SAFIN INVESTMENT PROSPECTUS

For

The Coffee and other associated crops in Uganda

SAFIN

Website: www.safinetwork.org

ACKNOWLEDGEMENTS

This Investment Prospectus was commissioned by the Smallholder and Agri Small and Medium Enterprise Finance and Investment Network (SAFIN).

The invaluable time, information, experience, knowledge and other forms of technical support of the following is appreciated:

1. SAFIN Coordination Team at IFAD HQ in Rome.
2. SAFIN anchor partner institution in Uganda (Uganda Agribusiness Alliance).
3. Members of the Steering Committee: Dagmawi Habte-Selassie (IFAD), Ajer Basil (Uganda Investment Authority), Munyambonera Ezra (EPRC), Birungi Korutaro (Kilimo Trust), Collins Apuoyo (Palladium/NU-TEC), Irene Sekamwa (aBi Trust), Abuce Moses (NUCAFE), Connie Masaba (VODP), Martin Fowler (USAID), Adolfo Cires-Alonso (European Commission), Evans Nakhokho (Centenary Bank), Emmanuel Negombye (Stanbic Bank), Francis Wasswa (Pride Microfinance), Edward Ssenkindu (DFCU Bank).
4. Local SAFIN Uganda partners and key stakeholders which were also involved in the field interviews and in-country meetings: Agence Française de Développement (Martin Jandet), International Trade Center (Hernan Manson and Blessing Omoaghe), USAID (Patricia Habu and David Rogers), NUCAFE (David Muwonge), World Food Programme (Miyuki Yamashita), UAA (Steve Hodges), Hanns R. Neumann Stiftung (Victor Komakech), International Women Coffee Alliance (Teopista Nakkungu), VODP2 (Susan Lakwonyero), Oikocredit, Grow Africa and Mercy Corps.

We would want to extend our deepest appreciation to the farmer organisations, financial sector players and various value chain actors including smallholder farmers and agri-SMEs who participated in the field interviews for the Investment Prospectus Framework pilot in Uganda for both the coffee and oil seed sectors. A special thank goes to representatives of NUCFE, UCFA, HRNR, Post Bank, Mount Meru Millers, Mukwano Industries, Ngetta Tropical Holdings, Lisa Reso Enterprises Ltd, UGACOF, AIM Cofee Ltd, Busabulongo Coffee Factory, Masaka Coffee Processors, CARD Uganda, BrazAfric, ACPU, Flama Co. Ltd, UOSPA, Redcon, Dove Nest Investment, Global Traders Co. Ltd, Kumi Oil Seeds Millers Ltd, Uninversal Pride Millers, Sun Rise Agro Processor, Pikwi Farmers' Cooperative, Bunambutye Millers, Global Produce, Komar Ngetta Oil Millers, Mango Fund, and AgDevCo.

Mr. Asaph Besigye (an independent consultant from Uganda) collated, analysed, interpreted the data and wrote the draft Investment Prospectuses. The investment opportunities analysis and further enrichment of the draft Investment Prospectuses was carried out by Mr. David Nanambi Wakyiku, Managing Director of Asigma Advisory (a local investment advisory firm in Uganda).
A special thank goes to Mr. Edward Katende (from Uganda Agribusiness Alliance) and Mr. Aïnina Aïdara (from the SAFIN Coordination Team) who played a direct quality assurance and technical support role.

ACRONYMS AND ABBREVIATIONS

aBi	Agri- Business Initiative
ACE	Area Cooperative Enterprise
ACF	Agricultural Credit Facility
ACPCU	Ankole Coffee Producers Cooperative Union
ASSP	Agricultural Sector Strategic Plan
ATAAS	Agricultural Technology and Agribusiness Advisory Services
BDS	Business Development Services
BOU	Bank of Uganda
CAADP	Comprehensive African Agricultural Development Programme
CAGR	Compound Annual Growth Rate
CAPEX	Capital Expenditure
CRB	Credit Reference Bureau
DC	Depot Committee
DFA	District Farmers Association
DPs	Development Partners
DSIP	Development Strategy and Investment Plan
EADB	East Africa Development Bank
EIA	Environmental Impact Assessment
EIB	European Investment Bank
ERA	Electricity Regulatory Authority

