sector agribusiness development to enhance wealth creation in Uganda”.

Details about the activities, results and finances of aBi Trust and aBi Finance are presented in this report. We start with a look at some of the key activities of the Trust, how its work is strengthening agribusiness in Uganda, and some of the challenges faced and lessons learnt in 2016. We then turn to a similar discussion of aBi Finance.

Finance details for these two entities are presented in the section on Financial Performance.

aBi Trust

The aBi Trust was set up by its Founders to deliver one of three components of Denmark’s U-Growth Programme. That component is called the “Agribusiness Initiative”, which aims to support private agribusiness development in ways that will help achieve the objectives of the Government’s Competitiveness and Investment Climate Strategy (CICS).

The mandate of aBi Trust is to support private sector actors in selected value chains to increase their contribution to the agriculture sector by strengthening the productivity of land and labour, as well as market competitiveness. Success in doing so will contribute to poverty reduction through economic growth, wealth creation, and increased employment opportunities.

In line with the aBi vision and mission to achieve these objectives, aBi Trust invests in the work of its Implementing Partners (IPs), which are mainly small- to medium-sized agribusinesses operating along six value chains:

Coffee; Oilseeds; Pulses; Cereals; Horticulture, and Dairy. The Trust strengthens value chain competitiveness by investing in Value Chain Development (VCD) activities that contribute to the performance efficiency of value chain actors and non-financial service providers. The Trust investments also promote trade-related Sanitary and Phyto-sanitary (SPS) and Quality Management Systems (QMS).

aBi Trust also supports Financial Service Development (FSD) activities, promoting the expansion of and access to financial services that are badly needed by agribusinesses. In October 2016, the FSD Unit was moved to the Trust’s sister entity, aBi Finance, to better capitalise on potential synergies between aBi Finance activities and the efforts of FSD to improve the financial skills of IPs (including financial service providers that work to support value chain actors). Because of this organisational change, details on the work of the FSD Unit are now reported in the section focused on aBi Finance.

In addition, several crosscutting initiatives that were previously undertaken and reported on separately – including addressing gender concerns (Gender for Growth), applying a Human Rights-Based Approach (HRBA) to development, and various Green Growth investments – have now been fully integrated into the programmatic activities of both the Trust and aBi Finance.

To aBi, “Green Growth” implies developing Uganda’s agriculture sector in ways that are both climate smart and sustainable, meaning we support interventions that enable smallholder producers and agribusinesses to adapt to and help mitigate climate change.

Green Growth interventions have been implemented mainly by coffee IPs (in particular, Kawacom Uganda Ltd. Kyagalanyi Coffee Ltd,

Hanns R. Neuman Stiftung, and the National Union of Coffee Agribusinesses and Farm Enterprises – NUCAFE). These interventions include waste water management in processing plants and the adoption of soil and water conservation practices (such as trenching, integrating coffee plants with shade trees, recycling waste water, and using coffee husks to improve soil fertility). For example, with support from aBi, Kyagalanyi Coffee distributed 28,786 shade tree seedlings to selected coffee farmers to plant in appropriate locations on their farms. This is increasing on-farm biodiversity and maintaining moist microclimates that favour the vigour and productivity of coffee trees. Recycling of waste water at the Eco Pulper wet processing plant at Kawacom saves 6 litres of water per kilo of coffee cherries (traditional pulpers use 10 litres of water; Eco Pulpers require only 4).

In the dairy value chain, planting of drought-resistant pasture varieties and the use of fuel-efficient equipment are being promoted by the primary cooperative societies supported under UCCCU. Milk collection centres (MCCs) are implementing effluent management practices, promoting biogas production and the use of solar energy, integrating agroforestry practices, and using energy efficient hardware (generators and milk coolers). These initiatives have reduced production costs. The generators at supported MCCs, for example, use 6 litres of diesel compared to the original 20 litres before upgrading; the new milk coolers chill milk within 3 hours, compared to 8 hours when using the old coolers. The dairy sector also employs a relatively high proportion of youth, who transport milk produced by households and provide artificial insemination services, as well as various extension and animal health services. aBi takes a household approach in all its interventions. Women add value to milk production through *ghee* churning (i.e., producing clarified butter) and making yoghurt.

In other value chains, aBi has invested in the integration of agroforestry trees and practices to improve micro-environments; the use of energy efficient stoves; soil and water conservation practices (such as zero tillage and water conservation basins); and water harvesting practices. Use of energy saving stoves has been promoted by Manyakabi Area Cooperative Enterprise and Tororo District Farmer Association to reduce deforestation. Air cleaning equipment has been installed at the Aponye and Savannah coffee factories to reduce pollution inside the factories and in the surrounding environments.

Finally, a Clean Technology Fund was established in 2015 to finance: sustainable land management initiatives; efficient energy solutions; the use of renewable energy sources; environmentally friendly waste management; efficient use of water and better management of soil moisture, and other climate smart practices in target value chains. In 2016, the Fund extended loans to:

- Q-Energy (UGX 600mn) for Bio Gas development;
- Two micro-finance institutions (UGX 900mn) for organic fertilizer promotion amongst the farming communities;
- Three larger financial Institutions (UGX 3bn) for promoting improved cook stoves (including solar powered);
- ENCOT Microfinance (UGX 200mn) for promoting solar energy and the use of organic fertilisers;
- An SME in Eastern Uganda (UGX 200mn) to pilot simple Irrigation equipment; and
- Two dairy companies for improving the management of waste water and effluents.

Value Chain Development in 2016

During 2016, aBi Trust continued to provide technical support to its IPs, but had to scale back its financial support. Scheduled disbursements for the first quarter of the year were made as planned and, after RDE approved several new and existing grants in October, 13 IPs received funds in December 2016.

However, despite the temporary suspension of financial disbursements, some IPs continued implementing activities planned for 2016 using their own resources. aBi Trust helped them with monitoring and evaluation of project activities and in some cases provided mentoring support. The IPs' use of their own resources to keep selected project activities going was seen as a manifestation of their commitment to succeed, and as evidence that the realisation of aBi's vision for a sustainable agribusiness sector remained on track. Still, of the 51 IPs that had operational projects, only 22 reported making progress

towards achieving their annual targets. Most IPs postponed project activities to 2017 in anticipation of the aBi Trust moratorium being lifted. The few IPs that continued with project implementation focused mainly on less capital-intensive activities, such as setting up Village Savings and Loan Associations (VSLAs), providing training in good agronomic practices (GAPs), and facilitating collective bulking and marketing of produce.

To exacerbate the situation in 2016 (and to give emphasis to the need for climate-smart agronomic practices), Uganda was hit with a severe and extensive drought, and in some areas significant flooding. These apparent manifestations of climate change reduced both the acreage planted and yields achieved by crop IPs, resulting in low levels of marketable surpluses. Scarcity of produce in the market led to slightly higher selling prices than anticipated. Table 1 summarises key VCD achievements during 2016, and is followed by highlights from the six main value chains with which aBi Trust works.



Table 1: Key performance Indicators and targets for VCD (Note: the data presented here come from only 28 of the 51 IPs; M&E reporting was reduced because of the aBi Trust moratorium)

Key Performance Indicator (KPI)	Business Plan Target (2014-2018)	2016 Annual Target	Actual 2016	Actual against Annual target	Comments
Number of Implementing Partners supported under VCD	115	73	51	70%	51 IPs had running projects but only 28 were able to report on time.
Total number of beneficiaries reached in all value chain activities	-	247,300	169,150	68.4%	Limited scale of activities at IP level due to the aBi Trust moratorium
Female			78,598		
Male			90,552		
Additional income for beneficiary farmers (UGX)	962bn	376bn	72bn	19%	Limited scale of activities and monitoring by IPs level
Additional Full Time Equivalent (FTE) jobs created by interventions	89,000	21,833	6,463	29.6%	Limited scale of IP activities, monitoring, and reporting of jobs created
Total dairy herd size	n.a.	90,000	76,000	84.4%	Farmers are increasing the number of improved breeds to increase dairy production
Total acreage of supported beneficiaries that is under crop production	733,000	218,280	74,842	43.3%	Few farmers were reached by the IPs with activities in agricultural production
Total crop volume sold by targeted enterprises (MT)	n.a.	891,350	8,282	1%	Farmer production was low in 2016 due to the drought
Total volume of milk sold through Milk Collection Centres (millions of litres)	n.a.	83	11.6	14%	Limited scale of IP activities, monitoring and reporting
Participating farmers adopting* improved technologies	489,000	194,520	55,317	28.4%	Limited extension services provided by IPs
Female			25,445		
Male			29,872		

* Adoption = a farmer applying at least 3 key recommended productivity enhancing practices for maize

Coffee



During the year, 46,948 farmers were reached by 10 IPs. Of the total number of farmers reached, 32,984 applied at least three major agricultural practices: plant management, including stumping, pruning and de-suckering; fertiliser/manure use; and soil and water conservation. Primary activities included:

- Training farmers in various GAPs;
- Technical support in producing clean planting materials;
- The rehabilitation of old coffee gardens;
- Training in how to best control pests and diseases and reduce post-harvest losses;
- Establishing value addition facilities (such as Kyagalanyi Coffee building new wet processing and coffee roasting plants, and Kawacom Uganda, Ltd. constructing a new wet processing plant); and
- The promotion of coffee consumption.

Other VCD activities during the year included promoting a savings culture amongst farmers, integrating gender equality and equity as a central theme in training households to view Farming as a Family Business (FaaFB), building, building entrepreneurship skills, and providing technical support to green growth interventions. aBi's partnership with the Uganda Coffee Development Authority enabled the regulator to address challenges of sustainable quality improvement, capacity building, and knowledge management in the sector. In addition, a Human Rights-Based Approach (HRBA) was taken when implementing activities at all levels of the value chain – an approach that emphasises equality and non-discrimination, inclusive participation, and transparency and accountability.

The volume of coffee sold (21,680 MT) was significantly higher compared to 2015 due to the sale of previously harvested beans. Coffee prices averaged between UGX 4000-5000/kg, even though 2016 coffee yields dropped by over 30% – down from 422 kg/acre of dry coffee in 2015 to an average of 280 kg/acre in 2016 – due to a prolonged dry spell and persistent stem borer infestations. A total of 60,291 acres of new lands were opened up and planted with 26 million coffee trees..



Improving the Coffee Value Chain: The Case of UGACOF

Conceived in early 1990s, UGACOF began exporting coffee in 1994. It is the largest member of the Uganda Coffee Federation (UCF), and has become the largest exporter of Ugandan coffee, now accounting for nearly 20% of all exported beans. Since 2013, UGACOF has worked with Sucafina S.A. in Geneva, Switzerland, which operates an international coffee traders' network that improves access to markets in developed countries and champions sustainable coffee production. Currently, about a third of UGACOF's exports now go to Europe and America. Sucafina facilitates this market access both through its international network of buyers and its certification of coffee exports as meeting UTZ standards (i.e., that it is produced under sustainable and environmentally responsible conditions by professional growers).

aBi worked with UGACOF to develop a 2-year, UGX 2.28bn project aimed at increasing the incomes of 8,000 smallholder farmers in the Buikwe, Kamuli and Kayunga Districts. About a third of the project costs are provided by UGACOF.

More specifically, the project was designed to:

- 1) Increase coffee productivity and the overall production of smallholder farmers to meet the current and future market demands through good agricultural practices;
- 2) Improve post-harvest handling to ensure quality and enable farmers to earn higher prices;
- 3) Increase the area under coffee production by ensuring availability of clean planting materials;
- 4) Improve market access for the coffee produced by smallholders through

value addition and wet mill processing and certification; and

- 5) Increase the participation of women and youth in coffee production and marketing.

Initiated in mid-2013, the project was and was to have been completed by mid-2015, but progress was slowed significantly by the need to construct a wet mill to add value to the coffee being produced for export. The mill is now fully operational, but its construction set back the project timeline by about nine months. This resulted in UGACOF being affected by the grants disbursement moratorium, which further delayed project completion.

Even so, by the end of 2016 about 65% of the project's targets had been completed. UGACOF received a clean audit and has moved forward with the remaining project work, most of which involves training: in good agricultural practices, post-harvest handling, produce certification, and the establishment of Village Savings and Loan Associations (VSLAs) in order to diversify sources of financing.

