

# The Uganda Agriculture Investment Summit

A collaborative approach for government and investors to unlock investment opportunities

CASA and UIA

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Commercial Agriculture for Smallholders and Agribusiness

The CASA programme is a flagship programme of the UK Foreign, Commonwealth and Development Office (FCDO) and is intended to increase global investment in agribusinesses which trade with smallholders in equitable commercial relationships, increasing smallholders' incomes and climate resilience.

The programme aims to help agribusinesses to scale up and trade in larger commercial markets. As part of its work CASA generate new evidence and analysis that supports a stronger, fairer and greener agribusiness sector.

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*This is a “living document” that will be regularly updated as progress is made throughout the different steps of the consultation process*

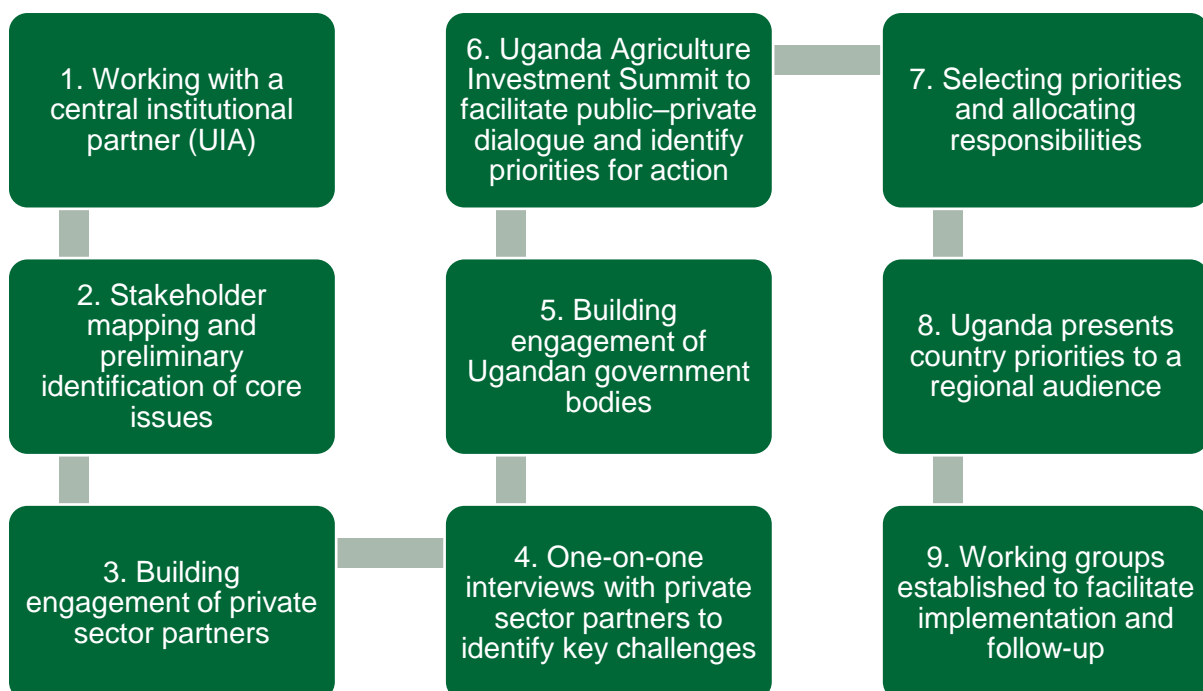
## Introduction and background

Numerous structural issues impede both local and international investors entering the Ugandan agriculture sector. At the same time, there are limited formal channels of communication between investors and the state institutions. This working paper presents a roadmap for promoting policy changes to attract more agricultural investment in Uganda and documenting the steps required for achieving that goal. For that reason, this will be a living document, with identified actions being reviewed and updated as progress is made throughout the different steps outlined in the following section.

The consultation process described here can also be adapted and replicated by other countries aiming to facilitate public–private sector dialogue supporting agricultural investment. Its core message is that this is a long-term process of relationship building, with the aim being to ensure that the exercise is owned and led by national-level partners. The Commercial Agriculture for Smallholders and Agribusiness (CASA) programme provides the framework, facilitates discussions and presents a range of issues, but selecting the priorities and designing the solutions remains firmly in the hands of national institutions.