EU	European Union
FAO	Food and Agricultural Organization
FAQ	Fair Average Quality
FBOs	Farmer-based Organizations
FIs	Financial Institutions
FY	Financial Year
GAP	Good Agronomical Practice
GDP	Gross Domestic Product
GIZ	German International Corporation
	(Deutsche Gesellschaft fuer Entwicklungszusammenarbeit)
GOU	Government of Uganda
HRNS	Hans R. Neumann Stiftung (NGO)
ICT	Information Communication Technology
IFAD	International Fund for Agricultural Development
IP	Investment Prospectus
IPF	Investment Prospectus Framework
IRA	Insurance Regulatory Authority
Kg	Kilogram
MAAIF	Ministry of Agriculture, Animal Industry and Fisheries
MDAs	Ministries Departments and Agencies
MDIs	Micro Deposit-taking Institutions
MEMD	Ministry of Energy and Mineral Development
MFIs	Microfinance Institutions

MM	Mobile Money
MLHUD	Ministry of Land Housing and Urban Development
MoFPED	Ministry of Finance Planning and Economic Planning
MSCL	Microfinance Support Center Limited
MTEF	Medium Term Expenditure Framework
MTIC	Ministry of Trade, Industry and Cooperatives
NAADS	National Agricultural Advisory Services
NaCORI	National Coffee Research Institute
NAP	National Agricultural Policy
NARO	National Agricultural Research Organisation
NDP	National Development Plan
NGO	Non-Governmental Organisation
NSSF	National Social Security Fund
NUCAFE	National Union of Coffee Agribusinesses and Farm Enterprises
OPIC	Overseas Private Investment Corporation
OWC	Operation Wealth Creation
PEFF	Private Enterprise Finance Facility
PHH	Post-harvest Handling
PPP	Public Private Partnership
PSFU	Private Sector Foundation Uganda
SACCO	Savings and Credit Cooperative
SAFIN	Smallholder and Agri-SME Finance and Investment Network
SDGs	Sustainable Development Goals

SMEs	Small and Medium Enterprises
SWG	Sector Working Group
TA	Technical Assistance
UAA	Uganda Agribusiness Alliance
UBA	Uganda Bankers Association
UBO	Uganda Bureau of Statistics
UCA	Uganda Cooperative Alliance
UCDA	Uganda Coffee Development Authority
UCFA	Uganda Coffee Farmers Alliance
UDB	Uganda Development Bank
UDC	Uganda Development Corporation
UEPB	Uganda Export Promotion Board
UGX/USH	Uganda Shillings (currency)
UIA	Uganda Investment Authority
UMA	Uganda Manufacturers Association
UNBS	Uganda National Bureau of Standards
UCCI	Uganda National Chamber of Commerce and Industry
URA	Uganda Revenue Authority
URSB	Uganda Registration Services Bureau
USAID	Unites States Agency for International Development
USSIA	Uganda Small Scale Industries Association
US$	United States Dollar (Currency)
WRS	Warehouse Receipt System

TABLE OF CONTENTS

LIST OF TABLES

LIST OF FIGURES

EXECUTIVE SUMMARY

The purpose of the IP is to focus the sector stakeholders (including SAFIN local partners) investments/ programmes in an aligned manner around strategic gaps between investment opportunities and what the financial sector is currently able to offer. Thus, the IP is expected to guide the mobilization and targeting of investment and financing resources and other solutions (including technical assistance) to enhance the efficiency of the value chain, specifically targeting smallholder farmers and agri-SMEs that engage in this sector.

The IP is also of value to policy makers for guiding or informing the development of policies and strategies that aim at promoting the growth of the coffee sector, as well as to private business development and services providers in the design and providing of interventions that aim to enhance the flow of investments and financing in the coffee industry/ sub-sector.

The IP provides a snapshot of the country context in terms of macroeconomic environment and how it impacts the developments (investments and financing) in the coffee sector, including the relevant laws, policies and regulations. It also highlights the key government implementing agencies and other relevant institutions that should provide key contact points to engage with for purposes of stepping up investments in the sector, including for collaboration purposes.

In addition, the IP examines the broad overview of the coffee sub-sector with respect to the actors in the value chain and their transactional relationships, the opportunities and challenges relating to investments and financing that are critical for increasing the efficiency of the value chain and thus for the eventual growth of the sector. The current programmes and initiatives supporting the sector are identified, including their assessed challenges and shortcomings and thus their effectiveness in impacting the operations of the smallholders and SMEs.

Finally, the IP provides an analysis of the Uganda's financial sector ecosystem and the extent to which it is supporting the investment and financing needs of the agricultural value chain actors in general and, smallholder farmers and SMEs in particular, including their challenges and gaps.