Thanks to the use of clean planting materials from the project's seedling nursery and the use good farming practices, most participating farmers have achieved a 50% increase in yield per tree. The project has also resulted in about 8,000 additional coffee farmers being UTZ-certified and providing produce to UGACOF for the international market. The quantity and quality of coffee production in project areas are rising, and plans are being developed to expand the seedling nursery.

Cereals



During 2016, the cereals value chain included maize, rice and barley. Only 7 of the 18 targeted IPs carried out some of the activities planned for the year, and did so using their own resources. Still, 22,603 new farmers were exposed to improved agricultural practices and technologies. These ranged from establishing demonstration gardens to training farmers in good agronomic practices, post-harvest handling, quality standards, and the importance of value addition activities. A good example of the latter was the construction of a maize mill by the Busoga Shinning Light Association.

A total of 8,216 farmers benefited from adopting key recommended agricultural practices that helped them achieve an aggregated net income of UGX 11.8bn. The participating IPs were able to realise an aggregated net income of UGX 1.44bn. Some 543 full-time equivalent jobs were reported, an additional 12,104 acres of land were placed under maize production, and an average yield of 1,464 kg/acre was achieved. A total of 17,720 MT of maize were produced by participating farmers, and of that total 6,814 MT (about 38%) were sold through the IPs' collection system.

It should be noted that the price of maize grain rose as high as UGX 1,200/kg, up from its usual average price of about UGX 500/kg, due to grain scarcity across the country. Unpredictable and unstable rainfall resulted in significant crop failures. The number of IPs aBi worked with remained small because no new IPs came on board during the year.



Strengthening the Cereals Value Chain: The Case of Aponye Uganda Ltd



Aponye Uganda Ltd was incorporated in 1989, and specialises in buying, storing, selling, and transporting cereals and legumes grown mainly in Uganda. The company plays an important role in the cereals value chain, and is focused primarily on handling maize, beans and sorghum.

Aponye currently has a 9,000 MT storage capacity and is able to clean as much as 240 MT of grain per day. On an annual basis since the late 2000s, it has been handling 20,000-40,000 MT of maize, 10,000-15,000 MT of beans, and 5,000 MT of sorghum. In 2012, the company installed a maize grinding mill to produce flour that is marketed under its own brand, *Ugali*. The mill is also used to produce maize bran for animal feed, and maize grits used for the production of alcohol.

The company's main suppliers include Madudu Traders and Farmers Group, Kibuye Organic Farmers Association, and various produce traders and individual farmers. Aponye markets to buyers in Uganda, Kenya, Tanzania, and South Sudan, as well as the World Food Programme (WFP).

aBi first engaged with Aponye in 2014, providing a UGX 1.6bn, 5-year VCD grant to establish a 5,000 MT grain storage facility

in Mubende. The purpose of the grant was to improve post-harvest handling, storage, processing and marketing, and ultimately to improve the livelihoods of 10,000 households. Additional funding was needed to fully implement the project, however, so Aponye sought financing from other sources. The best terms were offered by the East African Development Bank (EADB), but they were constrained by the inadequacy of collateral. In late 2015, aBi Finance helped to cover the collateral deficit with a Credit Guarantee of UGX 4.9bn to EADB, which was intended to ensure that aBi's overall project objectives could be met.

While the main structures were in place in 2015, the Mubende facility only became fully operational in March 2016, after it received funds from EADB to set up a weighbridge and other important components of the facility (e.g., a dust house, an office block, and ground paving). Once up and running, the Mubende facility was soon able to purchase and store 4,441 MT of maize, of which 3,900 MT were quickly processed and delivered to WFP.

Oilseeds



Targeted crops under the oil seeds value chain included sunflower, groundnuts and soybeans. Support to the IPs in this value chain spans several activities. During 2016, 3 implementing partners reached a total of 3,083 farmers, and of the farmers reached, 1,984 benefited from applying at least three key productivity enhancing practices.

The main activities included training in GAPs for oil crops, establishing demonstration

gardens, and training in post-harvest handling and how to set up collective marketing centres and value addition facilities. A good example of value addition is the purchase and use of processing equipment (presses) by the Uganda Oil Seed Producers and Processors Association (UOSPA) project. FAAB training, gender mainstreaming, value addition, the promotion of VSLAs, and green growth activities – all of which benefit farmers – were pursued with active IPs during the year.

An additional 2,471 acres of land were opened to oil crops production, mainly sunflower and groundnuts. The prolonged dry spell in 2016 reduced sunflower and groundnut productivity, with average yields reaching 800 kg/acre for sunflower and 300 kg/acre for groundnuts. As for jobs, the oil crop interventions made during the year created 156 new full-time positions.



Growing the Oilseeds Value Chain: Kyempara Farmers' Cooperative and Pallisa Farmers Association



Various oilseed crops, including sunflower and groundnuts, have long been produced in northern and eastern Uganda, both for subsistence and commercial purposes. The sector was initially built around cotton, groundnut and sesame, and flourished in the 1950s and '60s when sunflower and soybean were added to the mix. However, in the 1970s and '80s imported palm oil captured most of the domestic market share. Production in the eastern and northern parts of Uganda was also reduced by political instability in the 1980s and '90s. Since the turn of the century, however, the sector has benefitted from some major public and private sector investments.

aBi focuses its support on sunflower, groundnuts and soybeans. For example, aBi is providing grant funding to **Kyempara Farmers' Cooperative Society Ltd (KFCOS)** to scale up its sunflower oil value addition facility and improve its ability to comply with current quality standards. The main objectives of the project are to:

- 1) Improve the infrastructure and technical capacity of the existing processing facility at KFCOS in order to meet growing demand for processed sunflower oil. This will include installation of a reliable power backup system or extension of a

3-phase power line to the site.

- 2) Implement improved hygiene and manufacturing procedures “from farm to fork”. This will involve increasing processing capacity, setting up an effective food safety and quality control system, and ensuring testing, compliance and certification to EAC Standards.
- 3) Develop and refine a sustainable business model, using the existing business plan as a starting point. This will require a review of marketing structures and strategies in order to ensure the profitability of KFACOS and the flow of benefits to its 750 member farmers.

Grant funding to **Pallisa Allied Commercial Farmers Association**, which focuses its efforts on groundnuts, is another good example of support to an important oilseeds value chain player. aBi first invested in the Association in 2012, under a 2-year project aimed at increasing groundnut production and marketing among 2,500 farmers in Pallisa District. Based on the success of that project, a second (and larger) 2-year project was approved in late 2015, which is aimed at increasing the incomes of 4,500 small-scale groundnut farmers in the District. Of that

total, 2,000 smallholders are currently growing groundnuts, and the project is designed to bring another 2,500 farmers into the value chain.

The 2015-2017 project has the following objectives:

- 1) Build the capacity of farmers to use good agronomic practices (GAPs), improve post-harvest handling, and understand farming as a business (FAAB);
- 2) Reduce post-harvest losses from 15% down to 7% among participating farmers;
- 3) Encourage environmental conservation among beneficiary farmers in Pallisa District;
- 4) Increase farmer access to quality inputs by partnering with input dealers;
- 5) Promote a culture of saving and establish Village Saving and Loan Associations (VSLAs); and
- 6) Promote better, more equitable gender relations at the household level.

Project targets and progress to date are summarized in the following table.

Performance Indicator	Target	Actual	% Achieved
FTE jobs created	10	3	30%
Average yield/acre (bags)	18	15	83%
VSLAs established and operational	180	80	44.4%
Total VSLA savings (UGX)	200,000,000	72,895,860	36%
Total VSLA loans (UGX)	200,000,000	59,230,700	29.6%
Farmers trained in GAPs and FAAB	4,500	1,600	35.6%

Pulses



Despite the aBi Trust moratorium, interventions in the pulses value chain reached 18,602 beneficiaries (7,652 male and 11,650 female), which amounted to 93% of the total target. These numbers were reported by four IPs:

Mbarara District Farmers' Association (DFA); Solidaridad East and Central Africa Expertise Centre; Kyazanga Farmers' Cooperative Union; and Kiboga DFA.

Capacity building initiatives reached 694 farmers with information and training in good agronomic practices. In addition, post-harvest handling and quality management training was provided to 1,655 farmers. In general, active IPs continued to support VSLAs as a mechanism that enables farmers to save their earnings and access credit. As a result, about 62% of the VSLAs remained operational.



Investing in the Pulses Value Chain: The Case of Manyakabi Area Cooperative Enterprise



Manyakabi Area Cooperative Enterprise (ACE) is located in Isingiro District in Western Uganda. It was established first as a Community Based Organisation (CBO) in 1994, and in 2004 it formally registered as a farmer cooperative. ACE is composed of Primary Societies that, together, represent more a thousand individual farmers, two thirds of whom are women.

As a cooperative, ACE members market their produce collectively; they bulk their bean production, for example, in order to market larger quantities of good quality produce, which gives them added bargaining power

to obtain higher prices. Working through ACE has significantly reduced farmer reliance on often exploitative middlemen, increased farmer access to more productive technologies (such as improved seed and fertiliser), and opened up new marketing opportunities, such as seasonal contracts with the World Food Programme to supply both beans and maize. To date, ACE members have supplied well over 1,500 MT of beans to WFP and about the same amount of maize.

aBi and ACE joined forces in April 2015 under a 2-year, UGX 740mn project (60% of which

was to be provided by aBi). The project was aimed at improving the incomes, food and nutrition security, and livelihoods of 6,000 farmers (3,500 women, 2,500 men and 500 youth) by increasing the productivity of bean farmers, raising their production and access to sustainable markets. More specifically, the project has the following objectives:

- 1) Sustainably improve bean production and productivity (from 400 kg per acre to at least 700 kg per acre) by the 6,000 participating farmers;
- 2) Improve access in Isingiro District to both domestic and regional bean markets;
- 3) Encourage a culture of saving within the farming community, with 200 Village

Savings and Loan Associations (VSLAs) established and operational by the end of the project; and

- 4) Strengthen the roles of women and youth at the household level to improve livelihoods and sustainability.

This project, like others, was slowed by the moratorium, but even so, notable progress was made – and in some cases, targets were exceeded – as summarised in the table below:

Originally scheduled to end in April 2017, the ACE/aBi bean project has been extended for six months to enable additional farmer training and fuller adoption of improved farming practices.

Project Indicator	Target	Actual	Target Achieved
FTE jobs created	50	35	70%
Income for beneficiaries (UGX/ farmer)	700,000	464,000	66.3%
Acres under production	4,200	506	12%
Beneficiaries reached	6,000	2,420	40.3%
Average yield/acre (kg)	700	1,345	192.1%
Total crop volume sold (MT) through ACE	336,000	584,556	174%
Selling price (UGX)	1,200.00	2,100.00	175%
Farmers adopting GAP technologies	4,200	1,905	45.4%
Farmers adopting green growth technologies	4,200	437	10.4%
Farmers selling collectively through ACE	3,000	1,905	63.5%
Number of bulking centers strengthened	5	5	100%
Number of VSLAs operational	200	200	100%
Total VSLA savings (UGX)	200,000,000.00	750,692,000.00	375.3%

Horticulture



Horticulture was one of the value chains most affected by the aBi Trust moratorium on project funding. There was very limited activity in both implementation and monitoring of interventions. Still, those IPs that tried to continue with project activities using their own resources focused on supporting VSLAs and the sale of seedlings. Interventions reached 2,504 beneficiaries (1,504 male and 1,000 female), which was only about 28% of the intended target for the year. Production levels were affected by drought, which also hindered significant increases in acreage and the establishment of demonstrations. Two IPs – Delight Uganda Ltd. (for mangos) and Build Africa-Uganda (for oranges) – established nurseries and produced 210,000 mango seedlings and 582,000 orange seedlings. These were distributed to out-growers and sold to

others through the Government’s Operation Wealth Creation Programme.

The monitoring of farmers that was done in 2016 showed that, because IPs were unable to provide their usual extension support, only about 15% of the target beneficiaries adopted recommended agronomic practices. Development of the value chain created approximately 135 FTE jobs at various points.

There was a possibility of an embargo on fresh horticultural products, especially peppers, exported from Uganda to the European Union market due to presence of false codling moths (a serious pest that can infest various horticultural crops). Not surprisingly, producers and exporters in this sector were adversely affected. As a mitigation measure, the Ministry of Agriculture, Animal Industry, and Fisheries (MAAIF) temporarily suspended pepper exports to the EU to develop strategies that would control the insect and ensure pest-free products that meet the required minimum residual levels. A significant percentage of farmers were not using good agronomic practices, improperly applying pesticides, using prohibited chemicals, and/or not complying with required chemical withdrawal periods before harvests.