One of the key steps in the consultation process carried out in Uganda was the public presentation of priority areas identified by investors during the Uganda Agriculture Investment Summit held in the country in July 2021. Another key step will be the commitment by the Ugandan Investment Authority (UIA) to address these priority areas, which will be made at a ‘Deal Room’ event during the Africa Green Revolution Forum (AGRF) 2021. AGRF 2021 is one of the key annual forums for African agriculture, bringing together a wide range of stakeholders with the common aim of furthering agriculture on the continent. The Deal Room event will also include substantial investment facilitation efforts, from direct showcasing of investment opportunities to enabling communication between investors and policymaking institutions. It is expected that presenting the process and commitments at AGRF 2021 will maximize the potential for Uganda to make a real contribution to inward investment, demonstrating to potential investors that the government is willing and able to make changes to address identified needs.

## Structure of the consultation process





## The Uganda Agriculture Investment Summit

The pre-summit investor interviews highlighted the key underlying issues preventing agricultural investments in the country, and made clear that previous consultative processes had not led to policy changes. Thereafter, CASA designed an online, action-oriented event (the Uganda Agriculture Investment Summit) structured around three main sections:

- scene-setting, introductions and thought leader presentations by investors and support stakeholders
- breakout sessions, structured around the three key thematic areas constraining agricultural investment in the country
- feedback to the whole audience from the breakout rooms and discussion of next steps in the process

The breakout sessions were a central part of the summit. They were structured around the core underlying issues and they used a participatory approach to develop an action plan to address these issues. Each breakout group included: a moderator facilitating the discussion (from CASA or AGRA – Alliance for a Green Revolution in Africa); a champion that would present the outcomes of the session during the final panel discussion (an investor identified through the pre-summit stakeholder consultation); and a note-taker. The three themes addressed were:

1. forms of capital – understanding the issues related to the mobilization of finance at both the SME and farmer levels
2. the enabling environment – analysing the regulatory environment and operational infrastructure, particularly in the context of export-oriented agriculture
3. technical assistance (TA) – interrogating the importance of blending advisory support with finance in emerging markets, and the best ways of delivering this

## Thematic priorities for unlocking investment opportunities

This section presents the outcomes of the consultation process to date, structured around the three thematic areas discussed during each of the breakout sessions at the Uganda Agriculture Investment Summit. The potential actions and responsibilities will need to be considered by the UIA during steps 7, 8 and 9 of the consultation process outlined above.

### Forms of capital

#### Working capital

Working capital has been identified as a key priority for agri-SMEs. This should be provided by banks using the right terms to make it accessible to agri-SMEs, including: a) the development of products that are better tailored to agricultural seasonality and the needs of agribusiness; b) the provision of information to agri-SMEs on the sources and forms of capital on the market; c) the supply of long-term capital in the formal finance sector that can be on-lent to the agriculture sector at a reasonable rate; d) a strengthened value chain approach to reduce the risk of the investee and to increase capital flows; e) increased recognition of the need for long-term working capital when structuring agricultural deals; and f) SME capacity building for increased investment readiness.

## De-risking schemes

There is a need for effective de-risking schemes; existing credit guarantee schemes need to be changed to meet the needs of smaller and higher-risk clients in the agriculture sector. Action points to address this include: a) providing easier access to risk guarantees; b) imposing quotas on lenders to enable the targeting of debt to specific groups (e.g. specific genders, or smallholder farmers) that are normally excluded by financial service providers; c) ensuring transparency from banks on the structure of their portfolios; and d) capacity building for financial services providers, so they are able to design products that are suitable for smallholder farmers and agri-SMEs

## First loss

The provision of first loss investment enables the crowding in of other forms of capital through reducing investment risks. Blended finance remains in its early stages; the successes to date need to be promoted to raise awareness of the approach and opportunities.

## Appropriate capital

Venture debt or mezzanine debt might be more appropriate than venture capital for commercial players interested in agriculture. There is a need for more specialist non-bank lenders, such as micro finance institutions, who can be recruited through the use of greater incentives, such as guarantees from donors and governments and increased access to wholesale funds.