The following investment opportunities have been explored for the case of the coffee value chain:

- **Coffee grading facility:** The investment opportunity lies in the secondary processing of Fair Average Quality beans to graded coffee for export to international markets. The investment requires capital expenditure of

US$ 3.8 Million to set up an export grading factory with annual output of 171,000 60-kg bags, which is approximately 5 percent of 2017/18 national exports of Robusta.

- **Dry Coffee processing:** The investment opportunity is to set up a dry processing facility for Robusta coffee with an annual capacity of 3,750 tons of dry coffee fruit. This requires capital expenditure of US$ 173,500.
- **Coffee farming for a smallholder:** Given the high demand for coffee beans, an investment opportunity exists in setting up a coffee farm that will provide sell Robusta Kiboko to local coffee traders and exporters. The farmer will require UGX 2.58 Million (US$ 697) to establish the one acre smallholder farm.

INTRODUCTION

1.1 BACKGROUND OF THIS IP

This IP was produced for the Smallholder and Agri Small and Medium Enterprise (SME) Finance and Investment Network (SAFIN). SAFIN is an inclusive partnership of institutions that are committed to supporting the investment capacity of smallholders and agri-SMEs by strengthening the financial ecosystems in which they operate. Partners recognize that smallholders and other agri-SMEs are key investors in rural economies across the world, and that they are key contributors towards more inclusive and sustainable food systems and more broadly towards the realization of the 2030 Agenda. They also recognize that the investment capacity of these small-scale entrepreneurs is too often undermined by poor access to adequate financial products and services – spanning credit, insurance, savings, leasing, remittance-based products, and others.

SAFIN Partners have a shared interest in working together in five areas. One of these areas is entitled "*Aligning country-level investments and programmes through inclusive models*" and is mainly concerned with the development of an Investment Prospectus Framework (IPF) which is intended to facilitate strategic, well-targeted collaborative efforts among a range of actors and institutions with the capacity to either invest directly in smallholders and agri-SMEs or to provide finance for investment by these enterprises. It is under this workstream and the IPF that this Investment Prospectus (IP) has been implemented.

The implementation of this IP also leveraged on a number of coffee value chain and other sector studies that had been accomplished by different stakeholders in the past that informed the existence of investment opportunities (including the level of creditworthiness of the value chain actors) and risks as well as potentially relevant financing mechanisms and products. In addition, country level engagement with the value chain actors and other coffee sector stakeholders, including business development services (BDS) and technical assistance (TA) providers was undertaken for primary data collection and secondary data validation that informed meaningful assessment of the opportunities and gaps.

In a parallel activity, SAFIN carried out a Technical Assistance Landscape Analysis to complement the workstreams related to innovative business models around the delivery of TA to agri-SMEs and smallholder farmers. This will also form part of the IPF pilot in Uganda. This exercise was undertaken with the purpose to make sure that, as part of the IPF, there is a clear understanding of the TA landscape within the coffee sector in Uganda. The recommendations in the outcome of the latter activity have been integrated in this IP. The IP scoping activity also included an assessment of financial services supply and demand situation related to smallholder farmers and agri-SMEs in the sector that is discussed later in this document.

The IP adopts the SME definition under Uganda's Micro, Small and Medium Enterprises (MSMEs) Policy 2015 i.e. includes enterprises with up to 100 employees and up to UGX 360million (US$ 100,000) in total annual sales/turnover or capital invested.

1.1.1. FOCUS OF THIS INVESTMENT PROSPECTUS

This IP focuses on enhancing finance and investments that will improve the productivity, efficiency, profitability, resilience and viability of smallholder farmers and agri-SMEs operating along Uganda's coffee value chain. The IP:

- Provides an overview of the smallholder and agri-SME in Uganda's coffee sector, including their demand for investments and financing;
- Highlights the relevant laws, policies and regulations and the key features of the institutional environment in the coffee value chain;
- Identifies key opportunities and challenges to increase or realign investments and financing flows by and for smallholders and agri-SMEs in the coffee value chain;
- Details how the existing financial ecosystem matches these opportunities and the existing gaps, including both the role of public and private investments and the role of commercial financial services providers; and
- Highlights and provides contacts to industry associations, government bodies, or other institutions that may be useful to a prospective investor, financier, or investment/ financing-supporting entity.

Therefore, the purpose of developing the IP for the coffee sector is to provide:

Purpose of IP

- An analysis of market and investment opportunities from a smallholder and agri-SME perspective and how the financial system is addressing these opportunities;
- An analysis of the programme portfolios of SAFIN local partners compared to the identified financing/ investment gaps and opportunities.