Investing in the Horticulture Value Chain: The Case of Delight Uganda Ltd.

Horticulture in Uganda contributes to economic development and poverty alleviation in several ways. It is an important source of foreign exchange earnings and contributes to the country's economic growth. The production of horticultural products, which in Uganda include a very wide range of fruits and vegetables, generates a large number of jobs, as does the input supply, transport, marketing, packaging and handling operations associated with the sector. aBi has worked with a number of agribusinesses along this value chain, and notable among them is Delight Uganda Ltd.

aBi began supporting Delight (U) in early 2015 with 60% funding for a 2-year, UGX 762mn project aimed at improving mango production and marketing as a resettlement strategy for previously internally displaced people (IDPs). The ultimate purpose of the project is to assist resettled IDPs in the production of mangoes for the fresh juice market served by Delight (U). The project's main objectives include:

- 1) Supporting nurseries that produce and distribute clean mango planting material (seedlings) that, once established, will yield mangoes suitable for making fresh juice.

- 2) Enabling 1,000 beneficiary farmers to establish good mango gardens in preparation for fresh juice processing in 2018.

Project activities involve, among other things, the distribution of at least 200,000 mango seedlings, establishing 2,000 acres of mango groves, and providing training to participating farmers in good agricultural practices.

A second 1-year, UGX 632mn project was established with Delight (U) in early 2016. About 60% of the funding for this project, too, is to come from aBi, and its purpose is to set up an irrigation system and provide support to an additional 1,000 mango farmers. Beyond establishing the irrigation system, activities include: the production and distribution of some 2,000,000 mango seedlings; farmer training in good agricultural practices, gender issues, and how to set up village savings and loan associations (VSLAs); the distribution of tree seedlings that can serve as wind breakers and provide fuelwood.

The targets and results to date of the two projects are summarised in the following table.

	Project 1 Targets	Project 2 Targets	Actuals (Combined)	Percentage Achieved
Beneficiaries	1,000	1,000	1,959	98%
Demos established	40	40	43	54%
Nursery established	1		1	100%
Mango seedlings planted	200,000	2,000,000	922,987	42%
Tree seedlings planted	200,000	200,000	600,000	150%
Acreage under production	2,000	2,000	1,702	43%
Irrigation system set up		1	1	100%
Change agents recruited		80	80	100%
Farmers adopting good agricultural practices	800	800	654	41%
Gross Income Delight (U) Ltd (UGX)	80,000,000	5,044,000,000	2,696,711,757	53%

Dairy



In 2016, the dairy herd size increased slightly to about 76,000 animals, up from 73,000 in 2015, as farmers tried to increase the number of improved breeds and reduce the number of local low-yielding cows. The volume of milk produced increased to 83mn litres, compared to 66mn in 2015. This increased production, coupled with a 12% increase in the average price per litre (up from UGX 800 in 2015 to UGX 900 in 2016), resulted in an additional net income for dairy farmers of UGX 10.5bn. However, because of delays in payment by the processors, who are the major outlets for milk produced by the cooperatives, only 11.6mn litres were marketed through the IP-operated collection centres; most of the milk was side sold.

aBi's dairy value chain development project – which was rolled out in southwestern Uganda and involves the distribution of milk coolers, laboratory equipment, milk transportation trucks, and farmer training in various dairy related activities – resulted in the entry of additional

milk processing operations. This in turn led to increased competition amongst processors for the purchase of milk supplies, and this contributed to higher milk prices. Since the milk could be stored longer without a worry that it would go bad, farmers were also able to negotiate higher prices. In addition, farmers owning their own milk transportation fleet made market access easier. Average daily milk yield per cow was reported at about 6 litres, up from 5 litres in 2015. A total of 1,400 FTE jobs were created along the dairy value chain, at farms, milk collection centres, and in the Cooperative Unions.

The challenges to Ugandan dairy farmers caused by prolonged drought still remain, hindering increased production (milk production in 2016 would have been even higher without the drought). This points to the need for additional investments in production and productivity enhancement, water harvesting and conservation technologies. Other challenges affected the sector as well. A consignment of 60 milk coolers that was delivered early in the year remained in storage due to a lack of buyers able to pay the subsidised price for them. In addition, the loan recovery for an earlier order of 100 coolers was very slow. This pushed more than 50 dairy farmer groups into default, and left more than UGX 600mn in arrears by the end of the year.



Increasing Participation in the Dairy Value Chain: The Case of the UCCCU



The Uganda Crane Creameries Cooperative Union Limited (UCCCU) is a national organisation established in 2006 and registered under the 1991 Cooperative Union Act. It is composed of 10 District Unions representing 128 Cooperative Societies that together have a total membership of 18,000 dairy farmers.

UCCCU was set up with the major objective of improving dairy production and the productivity of its members, and improving their access to markets for milk and milk products. However, the member Societies and District Unions did not have their own milk collection infrastructure and instead depended on equipment leased from Sameer Ltd, a major private processor. The terms of

use were unfavourable to the small-scale dairy farmers represented by UCCCU, in that all the milk bulked in the Dairy Corp. coolers was to be sold to the processor at very low prices. In addition, milk collection was not reliable. This circumstance discouraged many of the UCCCU member farmers who began to abandon dairy farming for other investments.

To rectify this situation, in 2013 aBi was approached by UCCCU for support. With funding from the Royal Danish Embassy and the Embassy of the Kingdom of the Netherlands (through a delegated corporation), UCCCU and its member Societies and Unions received a total grant of about UGX 13.8bn. The goal of this intervention

was to strengthen Uganda's dairy value chain by improving the productivity of UCCCU members and improve their access to markets. The grant was, in part, for the acquisition (on a 50% cost-sharing basis) of equipment needed to improve market access. The project called for the purchase of 100 milk coolers, 92 generators, 92 sets of milk testing equipment, 1,500 metallic milk cans, and 10 insulated milk tankers.

The purchase of equipment was coupled with training to strengthen the technical capacity of the UCCCU farmers. Capacity building was fully funded through the project, and included training in: milk quality testing and hygienic milk handling; Cooperative leadership and governance; dry season feeding (pasture and forage crop establishment, harvesting and preservation); gender mainstreaming in dairy farming using the household approach; improved Milk Collection Centre management; and the refinement of internal controls.

The table below summarises some of the project targets and achievements to date.

In addition to the KPIs shown in the table, progress has been made towards mainstreaming gender and youth involvement in dairy activities. About 300 women and

500 young people have been trained in the production and marketing of dairy products, and 20 youth have received training as service providers in artificial insemination.

The 50% cost sharing for equipment purchases was achieved by the beneficiary Societies and Unions in two ways: 8 cooperatives paid cash for the needed equipment; and 84 received loans for this purpose from Pride Microfinance Ltd, a nation-wide microfinance institution.

While progress has been significant, project management by UCCCU has been less than anticipated. This has resulted in: slow disbursement of loans to cover the 50% cost-sharing by the Societies and Unions; lack of reconciled records on loan disbursements and repayments; and failure to follow recommended practices in operating and maintaining equipment. To mitigate these problems, a Dairy Officer was recruited to support UCCCU management, a consultancy firm was contracted to reconcile the accounts and advise on the best way forward, and a firm is being contracted to provide training and put in place and roll out an equipment operation and maintenance system to be managed by the Societies themselves.

Key Results Indicators	IP Project Target (2013-2016)	Cumulative Performance 2013-2016	% Against Project Target
Additional income at farm level (UGX billion)	124	93	75%
New FTE jobs created	3,000	2,519	52%
Herd size under production	97,336	73,000	90%
Total annual volume of milk produced (millions of litres)	221	149	67%
Average yield per cow (litres)	11	5	42%
Total annual volume of milk sold (millions of litres)	155	134	86%
Farm gate price per litre (UGX)	800	700	70%

KYEMPAPA FARMERS COOP SOCIETY LTD.
FUNDS SECURED TO SUPPORT KfACOS ACTIVITIES

NAME OF DONOR	YEAR	AMOUNT	CONTRIBUTION	TOTAL	NATURE	ACTIVITY
SADNET	2004	1 000 000	550 000	1 550 000	GRANT	PRODUCTION OF IMPROVED SEEDS
SADNET	2005	1 500 000	240 000	1 540 000	GRANT	PRODUCTION OF IMPROVED SEEDS
K.R.E.	2005	15 029 000	10 487 000	25 516 000	GRANT	PRODUCTION OF IMPROVED SEEDS
K.R.E. PRESIDENT EMBASSY IN UGANDA	2006	10 586 220	7 674 436	18 260 656	GRANT	PRODUCTION OF IMPROVED SEEDS
FINNS-NETHERLAND	2006	52 124 354	15 196 800	67 321 154	GRANT	PRODUCTION OF IMPROVED SEEDS
DANIDA	2009	11 627 150	4 700 000	16 327 150	GRANT	PRODUCTION OF IMPROVED SEEDS
SWAN-ALUMINZORI	2009	5 185 000	—	5 185 000	GRANT	PRODUCTION OF IMPROVED SEEDS
DANIDA	2010	5 458 000	2 195 000	7 653 000	GRANT	PRODUCTION OF IMPROVED SEEDS
aBi Trust	2011	171 158 000	124 427 000	295 585 000	GRANT	PRODUCTION OF IMPROVED SEEDS
FORMA	2012	80 000 000	—	80 000 000	LOAN	PRODUCTION OF IMPROVED SEEDS
aBi Trust	2014	177 953 600	65 419 500	243 373 100	GRANT	PRODUCTION OF IMPROVED SEEDS
aBi Trust	2015	675 000 000	123 540 000	798 540 000	GRANT	PRODUCTION OF IMPROVED SEEDS
KfACOS	2014	—	60 000 000	60 000 000	GRANT	PRODUCTION OF IMPROVED SEEDS
FORMA	2015	22 000 000	—	22 000 000	LOAN	PRODUCTION OF IMPROVED SEEDS
UNEST	2015	—	—	—	GRANT	PRODUCTION OF IMPROVED SEEDS
USADF	2015	697 591 298	—	697 591 298	GRANT	PRODUCTION OF IMPROVED SEEDS

Lessons Learnt

The 2016 drought in Uganda provided an important lesson (or reminder) of the need for aBi to pursue resilience strategies with its IPs, i.e., to help them learn about and apply climate-smart approaches in their work.

A second lesson: the aBi Trust moratorium of April 2016 led to a notable slowdown in the implementation of project activities in 2016. Still, some IPs moved forward with selected project activities using their own resources, and aBi helped out by providing mentoring and monitoring support. The use of IP resources to continue implementing certain project activities is a good indicator of the strong interest of those IPs in being successful with their projects. aBi Trust and participating IPs anticipate project implementation picking up during 2017 and beyond.

A third important lesson learnt is reflected in aBi's adoption of a mixed team approach to evaluating and supporting both existing and new potential IPs. Mixed teams involve staff with different backgrounds and skills looking at IP-related issues from different angles,

and this helps ensure more comprehensive analyses of projects.

Fourth, the presence of fake agro-inputs in the market and a limited network of agro-dealers is a significant constraint to Uganda's agricultural development. Most of the country's farmers do not have easy access to genuine and affordable agricultural inputs, such as improved seeds, chemical fertilisers, and other agro-chemicals needed to increase farm productivity and the yields of almost all crops. In 2017 and beyond, an emphasis should therefore be given to fighting fake agricultural inputs in the market and to improving the business management skills of agro-input dealers.

And fifth, many of these agro-dealers provide important extension support to their customers, Uganda's smallholder farmers. While the country's agro-dealers are becoming more efficient and effective – and expanding their businesses and employing more people – they still need access to business development services and affordable credit (among other things) to help ensure their long-term sustainability.



aBi Finance



aBi Finance

Established as a separate company limited by guarantee, aBi Finance manages, among other things, a Capital Endowment Fund. This Fund contributes to covering operational costs of aBi Trust while working to increase the availability of credit for small and medium-sized agricultural enterprises (SMEs). The Endowment Fund is placed in financial instruments managed by partner financial

institutions, which in turn make micro-loans to farmers. These instruments include Lines of Credit (LoCs) and Agribusiness Loan Guarantees (ALGs), which are designed to stimulate lending to the agriculture sector. aBi Finance was largely insulated from the effects of the 2016 aBi Trust moratorium and was able to achieve and even surpass most of its performance targets for the year (Table 2). aBi Finance has its own Board of Directors to ensure smooth and transparent operations.