In a sector with often limited availability of collateral, grants for purchasing capital items which could then be collateralized and invoice factoring can be good ways to get working capital revolving more rapidly.

### **Forms of capital – *Who needs to act, and when?***

The UIA has a role in educating the ecosystem (including capital providers, investees and other value chain actors) on the capital options available and their advantages and disadvantages. This can begin immediately through engagement with these stakeholders.

The Ministry of Agriculture already acts as the co-ordinator of the actors in the value chain and therefore has a role in providing information and evidence on how the value chains work to overcome financing challenges at specific points. This can begin immediately.

Donors and development finance institutions need to provide incentives to non-bank lenders to come into the market and to develop appropriate products for agri-SMEs. Identifying these incentives can begin immediately and they can be subsequently developed into investment products.

To improve the effectiveness of existing de-risking schemes, quotas should be introduced by guarantee funds to ensure agri-SMEs are included, and legislation should be changed to make accessing guarantees easier. Successes in the use of blended finance thus far should be promoted by the UIA and can begin immediately, while implementing legislative change to promote accessing guarantees will require longer-term planning.

## Enabling environment

### Stakeholder additionality

There is a need for closer relationships between the banks and other capital providers (e.g. impact investors or development finance institutions) to better understand investee needs and to enable them to find the most appropriate sources of funding. The following needs to happen to build the relationships between banks and other sources of finance: a) agricultural finance should become more accessible to SMEs and smallholders; b) the Ugandan Agricultural Insurance Scheme should be rolled out nationwide for the 13 priority crops; and c) the Agricultural Credit Guarantee Scheme should be reviewed and redesigned to make it more accessible for banks.

Greater stakeholder consultation would help to ensure that visibility and information gaps for some government bodies and government policies that should be supporting investment are filled.

### Centralized database

A centralized database with agroeconomic information about farmers and agri-SMEs would make it easier for smallholders to access financial services. It would also help improve regulation and traceability. To create a centralized database the agricultural sector needs to be digitalized: the work of creating a database of farms and farmers, which is currently being undertaken by different government departments, should be consolidated; regulatory barriers to sharing data should be reviewed; and a digital cadastre should be prioritized.

### Investment environment

The investment environment for both local and foreign investors should be improved through: a) developing and enforcing produce quality standards to facilitate trade and market access; b) popularizing existing investment one-stop shops (e.g. the UIA); c) introducing tax incentives for investors and agribusiness to stimulate agricultural investment and exports, and at the very least to create a level playing field with neighbouring countries; and d) increasing public investment in processing-oriented infrastructure for export crops (e.g. drying facilities).

#### **Enabling environment – *Who needs to act, and when?***

The Ministry of Finance, together with the Bank of Uganda, should review the Agricultural Credit Guarantee Scheme to understand the impediments faced by banks in accessing it. This can begin immediately. Changes to the scheme can be implemented in the next two years.

The Uganda Agriculture Insurance Scheme and Uganda Insurers' Association can begin work on expanding the Agricultural Insurance Scheme immediately.

The National Information Technology Agency and the Ministry of Agriculture, Animal Industry and Fisheries can begin working on a centralized database after it has agreed with other institutions where this should be located and who should own it, although work on digitizing the whole sector is likely to continue into the medium term.

The Uganda Bureau of Standards and the Ministries of Trade and Agriculture can quickly target issues around understanding and enforcement of quality standards. Together with financing partners, they can also work over the medium term on investment priorities for infrastructure.

## Technical assistance

### Core business support

There is a limited pipeline of investment-ready SMEs, which points to a need for core business support to get enterprises in better shape for inward investment. Specifically, SMEs struggle with basic governance and business processes, including environmental, social and governance (ESG) requirements, and tax and accounting requirements. On the supply side, TA is not matched to either the business needs or the financing needs. To strengthen core business support, the following needs to happen: a) increased investment in incubation and innovation, with TA providers helping to grow enterprises, including peer-to-peer support between funders and incubators; b) the identification of business challenges and addressing them through convening stakeholders, in both finance and non-finance areas, and providing needs-driven training; c) specific training in software that supports tax and accounting; and d) recognition of the challenges around corruption, and working towards better registration of organizations and governance

### Value chain technical assistance

There is a need for TA along the value chain, but particularly upstream towards smallholder farmers who lack extension services and support from farmer organizations. There is limited clarity on value chain development needs and investment opportunities. TA needs include: a) capacity building for leaders of organizations providing advice and finance in the sector, as well as making businesses more aware of the TA that is available; b) expanding extension expertise in food safety and post-harvest handling, not just production, with training especially at local level; c) remedying the lack of strong farmer organizations providing key services to smallholder farmers; and d) better co-ordination of the value chain to identify investment opportunities from actors at different stages.

### Institutional support partners

The wider ecosystem of institutional support partners has development needs, with financial service providers not understanding the needs and appropriate products for the agriculture sector and weak business advisory services providers serving SMEs. Actions to address these needs should include: a) innovative client-led business models for advisory services, to improve the relevance of services provided to address SME needs; and b) strengthening the capacity and business focus of existing farmer organizations to effectively advise and represent farmers in the market.

#### **Technical assistance – *Who needs to act, and when?***

Donors and government will need to provide ongoing financing for incubation and innovation to build the capacity of businesses to grow sustainability. Incubators will require medium-term support but dialogues with investors to define needs can begin immediately.

TA providers and investors need to support agri-SMEs to build their capacity to maintain tax records and accounting. The design of interventions can begin immediately although they will need financing, which will take time to put in place.

Agribusinesses can start to organize farmers into groups, to make them more efficient.

Government (principally the Ministry of Agriculture, Animal Industry and Fisheries) needs to assess current farmer training infrastructure and the extent to which existing training serves the needs of farmers delivering to SMEs. This can be undertaken immediately.



## UIA priorities

Following this process, and as a result of the Uganda Investment Summit (step 6), the UIA has focused its immediate attention on issues related to the enabling environment (step 7), as it is their main area of competency. The UIA announced five new commitments at the AGRF Deal Room on the 6<sup>th</sup> of September 2021 (step 8):

**1. Making agricultural finance more accessible to SMEs and smallholders**

The UIA supports alternative financing for SMEs (private equity / venture capital financing) and also connects SMEs to the Uganda Development Bank. The country has also introduced an agricultural insurance scheme.

**New commitment:** The Uganda Investment Authority will work with Uganda Development Bank, the Uganda Bankers' Association and the Ministry of Finance to establish the impediments faced by banks trying to access the Agricultural Credit Guarantee Scheme and work with them to find a way forward

**2. Creating a centralised database of farmers and agri-SMEs**

Funding from the World Bank is supporting the development of a farmer information management system, an agricultural marketing information system and an agricultural statistical database and data collection tools.

**New commitment:** The Uganda Development Authority will produce a database of small-scale businesses and farmer groups by the end of 2021

**3. Developing and enforcing quality standards**

Investments by NMS Infrastructure and Integrated Agritech are increasing the quality and quantity of agricultural products available to export regionally and internationally. This is improving better control and laboratory testing of agricultural produce to ensure international standards are met.

**New commitment:** The UIA will formulate and oversee an inter-institutional working group to define a pathway for resolving quality related issues

**4. Popularizing investment one-stop shop centres**

The UIA acts as a one-stop centre for investors, coordinates government and private institutions responsible for investment facilitation.

**New commitment:** The UIA will develop and implement a communication strategy for promoting the one-stop centre as the single access point for information and service transactions for investors

**5. Increasing public investment in market enhancing infrastructure particularly for export focused crops**

The Uganda Free Zones Authority is creating opportunities for export-oriented investment and job creation. Incentives include tax exemption on income from Agri-processing. The Uganda Export Facilitation Programme is establishing collection, bulking and export facilities.

**New commitment:** The Uganda Investment Authority together with the Ministry of Finance, Ministry of Agriculture and other central government partners will identify priority investment needs and costs for agricultural export infrastructure in key commodity and food crops.