Table 2: aBi Finance performance relative to its targets, as of 31 December 2016

Parameter	Business Plan Target 2014-2018	2016 Target	Attained by December 31, 2016	Variance on Annual Target	Comments
Target yield	12%	11%	12.77%	1.77%	Average yield for 2016
Value of investments (UGX)	120bn	132bn	135bn	3bn	Attained (includes the Construction Guarantee Fund – CGF)
Outstanding amount of LoC portfolio	n.a.	86bn	94bn	8bn	Attained
Number of LoC beneficiaries	n.a.	10,000	40,956	30,956	Attained
Value of LoC disbursed	n.a.	21bn	20bn	(1bn)	Variance to be covered with more effort in pipeline development
Number of ALG beneficiaries	n.a.	20,000	21,680	1,680	Attained
Outstanding amount of portfolio	n.a.	91bn	75bn	16bn	Deterioration due to slowdown in growth of agricultural credit
Leverage: utilization/25% of Fund	n.a.	377%	305%	(72%)	Deterioration due to slowdown in growth of agricultural credit
Non-performing assets	n.a.	<5%	0.4%	<5%	Well within established limit

Source: aBi Finance records; LoC = Lines of Credit; ALG = Agribusiness Loan Guarantee

In addition to managing the Endowment Fund and providing LoCs and ALGs, aBi Finance is also managing a Construction Guarantee Fund (CGF) on behalf of DFID, the purpose of which is to strengthen the ability of financial institutions to fund national road construction and maintenance, with a focus on SME road contractors and consultants.

Endowment Fund Portfolio

In 2016, the Endowment Fund portfolio was 2 percentage points less than the 71% target allocation to LoCs; this resulted in a marginally higher than desired amount being held in fixed deposit (FD) assets. FDs are where cash that is yet to be deployed as LoCs is held, so if LoC targets are not reached, the amount held as FDs goes up. In 2016, the annual average amount of Endowment Fund assets held as fixed deposits was higher than planned because the amount made available as LoCs ended up being slightly less than anticipated (Figure 1). aBi Finance’s investment strategy is to have 20% of its funds in FD assets and Government paper as a reserve to indemnify the loan guarantee instrument.

Lines of Credit

Uganda’s financial services sector grew slowly during the year, mainly because of political uncertainties during the election but also because of a recession in the real estate business, prolonged drought in some areas and heavy flooding in others, and food insecurity. These problems led to large-scale defaults on loan repayments and sector-wide deterioration in agricultural finance asset quality.

Even so, the LoC portfolio still rose by 10% during 2016, with disbursements worth UGX 84bn outstanding with 17 institutions. Only 0.4% of the LoC portfolio was considered non-performing, which is well within the acceptable range of <5%. A total of 40,956 new agribusiness loans worth UGX 94bn were disbursed in 2016, compared to the target of 10,000 loans; almost half (47%) of these loans were made to women beneficiaries. This above-target performance on the number of loans made is considered to be a one-off event, caused by a specific Institution’s disbursement of very small short-term loans to agro-traders.

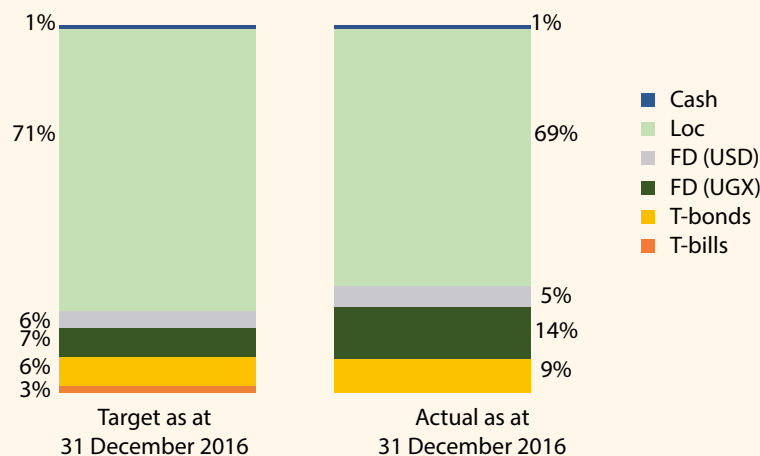


Figure 1: Endowment Fund portfolio mix as of 31 December 2016

Source: aBi Finance

Tier 1 financial institutions (i.e., commercial banks regulated by the Bank of Uganda) held by far the biggest share of the LoCs, most of which were deployed to the Western and Central regions of the country (Figure 2).

Tier 1 accounted for 62% of the financial partners with which aBi Finance worked, and their clients included exporters, agro-processors, traders, and producers in such subsectors as dairy, coffee, cereals and cattle fattening. The Central and Western regions of Uganda accounted for 67% of the new agribusiness borrowers. Access to financial services for women and maintaining a regional balance across the country remain key concerns to aBi Finance going forward. Table 3 provides a breakdown of new LoCs and how they were deployed by gender and region.

Table 3: Financial Institutions lending showing the breakdown of the disbursements by volume, gender and location for the year ended 31 December 2016

New loan disbursements	Total number of FIs	13
	Total number of new loans	40,956
	Total value (UGX) of new loans	94bn
Total number of new Loans by gender	Total male	21,643
	Total female	19,313
Total number of new Loans by location	Central	13,469
	Eastern	6,373
	Northern	6,829
	Western	14,285
Average loan size (UGX)		2,295,146

Source: aBi Finance

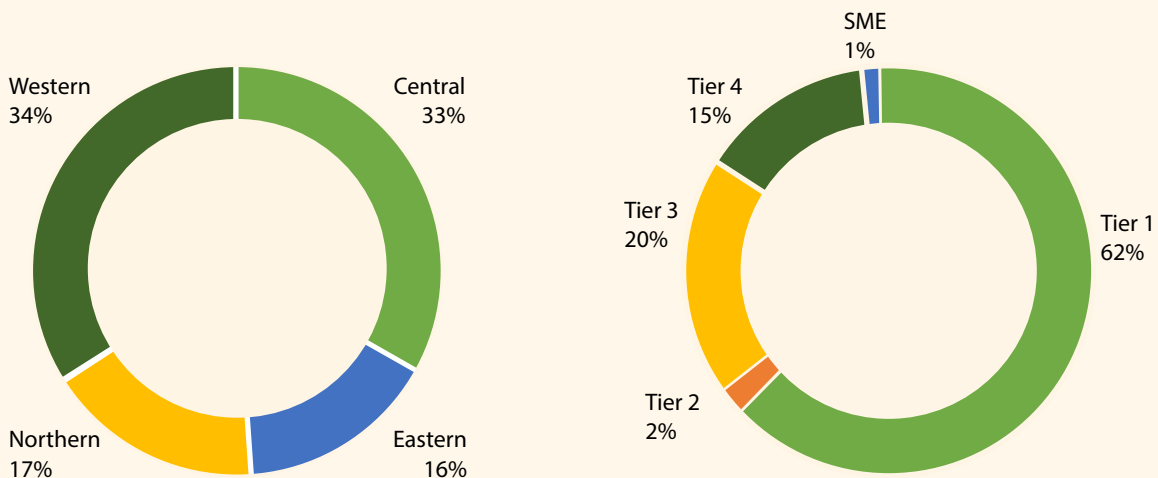


Figure 2: LoC portfolio mix, by institutional tier and region as of 31 December 2016

NOTE: Tier 1 = Large, full service commercial banks regulated by the Bank of Uganda (BoU)
 Tier 2 = Smaller banks, still regulated by the BoU, but offering fewer services
 Tier 3 = Micro-Finance Institutions, still regulated by the BoU
 Tier 4 = Any other micro-finance institution, but not regulated
 SME = A small-to medium-sized enterprise (implementing partner) that receives a LoC

Source: aBi Finance

Agricultural Loan Guarantees (ALG)

In 2016, the ALG scheme added three new financial institutions to its array of partners, but it also lost two existing ones. While the target value of new agribusiness loans was achieved, the amount outstanding declined. This was largely due to a slowdown in credit growth, especially in the agriculture sector, but dropping partners off the scheme also added to the decline.

The uptake of the “Portable Guarantee product” that was introduced in 2014 and allows an IP to negotiate with different financial institutions for lower interest rates has been slow. Lengthy decision-making processes in prospective financial institutions, even with the guarantee provided by aBi Finance, has hampered its use by IPs. Efforts are underway to turn this around, with an emphasis being given to pipeline development in collaboration with aBi Trust as they resume their activities in earnest.

The agribusiness loan claims settled from 2010 to 2016 amounted to UGX 2.3bn, up from UGX 986m in 2015. The claims settled in 2016 amounted to UGX 1.3bn and accounted for 57% of total claims settled to date. This spike followed the rapid growth in non-performing loans seen in the financial services sector, where the non-performing asset ratio deteriorated from 4% in June 2015 to over 10% in December 2016, mainly because of the agriculture, trade/commerce, and construction sectors. According to the Bank of Uganda 2016 report, the building and construction sector and the agriculture sector registered the largest increases in non-performing loans, by UGX 203.7bn and UGX 124.3bn, respectively. The resulting claims pay-out ratio of 1.7%, while within our target of <5%, was 1.3 points higher than the 2015 ratio. Table 4 shows the general progress made with the ALG programme over the past five years.

Table 4: Progress and status of agricultural loan guarantees, December 2012-2016

Key Performance Indicator (KPI)	December 2012	December 2013	December 2014	December 2015	December 2016
No. of active FIs	9	12	13	16	17
No. of beneficiaries as at year end	12000	10,000	15,000	27,000	16,000
Amount outstanding as at year end (UGX)	28bn	40bn	56bn	76bn	75bn
aBi Finance exposure	13bn	20bn	28bn	38bn	38bn
Limits	42bn	57bn	87bn	111bn	119bn
Volume of new loans in the year	20,000	15,000	20,000	41,000	22,000
Value of new loans in the year (UGX)	45bn	69bn	85bn	126bn	111bn
Average loan size (UGX)	2.3m	4.6m	4.3m	3.1m	5.05m
New leverage (outstanding / 20% Fund)	74%	99%	255%	360%	305%
Claims settled per year (UGX)	177	94	243	390	1,270

Source: aBi Finance

Financial Services Development (FSD)

An important organisational change within aBi during 2016 involved moving the Financial Services Development Unit from aBi Trust to aBi Finance. This move increased operational efficiency and enabled closer integration of FSD’s efforts with those of aBi Finance. The Unit facilitates increased access to financial services by agribusiness value chain actors, including smallholder farmers, and works to increase the availability of appropriate financial products for agribusiness development. In 2016, FSD worked with 32 implementing partners, which fell into the institutional categories shown in Figure 3.

In 2016, FSD experienced a general slowdown in project activities because of the aBi Trust moratorium that began in April, and by the organisational review and general procedural and administrative changes made during the year. Following implementation of the aBi Trust moratorium, investigative audits of all IPs were done to reveal any significant audit issues, the first necessary step towards dealing with them. Even so, some of our IPs continued to make gains using their own funds for project activities, building on earlier investments by FSD. Table 5 provides a summary of results achieved in 2016.

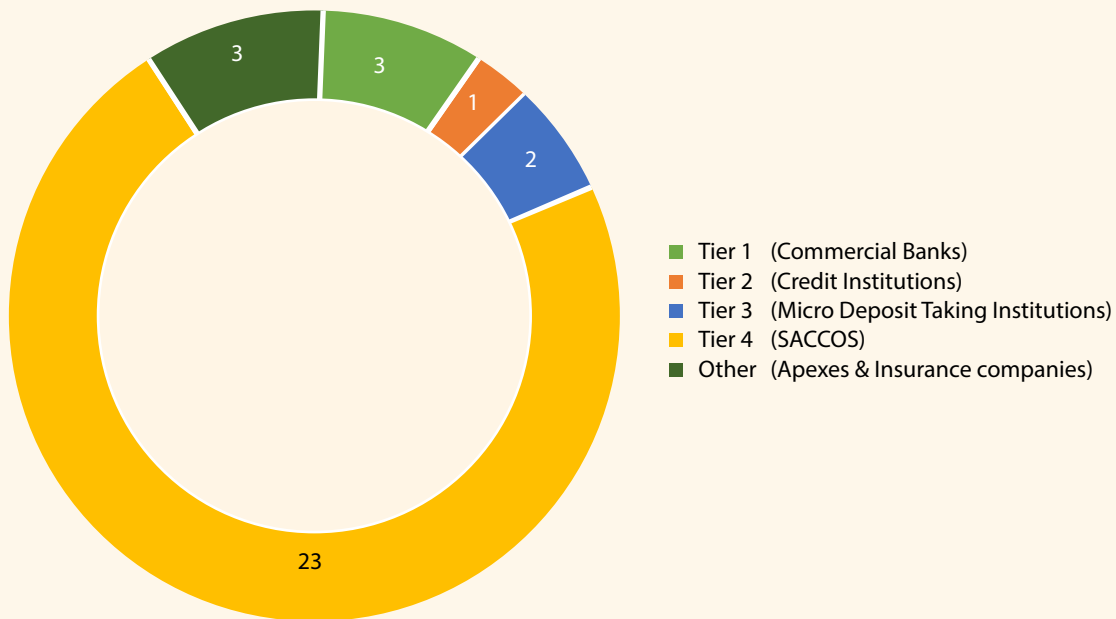


Figure 3: FSD Implementing Partners, by category, 2016

Source: aBi M&E Database

Table 5: Progress on key performance indicators for FSD in 2016

Key Performance Indicator (KPI)	Target 2016	Actual 2016	Per cent attainment against target	Per cent variance against targets	Explanation of indicator variance
New savings volume in UGX	48bn	45bn	93%	(7%)	Affected by the aBi Trust moratorium on funding disbursements, which reduced the number of savings mobilisation campaigns
New loans volume in UGX	177bn	134bn	76%	(24%)	Deterioration of NPA, especially in the agricultural sector, led to financial institutions slowing down their lending
New savings accounts opened	262,400	192,805	73%	(27%)	Alternative delivery channels such as mobile money now preferred.
New loan clients	92,244	128,044	139%	39%	There was an increased number of micro-loans with shorter tenures
New branch delivery mechanisms introduced / developed	7	2	29%	(71%)	Most FIs are opting for innovative mechanisms to reach the unbanked, a trend encouraged by aBi
New branchless delivery mechanisms	4	0	0%	(100%)	Affected by the aBi Trust moratorium on funding to IPs during the year
Number of new products developed	6	2	33%	(66%)	Affected by the aBi Trust moratorium on funding to IPs during the year
Number of clients accessing agricultural insurance products	6,752	8,954	133%	33%	This was largely driven by an increase in promotional and marketing activities for insurance

Source: IP reports Dec 2016

In 2016, 192,805 new savings accounts were registered by the 32 IPs with which FSD worked, compared to that year's target of 262,400. A total volume of UGX 44.6bn in new savings was realised, this relative to a target of UGX 48bn. The shortfall was largely due to the reduced number of savings mobilisation campaigns conducted by the IPs.

A total of 128,044 new loan clients drew on a new loan portfolio of UGX 134bn in 2016, compared to the 2016 targets of 92,244 clients and UGX 177bn, respectively; this suggests that a larger number of micro-loans were disbursed. Figure 4 shows trends from 2013-2016 in savings volume, the new loan portfolio, and the number of new accounts.

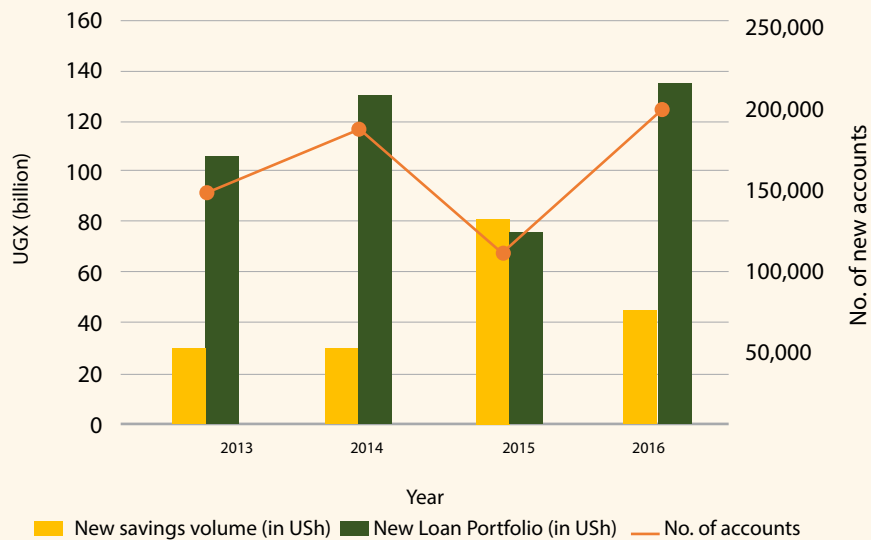


Figure 4: Changes in new savings volume, new loan portfolio and number of new accounts, 2013-2016

Source: IP reports Dec 2016

Improving financial skills and products for financing agribusiness

In the first quarter of 2016, FSD held its annual IP workshops in Kampala and Mbarara. Presentations from various aBi departments were made to 74 participants from 32 financial institutions (including Board members and senior management, project managers, and implementation teams).

In line with developing innovative products, two financial institutions (EBBO Sacco and Kashongi Sacco) were supported in the development of dairy loan products as a way of more closely integrating FSD into aBi Trust value chain development interventions. These products include loans for dairy farm management, breed improvement, and dairy hardware.

In terms of developing agricultural finance skills in the participating financial institutions, 292 staff were trained in how to identify opportunities and risks in agricultural financing. Six financial institutions were trained in credit management to improve

their efficiency and effectiveness in delivering financial services to value chain actors.

Increasing the volume of agribusiness finance

Following the organisational review in 2016, FSD transitioned to aBi Finance to foster greater synergy between aBi's investments in the financial services industry. This move enabled increased deployment of a combination of technical assistance, LoCs, and ALGs that, together, address the major agricultural lending constraints faced by financial partners – such as the persistent perception of agricultural loans being especially risky, and limited internal operational knowledge about the agriculture sector.

In terms of savings mobilisation for increased liquidity, 481 savings mobilisation campaigns were conducted. Because of this activity, the number of new registered clients increased, as did the volume of savings.

FSD continued to work with Lion Assurance to promote the Kungula agrinsurance product, with emphasis given to providing

market information about the product. Agricultural insurance was promoted through six awareness campaigns and 124 insurance training sessions. As a result, 8,954 new clients accessed agriculture insurance products in 2016.

FSD also supported the Finance, Banking and Insurance Expo 2016 to promote awareness and to provide a platform for financial service providers to interact with consumers. Agricultural insurance also received a boost from the Government of Uganda through a budgetary allocation of UGX 5bn for agricultural insurance subsidies during FY 2016/2017, channelled through the newly-formed National Agricultural Insurance Consortium led by Lion Assurance.

The CrossRoads Construction Guarantee Scheme

During 2016, no new Bid Bonds³ (BB), Advance Payment Guarantees⁴ (APGs), Performance Guarantees⁵ (PB) and asset Finance Leases⁶ (FL) were issued by partner financial institutions. This was because the renewal of the fund management contract between DFID and aBi Finance was under negotiation for the better part of the year, concluding only late in the third quarter of 2016. However, the

3 Debt secured by a bidder for a construction job or similar type of bid based selection process for providing a guarantee to the project owner that the bidder will take the job if selected.

4 Form of protection that makes it possible for a buyer to recover any advance payments extended to a seller if the seller fails to abide by the terms and conditions that govern the purchase of goods and services.

5 Bond issued to one party of a contract as a guarantee against the failure of the other party to meet obligations specified in the contract.

6 Lease in which a finance company is typically the legal owner of the asset during the duration of the lease, while the lessee has not just operating control over the asset, but also, in addition, has a substantial share of the economic risks and returns from the change in the valuation of the underlying asset.



bonds issued and underwritten by the fund before December 2015, when the contract between the CrossRoads project and aBi was operational, were covered during the year and allowed to mature as the expiry dates fell due.

Construction Guarantee Fund Investment

As of 31 December 2016, the Construction Guarantee Fund (CGF) value yielded 15.55%, compared to a target of 11% for the reporting period. This performance was mainly attributed to locking in high interest rates in government securities and long-term fixed deposit placements with banks, as shown in Figure 5.

The Agricultural Bond

Issuance of the Agricultural Bond was suspended during 2016 until economic conditions in Uganda are more favourable, and because no new bond issuances occurred during 2016, the value of bonds underwritten by the scheme declined as various obligations matured. This resulted in a significant reduction in leverage, from 126% at the end of 2015 to 26% at the close of 2016.

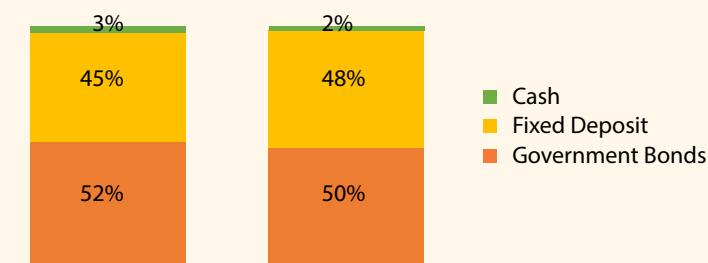


Figure 5: Construction Guarantee Fund (CGF) investment portfolio as of 31 December 2016

Source: aBi Finance

Following the conclusion of the agreement between DFID and aBi Finance, the active financial institution partners were invited to apply for admission to the CGF scheme. However, applications have been slow in coming. This can be attributed at least in part to a slowdown in contracts being issued in

2016 by the Uganda National Roads Authority, the result of organisational restructuring, which in turn reduced demand for the bonds from the banks. aBi anticipates bringing four financial institution partners into the scheme by mid-2017. The status of the CGF scheme is illustrated in Table 6.

Table 6: Status of the CGF scheme as of 31 December 2016

Key Performance Indicator (KPI)	As of December 31, 2015	As of December 31, 2016
No. of active FIs	8	3
No. of beneficiaries as at year end	354	3
Amount outstanding as of year-end (UGX)	13,649,037,457	3,208,654,402
CGF exposure	6,824,518,729	1,604,327,201
Limits	38,300,000,000	38,300,000,000
Volume of new bonds in the year	424	0
Value of new bonds in the year	23,520,864,805	0
Leverage (Total outstanding bonds / fund)	126%	26%

Source: aBi Finance

Integrating aBi Trust and aBi Finance Interventions

While efforts to integrate services with aBi Trust were hampered by the aBi Trust moratorium on the disbursement of funds, efforts continued with setting up and developing structures and products that would be needed to fully implement selected projects in the first half of 2017. In 2016, the following interventions (among others) were monitored, which were jointly funded by the Trust and aBi Finance.

- **Financing for Aponye Uganda Limited** – aBi first engaged with Aponye Uganda Limited in 2014, with grant funding from aBi Trust for establishing a 5,000 MT grain storage facility in Mubende that would improve post-harvest handling, storage, processing and marketing. The end goal was to contribute to livelihood improvements for 10,000 households. For full implementation of the project, we helped Aponye secure affordable financing from a partner financial institution.
- **Financing Uganda Crane Creameries Cooperative Union (UCCCU)** – In 2014, aBi Finance Ltd facilitated the financing of UCCCU by providing 50% of the financing needed for buying equipment, which had been partially granted by aBi Trust. As of 31 December 2016, aBi had supported the acquisition of 86 coolers by a number of primary societies; 7 coolers had been acquired with cash and 7 applications were still in the appraisal process. Full disbursement is expected to be completed in the first half of 2017. However, loan recovery has been a challenge (amongst other issues), which will be addressed in 2017 by a task force has been constituted by all stakeholders.