## **Next steps**

The UIA and CASA will agree on an action plan and the level of support needed from CASA to coordinate and deliver each of these five new commitments (step 9).

## Annex 1 – Stages in the consultation process

**1. Working with a central institutional partner.** The UIA has a cross-sectoral mandate to encourage investment and has been recruited to act as the communicator to Ugandan government institutions. This approach offers the benefit of a central, accessible institution that can build engagement with the national authorities and in parallel leverage its links to the investor community to identify agriculture sector investors. A similar institution should be available in most countries, although consideration of local political structures is essential in order to understand power dynamics.

**2. Stakeholder mapping and preliminary identification of core issues.** In the early stages of the process, the UIA guided the CASA team on the priorities of the Ugandan administration and core challenges in encouraging investment, and supported the identification of key stakeholders. Mapping stakeholders was the first step in a long-term process of partnership building, starting 18 months before the Uganda Agriculture Investment Summit.

**3. Building the engagement of private sector partners.** CASA, in collaboration with the UIA and AGRA, sought out thought leaders and other stakeholders to facilitate discussions and help to build consensus on priorities at the national level. While the engagement with these parties was part of a broader intervention by CASA in support of Ugandan agriculture, undertaking this in other countries is likely to require a significant resource input at this stage. The leaders/stakeholders who were reached out to included representatives of investment funds already active in Uganda, agribusinesses in Uganda and investment funds from outside Uganda who were investing regionally and who could be considered as potential investors to Uganda. The funds were a mixture of concessional, as well as more commercially capitalized, structures.

**4. One-on-one interviews with private sector partners to identify key challenges.** The CASA team, as an impartial observer, carried out a series of interviews with 15 of these stakeholders to draw out a list of key challenges currently facing the sector. The key challenges identified during these consultations were grouped around three main thematic areas (forms of capital, TA and the enabling environment) to be better able to identify underlying issues and potential action plans.

**5. Building the engagement of Ugandan government bodies.** The UIA prepared the key institutions of the Ugandan administration, briefing them on the Summit process and ensuring representation at the event itself.

**6. Holding a national event (the Uganda Agriculture Investment Summit) to facilitate dialogue between government and private sector representatives and to identify priorities for action.** The Uganda Agriculture Investment Summit, hosted by the UIA, with support from CASA and AGRA, was implemented on 7 July 2021 and defined a series of challenges, and measures to address them. These have been packaged as a series of action, together with proposed responsible parties to promote policy changes. It is important to have an event such as this summit to enable discussions that focus on the issues that can be achieved and to engender a sense of ownership. The event for Uganda was held virtually due to Covid-19 travel restrictions. Two and a half hours were allocated, but a full day would have enabled ideas to be more comprehensively investigated. Undertaking the event in person also allows relationships to be built, and enables nuances and local sensitivities to be effectively communicated.

**7. Selecting priorities and allocating responsibilities.** The UIA has taken the summary conclusions from the summit and discussed these with the target government bodies identified, to build consensus around ideas that can be taken forward. The focus here is on identifying a limited number of priorities that can be achieved in the short term. The UIA has a clear understanding of national priorities and its own institutional capacity and mandate, and therefore focuses on those areas where it is best-placed to lead conversations on

change. Other actions can be addressed through working groups in the longer term, where the UIA can bring in and empower more relevant institutional partners.

**8. Uganda presents country priorities to a regional audience.** The priorities selected will be presented at the AGRF, using information from the summit, which will give the Ugandan authorities an opportunity to present a clear understanding of the current issues facing investors. In the case of the AGRF, the summit will also inform the broader country pitch that Uganda is presenting to external investors as part of another presentation.

**9. Establishing working groups to facilitate implementation and follow-up.** The UIA will lead the process of engagement with the Ugandan government bodies and other in-country stakeholders to implement the change actions selected. Implementing the recommendations will require the engagement of a broad range of institutional partners; a key need here is to engage and empower these parties early enough in the process to engender ownership. CASA will continue providing advice and support to the UIA on the implementation of these activities, as part of its stakeholder engagement work. CASA will also provide the UIA with communication support in relation to the approach and process outcomes, including blogs and video materials (e.g. CASA 4x4 videos).



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