Technical assistance to Tier 3 (microfinance institutions) and Tier 4 (SACCOs)

Due to the growth in LoCs to unregulated financial institutions (i.e., the 15% of our partner institutions that are in Tier 4), a technical assistance package was provided in collaboration with aBi Trust (through FSD). The focus was on building the skills needed to ensure sustainable growth and development of these institutions, as well as safeguard aBi interests. Capacity building centred on corporate governance, credit risk management, internal controls, and product development. The project is ongoing, covers 10 institutions, and is to be completed by the end of 2017.

aBi Finance and aBi Trust joint appraisal of agribusiness projects

Mixed teams made up of aBi Finance and aBi Trust staff jointly appraised five agribusiness projects, two of which were approved with conditions. In anticipation of the full resumption of disbursements in 2017, such mixed teams will continue to target IPs that are at the top end of the agricultural value chain, but that have significant impact further down the line.

Clean Technology Fund

The aBi Clean Technology Fund was established in 2015 to promote green growth investments for agriculture, and as of the end of 2016, UGX 2.2bn was outstanding in lines of credit to three partner financial institutions and two SMEs. During the year, 2,435 new loans were disbursed (worth UGX 4.9bn), compared to the target of 1,500 new loans. However, achieving regional and gender balance remains a challenge. Utilisation is still dominated by men, who account for



84% of the loans accessed. A mixed team marketing approach that focuses both on new and existing agro-processors under aBi Trust will target the inclusion of women in 2017, specifically by providing concessional financing to mitigate challenges of waste management and efficient renewable energy technologies.

aBi Agribusiness Bond Issuance

The issuance of the Agribusiness Bond was suspended in 2016 because the economic climate simply wasn't suitable to support the program. Should the financial services sector improve such that it begins to favour agricultural lending, bond issuance could be reconsidered, given that it appears to be a good way to integrate aBi services.

Lessons Learnt

First, given the changing and challenging operating environment in Uganda, an enhanced risk management framework and culture is paramount if we are to maintain the quality of our portfolio and aBi's reputation. This effort should also include a strong public communications initiative.

Second, improved efficiency and transparency in day-to-day operations is required to mitigate possible suspension of funds in the event of non-adherence, which negatively affects pipeline development and threatens aBi sustainability.

Third, audits of all the IPs in 2016 pointed to limited awareness and adherence to aBi grantee guidelines. Whereas efforts have been made to re-train and re-issue all the IPs with the aBi grantee guidelines, we need to increase the regular monitoring of project implementation and more closely scrutinise IP financial transactions.

And fourth, to increase the flow of financing to the agriculture sector requires greater integration of aBi Trust and aBi Finance, so as to reduce risks, improve efficiency, increase loan repayments, and consolidate linkages among value chain participants. This will result in promotion of value chain financing instruments like trader credit, input-supplier finance, trade-receivables finance, lease-purchases, insurance, forward contracts, and loan guarantees.

aBi Corporate Services



aBi Corporate Services

One of the major aBi organisational changes made in 2016 was to bring in a senior level Chief Operating Officer of Corporate Services to manage the support departments of finance, administration, ICT, Human Resources, M&E, legal compliance and risk. By the end of 2016, it was clear that this change was producing significant benefits to aBi, both in terms of capitalising on the talents of support services staff and in strengthening the operational efficiency of the different units.

Human Resources and Shared Services

The first half of 2016 was mainly dedicated to implementing a thorough organisational review, along with a job evaluation exercise and a salary survey, producing an organisational structure that better aligns internal resources with key functional requirements and organisational objectives. Approval for the new organisational and salary structure was obtained from the Boards in May 2016 and this was followed by recruitment for the following positions:

aBi Trust

- COO Corporate Services
- Head of Portfolio Development
- Head of Technical/Quality Assurance
- Head of Evaluations, Performance and Results
- Project Manager – Agribusiness (2 positions)
- Human Resource and Administration Officer
- Personal Assistant to the Group CEO

aBi Finance Ltd

- Business Development Manager – Financial Institutions
- Technical Expert Business Development

Communications and Advocacy Strategy

The aBi Communications and Advocacy Strategy was revised as a result of the organisational review, which identified a growing need to influence and advocate for changes that contribute to an enabling environment favourable to agricultural investment. This need for stronger advocacy implied splitting portfolio development activities from the provision of technical expertise aimed at enhancing the quality of project implementation and building a knowledge base for the agriculture sector. Going forward, the advocacy and communications function will focus on influencing and changing the mind sets of stakeholders in the sector. The Communication and Advocacy Strategy was presented to the BOT in April 2016 and received final approval.

Monitoring and Evaluation

Measuring performance

This work has been redesigned in a consultative process involving the M&E department and the VCD and FSD teams. The number of Key Performance Indicators (KPIs) was reduced from more than 500 to 70, in keeping with our existing programme objectives. This simplification has been well received by the IPs and, with some training (and software) provided



by M&E staff, all of them were able to transition from using Excel and Word documents for reporting purposes to exclusively using the new online automated reporting system and associated templates. The output reports produced by the system still require fine tuning to provide management with higher quality reports, and this will also require some additional training for IPs.

Field monitoring and verification visits to aBi IPs

Visits to 60 of the IPs focused on monitoring performance, compliance, and capacity building in results measurement and reporting for ongoing projects, especially during the aBi Trust moratorium period. Significant during the monitoring and verification visits, was the roll-out of the M&E data collection toolkit and related capacity building on how and why to carry out results based monitoring and evaluation, reporting on indicators. In addition, IPs are now required to record their activities on smart phone GPS devices. This allows aBi to see the geographical spread of activities in near-real time and results in operational maps for planning purposes. aBi plans to strengthen this initiative in 2017/2018 in order to use the recording of activities as a control measure for compliance and progress.

During 2016, the M&E team conducted monitoring and verification visits to most aBi projects. The monitoring visits provided

valuable information for the issues log – an online tool used mainly by management and internal audit to flag problems and their resolution. During monitoring and verification visits, IPs were able to seek clarification and feedback on critical implementation challenges, which among others include:

- a) Weak governance structures (largely dysfunctional boards);
- b) Poor documentation and filing systems;
- c) Inadequate technical capacity, especially in areas of agribusiness development, financial management, M&E and knowledge management;
- d) The focus of IPs on outputs, which limits their ability to track strategic outcomes;
- e) The need for institutionalisation and sustainability mechanisms that most IPs still lack; and
- f) The impact on project activities caused by the aBi Trust moratorium on disbursements for implementation.

Strengthened monitoring and verification mechanisms will improve compliance with best-results measurement practices. Most importantly, while still on a small scale in 2016, IPs are increasingly using the integrated online GIS and M&E system, resulting in better data quality and more timely reporting on supported projects.

Baseline construction for new projects/ interventions

The exercise was meant to establish the pre-exposure condition for indicators used to assess the level of change in terms of outcomes and impact over the project's period/life. During 2016, 48 new projects approved in the period June 2015-Oct 2016 had their baseline studies constructed, representing 96% achievement against the target of 50 new projects.

Analysis of the baseline reports recognises:

- 1) The need to review some project indicator targets that were either understated or over-emphasised at the project design stage;
- 2) Project appraisal processes require in-depth VCD market and stakeholder analysis right from the design stage of every project intervention to minimise issues of the duplication of resources and efforts that became apparent during the study; and
- 3) Only a few implementing partners have specific M&E functions and designated M&E staff, which is often considered an add-on requirement that comes with no budget support.

End-of-project evaluations

A total of 37 of 50 closed (finished) projects (i.e., 73%) were evaluated in 2016. The evaluations focused on assessing IP progress towards achieving project objectives and expected impacts, as well as documenting best practices that can be replicated. The evaluations are to be used mainly for learning and programme development, and the reports are shared to inform decision making.

Review of MRM tools

aBi has increased its attention to M&E by reviewing all existing Monitoring and Results Measurement (MRM) instruments, including the manual and other tools to ensure that

the M&E unit effectively plays its role and also supports partners in the implementation of agreed Results Frameworks. Results data collection and reporting tools have been developed and rolled out, and a MRM Manual (still in draft form) has been developed and is available, pending its alignment with the aBi funding manual and recently created roles in aBi's new organisational structure. New MRM tools, such as the Intervention Guide and Aggregation System, have been added onto the MRM system to improve the quality and accuracy of data collected.

Strengthening the technical M&E capacities of partners

Together with other programme units, the M&E unit conducted capacity strengthening activities for all IPs in the areas of online reporting (as noted above) and in the utilisation of GIS. The use of GIS and online reporting continues to be institutionalised within aBi and by Implementing partners. Sixty-nine IPs were able to use the GIS system to report on specific daily activities conducted in their areas of operation, including the provision of evidentiary photographs. IPs' capacity in results measurement has been improved, and 22 of the running projects have been able to develop their own M&E systems. Sixty-seven per cent of the IPs are now uploading their reports directly to the online system. However, there are still challenges of data quality and accuracy.

Finance and grants management

2016 saw the contracting of a consultant to provide an end-to-end Grant Management System (GMS) for the Trust. Following 10 months of site visits, interviews, demonstrations and due diligence, the chosen developer was brought on board to work closely with the Technical Department in the development of the GMS, and ultimately the delivery which is scheduled to happen in mid-2017. The system will track all applications,

facilitate the project appraisal process and contracting, and then allow all reporting and reconciliations to be conducted online by the IPs. In addition, the GMS will greatly support levels of transparency with built-in monitoring tools for aBi Project Managers, allowing them to produce key reports on demand, and track an IP's progress throughout the project life-cycle.

Risk and Compliance

aBi is subject to a variety of risks and uncertainty in the normal course of its business. The management of risks therefore plays a central role in the execution of the 2014-2018 aBi Business Plan, and provides insight into the level of risk across business and portfolio.

Risk and compliance awareness programmes

There is a never-ending need to strengthen the governance skills of aBi's partners, as well as their risk management capabilities, and understanding of legal and compliance issues. In 2016:

- 1) 182 IPs were trained by Summit Consulting on good governance and risk management. The main focus of the training was on effective enterprise-wide risk management, with an emphasis on managing the risk of corruption and fraud, and how to effectively formulate and execute a corporate strategy.
- 2) 20 aBi staff were trained by Summit Consulting on effective enterprise risk management, with an emphasis on corruption and fraud risk management.
- 3) 83 FSD IPs were trained by the Legal and Compliance department on grant risk, as well as corruption and fraud awareness in March 2016 during the FSD fora held in Kampala and Mbarara.

Implementation of the Risk and Compliance Manual

aBi reviewed the Risk and Compliance Manual to align it to the ISO 3100 standard and best practices within the context of aBi. Six aBi staff from different units were identified and trained as "Risk Champions", and a risk assessment exercise was implemented.

Quarterly review and update of the Risk Register

Quarterly reviews and updates of the Risk Register were conducted with the involvement of the risk owners. Key risks have always been reported to the aBi Boards for further action.

Risk assessments of new partners

aBi contracted a legal consultant to carry out Legal due diligence on all prospective Implementing Partners. The Consultant carries out independent search on the company, ownership, compliance to the regulatory authorities and indebtedness of the entity.

The legal and compliance team was also involved in the 3rd party verification exercises which are aimed at carrying out independent verification of the application, the budget and ensuring that all the necessary key steps were adhered to before forwarding the grant applications to the grants committee.

Review of the Service Level Agreements and all grant agreements

aBi's general grant agreement was carefully reviewed and some sections were added to mitigate the financial losses that aBi can be exposed to in case of any breach of contract by the implementing partner; the added sections include Anti Bribery, Assignment, Sub-contracting, and the amendment of the sign-off section (we added an attesting witness).

Information and Communications Technologies

In addition to the everyday running and maintenance of aBi's ICT systems and processes, 2016 focus was on two aspects of the IT

environment. These are a security upgrade further to the 2014 ICT Audit, and the introduction of an Electronic Archiving and Document Management System (EADMS). Both these elements were completed and rolled out as part of aBi's standard ICT set-up. Challenges faced varied from poor consultation services to failing hardware and systems, all of which were addressed and remedied with minimal downtime.

The year also saw the establishment of the aBi ICT department proper, with the provision of a departmental office with its own storage and meeting space. In addition, the team became three with the full transition of an M&E staff member taking up the roll of MIS Officer, residing fulltime in the ICT department. This is much needed, particularly with the soon-to-be implemented Grant Management System.

Disaster Recovery Plan (DRP)

The DRP has been formalised and is now in place. We have contracted a DRP service provider, backing up all our data with an approximate 24-hour lag to complete back-ups. This is done at an off-site at a Data Centre. As part of this service, we have a business continuity agreement, where, in the event of our office not being accessible, we have a 5-desk office available to us immediately, with access to our server and all documents, for a 5-day period.

Electronic Archiving and Document Management System (EADMS)

All departments have been trained and are now using the system for their respective file storage. All documents are retained, encrypted on the server. The remainder of 2016 was spent phasing out the shared drives, with a view to complete transition to the EADMS in January 2017.

M&E System

As noted above, this system was redesigned, restructured, and automated such that IPs

could much more efficiently provide aBi with relevant performance information, among other things.

The Geographical Information System (GIS)

The system is currently up and functional. Refresher training took place in March 2016 and all IPs were issued with devices. To enhance and encourage the use of GIS devices, it was agreed that all new approved projects (as of September 2016) would incorporate a "Data Assistant" role, a person whose sole responsibility would be for GIS and M&E reporting. This was crucial to the continuation of the GIS project.

NAVISION upgrade

The NAVISION accounting system was upgraded to the latest Microsoft license, ensuring that the Finance Department has the best available tools and security measures. The aBi ICT Strategy was written in its entirety and submitted for approval. This covers the general ICT expansion and technical development plans for aBi for 2017 and beyond, together with security and cybercrime considerations.

Security upgrade

A significant procurement drive from ICT occurred in order to increase our security capabilities against both external and internal cyber threats. An additional internal storage unit, additional firewall and upgraded cyber roam features to better protect against spam were installed in line with the findings of the 2015 ICT Audit. This was matched with a team member taking a course to become a certified information systems security professional.

In April, further trouble shooting on the entire internal wireless network was done and it resolved several existing errors and issues prohibiting some IT processes. Our internal network has been running at full capacity providing a much more efficient communications environment.

aBi Internal Audit



Internal Audit

The aBi Internal Audit Department provides independent and objective assurance and consulting services that add value and improve aBi's operations in the areas of Governance, Risk Management and Internal Controls. Internal Audit also plays a significant role in aBi's change management processes.

Audit Assignments

The initial 2016 work plan anticipated the auditing of 36 aBi Trust projects, but at the request of the Board and Management this number was more than doubled, to cover all 77 of the Trust's running projects, as well as 154 end-of-project reports done by implementing partners. Because of its scope, this audit work was outsourced, but was done under the direct supervision of the Internal Audit Department.

With respect to aBi Finance, audits of agricultural loan guarantees, lines of credit, and other investments such as fixed deposits, were carried out as per the original 2016 Internal Audit plan.

We also carried out planned audits on selected operational processes in both aBi Trust and aBi Finance, such as procurement and risk management. As usual, the Internal Audit Department also invested time in monitoring progress with respect to resolving any audit queries, and helped to ensure that all queries remained open until satisfactorily resolved.

The audits done on behalf of aBi Finance turned up very few issues, none of which were considered significant. It was a different story for aBi Trust, where the audits of all active projects and a large number of end-of-project reports revealed a range of problems with the procedures and practices being used by the Trust and its IPs. The outsourced audit review indicated significant problems with: the project proposal development process; due diligence activities in the pre-grant stage; the grant approval process; and a number of

project monitoring, auditing and accountability procedures.

For the Trust, Management has put in place more robust policies and procedures to be followed both internally and by the Trust's IPs. Many of these are embodied in formalised grantee guidelines that are aimed at guiding the implementation of projects and to manage relationships between IPs and aBi Trust.

aBi Trust needs to effectively communicate these guidelines to its IPs and ensure that they adopt the new policies and procedures. This will be done during monitoring visits, through refresher training of IP staff, and through pre- and on-going project assessments.

Overall, the audit findings from the review showed that failure by IPs to adopt practices detailed in project agreements resulted in significant control weaknesses in accounting for expenditures, difficulty in achieving value for money on procurements, and problems with co-funding arrangements and cash management procedures. These can, and in several cases, did affect the achievement of established targets for individual projects; when aggregated, these shortcomings could hinder aBi Trust from achieving its targets.

Other Assignments

As part of promoting efficient and effective assurance within aBi operations, the Internal Audit Department co-ordinated activities of different assurance providers (first, second and third lines of defence) under the Combined Assurance model presented in Table 7. This resulted in clearer understanding of areas of risk exposure. It also clarified the roles of different assurance providers, and helped in the design of a mechanism through which assurance information is shared to avoid duplication of effort as well as gaps (insufficient assurance) in critical areas.

Table 7: Combined Assurance Model

First Line of Defence	Second Line of Defence	Third Line of Defence
<ul style="list-style-type: none"> ▪ Process owners/ managers ▪ Operational staff 	<ul style="list-style-type: none"> ▪ Monitoring and Evaluation unit ▪ Legal and Compliance/Risk Unit ▪ Company Secretary ▪ Finance (for program related activities) ▪ Consultants 	<ul style="list-style-type: none"> ▪ Internal Audit ▪ External Auditors ▪ External consultants ▪ aBi Boards

In 2016, we also documented and disseminated lessons learnt from several audits carried out between 2015 and 2016 in an effort to promote proactive measures aimed at identifying and managing risks with aBi operations.

External Quality Assessment

Finally, in 2016 we undertook an external quality assessment of aBi's Internal Audit

department. This assessment was done in the context of the International Professional Practices Framework (IPPF) and that organisation's Internal Audit Manual, which was updated in October 2016. The final assessment report, expected in 2017, will be used by the aBi Boards and Management to ensure the effectiveness of the internal audit function.





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Financial Performance vs Budget Summary



Financial Performance vs Budget Summary

Financial Performance of aBi Trust in 2016

During the 2016 calendar year (1 January-31 December), aBi Trust utilised UGX 26.9bn, which translates to a 45% utilisation of the total budget for the period. These figures have been adjusted for amounts not yet accounted for or recovered from the IPs. These amounts have been derecognised as expenditures and recognised as receivables. However, provisions for the doubtful receivables have been made,

based on the assessed recoverability of each debt.

For the greater part of the year, aBi Trust was undergoing an organization-wide restructuring exercise of its processes and procedures; it also went through the process of cleaning up its existing portfolio of IPs. During the clean-up exercise, it was thought best by the Royal Danish Embassy to stop any further disbursements to IPs until a clean portfolio was achieved, hence the low utilisation of funds.

Table 8: Performance vs budget by activity for the year ended 31 December 2016

	Budget 2016 (UGX)	Actual 2016 (UGX)	Var %
VCD			
Coffee	9,328,441,000	2,772,574,053	-70%
Cereal	8,511,150,000	(6,159,036,125)	-172%
Pulses	2,097,500,000	264,935,225	-87%
OILCROPS	2,267,000,000	162,533,642	-93%
Horticulture	2,600,000,000	8,589,056	-100%
Dairy	7,707,565,000	3,881,376,442	-50%
Cross Cutting Issues	6,218,496,000	2,937,805,932	-53%
Human Resource	2,785,461,000	3,047,048,468	9%
Provision for doubtful receivables from IPs	-	8,709,183,000	0%
TOTAL VCD	41,515,613,000	15,625,009,693	-62%
FSD			
Qualification of borrowers outreach	3,300,604,000	1,361,047,999	-59%
Financers Skills Enhancement for Supp Agribusiness	481,000,000	253,377,727	-47%
Agribusiness Product Development	890,000,000	5,000,000	-99%
Increasing Volumes of Agribusiness Finance	1,932,000,000	246,319,249	-87%
Consolidation of Lower Tier Financial Institutions	360,000,000	249,620,241	-31%
Risk Management Mechanisms in Agribusiness	610,000,000	265,351,265	-56%
Component Human Resource	1,117,944,000	858,387,684	-23%
Provision for doubtful receivables from IPs	-	1,060,479,000	0%
TOTAL FSD	8,691,548,000	4,299,583,165	-51%
TRUST OPERATIONS			
Staff costs	2,204,356,000	1,876,982,035	-15%
Operational costs	4,186,404,000	4,482,290,822	7%
Capital Costs (incl. capitalised costs)	1,255,100,000	59,070,355	-95%
TOTAL TRUST OPERATIONS	7,645,860,000	6,418,343,211	-16%
Technical Assistance	1,800,000,000	579,061,154	-68%
GRAND TOTAL	59,653,021,000	26,921,997,224	-55%

The 2016 Statement of Comprehensive Income (Table 9) shows grant income composed of the proceeds from RDE for the implementation of programme activities amounting to UGX 23.3 bn. Management fees of UGX 432m were earned from KfW for services rendered by aBi Trust under the Rural Challenge Fund.

UGX 2.3bn was earned from aBi Finance for recharged costs. Other income of UGX 49bn relates to a refund from DAR/RALNUC as their contribution to rent. A revaluation gain of UGX 0.9bn arose from foreign denominated bank accounts and is due to the depreciation of the Ugandan Shilling against the US Dollar over the year.

Table 9: aBi Trust Statement of Comprehensive Income, 1 January to 31 December 2016

	YTD Actual	YTD Budget	Var	YTD Actual
	Dec 2016	Dec 2016		Dec 2016
	UGX	UGX	%	DKK
INCOME				
Grant income	23,300,246,481	58,397,921,000	-60%	42,364,085
Grant Income - KfW	2,021,364,233	2,021,364,233	0%	3,675,208
Management fees	432,660,000	672,000,000	-36%	786,655
aBi Trust Costs recharged to aBi Finance	2,307,624,475	1,661,599,000	39%	4,195,681
Other Income	49,611,013			110,247
Total income	28,111,506,202	62,752,884,233	-55%	51,131,874
EXPENDITURE				
By the Trust				
Value chain development	15,625,009,694	41,515,614,000	-62%	28,409,109
Financial Services Development	4,299,583,165	8,691,548,000	-51%	7,817,424
Technical Assistance	579,061,154	1,800,000,000	-68%	1,052,838
Other trust Operations	6,418,343,212	6,390,759,000	0%	11,669,715
	26,921,997,225	58,397,921,000	-54%	48,949,086
By the KfW				
KfW disbursements	2,021,364,233	2,021,364,233	0%	3,675,208
Foreign Exchange loss/ (gain)	(975,037,256)			(1,772,795)
Tax Expense aBi	143,182,000	700,080,000	-80%	260,331
Total expenditure	28,111,506,202	61,119,365,233	-54%	51,111,829
FUND BALANCE FOR THE PERIOD	0	1,633,519,000	-100%	20,045

1DKK = UGX 550

In the aBi Trust Statement of Financial Position as of December 2016 (Table 10) total assets are shown to be higher than the budgeted amount because of:

- 1) The high closing cash balance of UGX 8bn compared to the budgeted UGX 3bn;
- 2) Other receivables, comprising receivables from IPs, prepayments, aBi Finance recharge costs receivable, and the staff gratuity receivable; and
- 3) Project assets, relating to 60 milk coolers procured by the Trust on behalf of some of its IPs.

Expenditures on equipment were 18% below budget because the purchase of the Electronic Document System was postponed to the following year. A holistic review of the Management Information System was needed to minimise the number of standalone systems, hence the postponement.

Deferred grants are those received from Development Partners during the year, but not spent and whose obligations were yet to be fulfilled. Other payables include the staff gratuity and other accrued expenses.

Table 10: aBi Trust Statement of Financial Position as of 31st December 2016

	Actual Dec-16 UGX	Budget Dec-16 UGX	Var %	Actual Dec-16 DKK
ASSETS				
Cash and bank balances	8,172,406,029	2,750,614,000	197%	14,858,920
Other Receivables	8,396,786,986			15,266,885
Tax recoverable	10,601,173			
Project Assets	8,477,257,000			
Equipment	1,434,257,924	1,749,100,000	-18%	2,607,742
Total assets	26,491,309,112	4,499,714,000	489%	32,733,547
LIABILITIES				
Deferred grants	4,922,357,349	2,866,195,000	72%	8,949,741
Deferred grants - KFW	1,542,348,549			2,804,270
Other payables	1,906,605,530			3,466,556
	8,371,311,427	2,866,195,000	192%	15,220,566
CAPITAL AND FUND BALANCE				
Fund balance as at Dec 2015	16,878,726,684			30,688,594
Fund balance for the period	1,241,271,000	1,633,518,000	-24%	2,256,856
Total liabilities and net funds	26,491,309,112	4,499,713,000	489%	48,166,017

1DKK = UGX 550

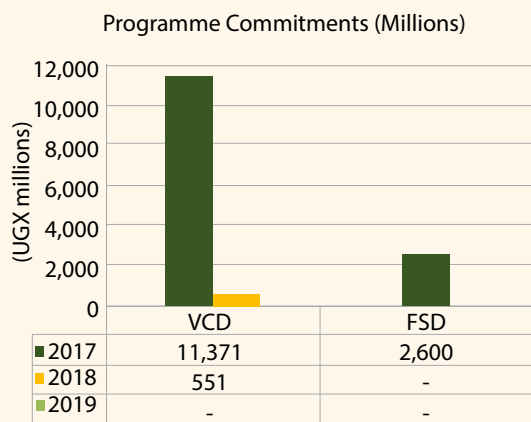


Figure 7: Commitments as of 31st December 2016

Figure 7 shows the level of commitment as of 31st December 2016, in each of the years under contract, that aBi Trust has with its IPs. Total commitments for both VCD and FSD amount to UGX 14.5bn, of which UGX 11bn is to be disbursed in 2017 and has been incorporated into the 2017 annual work plan. One point to note is that the total commitments do not include outstanding monies totalling UGX 8bn to IPs that are currently suspended; it is assumed that these contracts will eventually be terminated.

Financial Performance of aBi Finance in 2016

The following summarises the financial performance of aBi Finance during calendar year 2016. The company's total assets as of 31 December 2016 were UGX 136bn, versus a budget of UGX 132.9bn, including the Construction Guarantee Fund, implying better than expected performance relative to the budget. This is as shown in the Statement of Financial Position (Table 11). The Endowment Fund was invested in Lines of Credit, Fixed Deposits, Government Securities and the Agricultural Bond. Investment in Fixed Deposits with commercial banks was above budget by 85%, which is explained by a preference for them over Government Securities as they can more readily be converted when needed. This investment was also higher than budget due to the stalled Agricultural Bond, which led to funds being invested in Fixed Deposits. Investments in Lines of Credit were slightly below budget (-2%).

Table 11: aBi Finance Consolidated Statement of Financial Position as of 31 December 2016

	Actual Dec-15 UGX	Actual Dec-16 UGX	Budget Dec-16 UGX	Var %	Actual Dec-16 DKK
ASSETS					
Cash and bank balances	691,296,027	1,882,913,749	1,540,153,712	22%	3,423,480
Government securities	9,498,449,346	10,668,928,523	11,191,213,386	-5%	19,398,052
Government securities -CGF	5,258,033,980	5,874,191,757	5,874,191,757	0%	10,680,349
Fixed Deposits	17,755,856,174	25,690,550,144	13,900,711,099	85%	46,710,091
Fixed Deposits- CGF	5,161,819,081	5,838,922,183	5,838,922,183	0%	10,616,222
Fixed Deposits- ASDF			2,091,012,500		-
Line of Credit	76,818,361,821	84,287,107,248	86,058,824,848	-2%	153,249,286
Agricultural Bond	1,003,167,123	1,124,119,177	6,308,129,623		2,043,853
Loan guarantee fees receivable	19,098,170	32,728,310			59,506
Tax Recoverable		30,354,081			55,189
Deferred Tax Asset	333,867,344	373,045,503			678,265
Fixed Assets	9,636,153	5,674,129	58,941,046	-90%	10,317
Other Receivables	365,737,276	509,956,639			927,194
Total assets	116,915,322,495	136,318,491,444	132,862,100,155	3%	247,851,803
LIABILITIES AND EQUITY					
Liabilities					
Bad Debt	1,813,455,260	2,002,842,676	1,768,588,248	13%	3,641,532
Other payables	346,971,546	2,047,641,716	700,000,000	193%	3,722,985
ASDF			2,091,012,500	-100%	-
Tax Payable	101,274,237	-			-
Staff gratuity	685,238,045	777,027,305			1,412,777
Construction Guarantee Fund	10,542,071,367	12,019,059,638	12,019,059,638	0%	21,852,836
Total Liabilities	13,489,010,455	16,846,571,335	16,578,660,386	2%	30,630,130
Equity					
Capital Grants	69,515,798,976	78,412,596,129	77,128,298,976	2%	142,568,357
Retained Earnings	33,910,513,065	41,059,323,981	41,155,140,791	7%	74,653,316
Transfer to ASDF			(2,000,000,000)		-
TOTAL EQUITY AND LIABILITIES	116,915,322,495	136,318,491,444	132,862,100,153	3%	247,851,803

1DKK = UGX 550

Loan guarantee fees receivable are monies not yet paid by some financial institutions; this line item is not budgeted because it is envisaged that payments should be made when due. Deferred Tax is a book entry representing temporary differences in the Balance Sheet. Other Receivables mainly includes CGF management fees and the withholding tax recoverable, which will be recovered after the investments that they relate to mature. Bad

Debt provisions are above budget by 13%, which is explained by the fact that there is an increase in utilisation of the Guarantee scheme and, in addition, there is a specific provision that has been made to cover for the non-performance of the AGARU SACCO facility, which is now in default. Other payables include the staff gratuity funds that aBi Finance is managing on behalf of aBi Trust and also the aBi Trust rechargeable costs not yet paid.

Table 12: aBi Finance Consolidated Statement of Comprehensive Income, 1 January to 31 December 2016

	YTD Actual Dec-15 UGX	YTD Actual Dec-16 UGX	YTD Budget Dec-16 UGX	Var %	YTD Actual Dec-16 DKK
INCOME					
Interest Income	11,831,264,580	13,647,388,221	12,837,403,364	6%	24,813,433
Other Interest Income	34,459,889	211,099,940	667,463,332		383,818
Loan guarantee fees	573,876,711	784,739,869	843,750,000	-7%	1,426,800
Management fees from CGF	359,152,688	316,262,130	292,000,000		575,022
Other Income	58,694,397	1,075,001		0%	1,955
Revaluation Gain/(Loss)	2,025,749,459	712,820,296	0	0%	1,296,037
Total Operating income	14,883,197,724	15,673,385,457	14,640,616,696	7%	28,497,064
EXPENDITURE					
Operating Expenditure	1,762,856,781	3,214,356,810	3,708,815,000	13%	5,844,285
aBi Trust recharged costs	1,918,901,317	2,307,624,672	2,500,000,000	8%	4,195,681
Provisions for Bad Debts	1,073,807,151	189,387,416	326,613,166	42%	344,341
Total Expenditure	4,755,565,249	5,711,368,898	6,535,428,166	13%	10,384,307
					-
Profit Before Tax	10,127,632,475	9,962,016,559	8,105,188,530	23%	18,112,757
Income Tax	2,833,376,142	3,051,642,515	2,529,540,508	-21%	5,548,441
Net Profit for the period	7,294,256,333	6,910,374,044	5,575,648,022	24%	12,564,316
Other comprehensive income	-	238,436,872	-		548,131
Total comprehensive income for the period	7,294,256,333	7,148,810,916	5,575,648,022	28%	13,112,447

1DKK = UGX 550

In the Statement of Comprehensive Income (Table 12), the total profit before tax was UGX 9.9bn versus a budget of UGX 8.1bn, ensuring that the profit before tax is 23% above budget. This was mainly due to:

- 1) A higher than budgeted Total Operating Income, mainly on account of investments in Fixed Deposits that resulted in Interest Income being above budget by 7%;
- 2) A 13% underspending of budgeted operating funds mainly due to the stalled issuance of the Agricultural Bond, and hence funds budgeted for consultancy cost not being spent;
- 3) Lower than budgeted aBi Trust recharged costs (8%).

- 4) Bad Debts expense that was 42% lower than budgeted; and
- 5) A revaluation gain of UGX 0.7bn, due to the depreciation of the Ugandan Shilling against the US Dollar over the year.

The loan guarantee fees are below budget by 7% due to a timing difference between when the fees were budgeted and when they were actually due.

Figures 7 and 8 show the mix of invested funds and the interest income earned. They also compare performance with the same period in previous years. It can be seen that increasingly more of the funds are being invested in Lines of Credit, which is in line with the company's Investment policy.

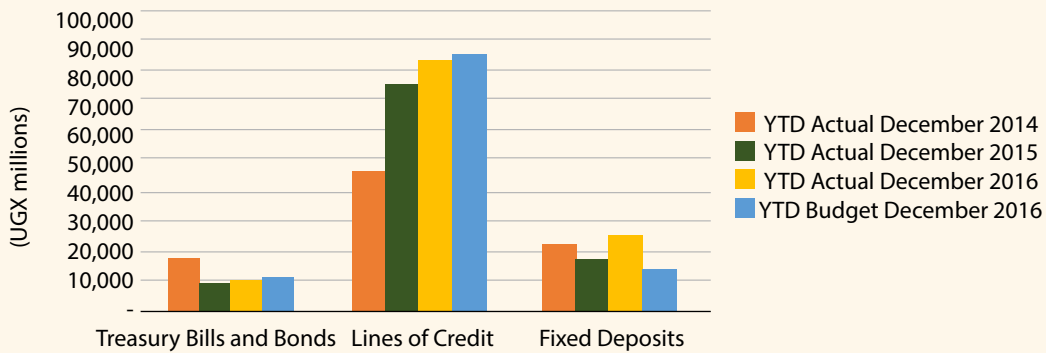


Figure 7: Interest Earning Assets – Balance Sheet

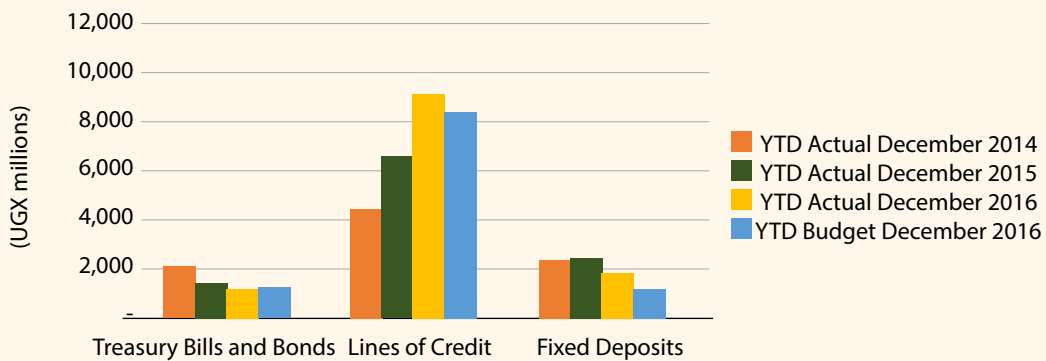


Figure 8: Interest Income

Funding Status

In 2016, aBi Trust received a total of UGX 18.8bn (DKK 34.1m) from the Royal Danish Embassy for the implementation of programme activities. This included funding from the Development Partners under the delegated corporation arrangement. The closing bank balance as of 31 December 2016 was UGX 8bn. Of that amount, UGX 6bn is to be carried forward by aBi Trust into the next work plan period; the rest is for KfW. During the year, the Capital Management component handled by aBi Finance also received a further injection of UGX 8.9bn for extending Lines of Credit to banks and financial institutions for on-lending to agribusinesses. Looking forward

to 2017 and beyond, increased funding is anticipated.

The Construction Guarantee Fund (CGF) facility of UGX 7.2bn (£2m), that is managed by aBi Finance on behalf of DFID’s Crossroads Programme, grew by 14% – it increased from UGX 10.5bn in 2015 to UGX 12bn in 2016. The Fund was predominantly invested in government securities and Fixed Deposits, and there was also a small cash holding. The overall average rate of return for 2016 was 18%, compared to a target of 11%, up from 15% the previous year.

Activities under the KfW's Uganda Rural Challenge Fund continued during 2016. The original agreement with Frankfurt School to manage the project ended in November 2015 and, upon the request of aBi Trust, approval was given by KfW to extend it for a further two years. The extension was needed to enable

the smooth running of the project until full utilisation of the remaining funds. During 2016, a further UGX 2.7bn was received from KfW for implementation of activities, of which a total of UGX 2.0bn was disbursed to financial institutions.

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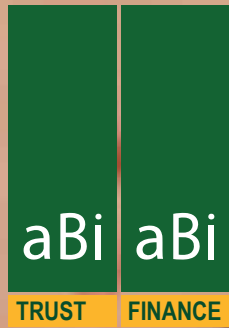
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