By assisting in focusing the lens of prospective public and private sector resources and financing solutions with attention on key areas that have been prioritized by the sector stakeholders, the IP is expected to generate harmonized engagement and commitments by the stakeholders on what areas should be financed by identified sources within a specified timeframe. This should ultimately enable the monitoring of the impact of the prioritized investment and financing interventions on the growth of the sector and thus of their contribution to meaningfully and profitably integrate the smallholder farmers and SMEs in the commercial domain of this value chain.

The IP is also of value to policy makers who may want to develop or refine policies and strategies aimed at promoting the growth of the coffee sector, as well as to private business development and services providers in the design of interventions that aim to enhance the flow of investment and financing in the sector.

The coffee sector stakeholders and other interested entities will use the IP to mobilise and support delivery of investment and financing solutions that benefit the sector's smallholder farmers and SMEs, and to forge collaboration in the development of an enabling environment within which the investment and financing can be accelerated and delivered.

1.2 PRESENTATION OF THE COFFEE SECTOR IP

Section 1 presents an introduction providing an overview of SAFIN and, the approach to and goal of developing the coffee sector IP and the entities that were involved or engaged within the process of implementing the IP.

Section 2 provides an assessment of the country's social and macroeconomic parameters and conditions, including key agricultural performance perspectives and trends. It also summarizes important agricultural and coffee sector stakeholders, including government ministries, departments and agencies (MDAs), development partners and coffee sector value chain actors, and gives a snap highlight of the situation pertaining to access to finance, in particular for the smallholder and agri-SME actors.

Section 3 presents the SAFIN Uganda's local partners' current programme portfolio interventions that focus on impacting Uganda's smallholder farmers and agri-SMEs, and financial sector institutions.

The last section presents the sector overview, investment opportunities and gaps and the landscape for financial services in regard to demand and supply situation, including the policy context, for the coffee sector in the perspective of the identified potential investment and financing opportunities and gaps.

UGANDA COUNTRY OVERVIEW

2.1 GENERAL BACKGROUND

The rationale for presenting the country overview in the IP is to provide a snapshot of the country context in terms of macroeconomic environment and how it impacts the developments (investments and financing) in the coffee sector, including the relevant laws, policies and regulations. It is also to highlight the key government implementing agencies and other relevant entities that should provide key contact points to engage with for purposes of stepping up investments in the sector, including for collaboration purposes.

Agriculture continues to be the main anchor of Uganda's economic growth and development agenda[1]. As such the country is placing much emphasis on creating a conducive environment for the sector's modernization and growth. In the financial year 2017/18, agriculture's contribution to total GDP was 27 percent, contribution to total employment was 58 percent (to rural employment was 80 percent) and to total export earnings was 46 percent[2] (with coffee alone, of which Uganda is Africa's number one exporter and second largest producer accounting for 15 percent of total export earnings in 2016 down from 17.5 percent in 2015).

Therefore, development of the agricultural sector in Uganda is synonymous with development and growth of the national economy, increased food and nutritional security, increased household incomes and improvement of the life of the majority of the people including women and children.

The country's development agenda and strategy is guided by Uganda Vision 2040 with a goal of "*a transformed Ugandan society from a peasant to a modern prosperous country within 30 years*" to be realized through the National Development Plan (NDP) that is programmed and rolled over every five years[3]. In the Vision 2040 and the current NDP II, agriculture is envisioned to be the lead sector that should substantially contribute to the realization of the sustainable development goals (SDGs) in regard to poverty reduction, increasing incomes both on and off-the farm, reducing hunger and malnutrition, creating jobs and boosting industrialization and value addition[4]. There is thus a direct link between agriculture, growth in the economy and improvement in livelihoods especially of the rural people. The agriculture sector is dominated by smallholder farmers (over 90 percent), majority of whom are subsistence producers but gradually adopting commercial farming practices.

The country has since 1990 continued to pursue a policy of a fully liberalized economy[5] and market environment with the private sector actors taking the steering seat for the desired economic growth and development. The government investments principally focus on public goods, with more emphasis in the last five years put on infrastructure (roads, electricity and ICT) that should spur private sector investments and trade. As a result, macroeconomic stability has continued to be realized. During the financial year 2017/18, a GDP growth of 5.8 percent was realized compared to 3.9 percent GDP growth registered in 2016/17. Annual headline inflation for end of FY 2017/2018 was 3.7 percent (compared to 5.7 percent for 2016/2017), and the Central Bank Rate has been steadily declining and stood at 9 percent in March 2018 compared to 17 percent in March 2016.

The financial sector has continued to maintain steady growth over the last two decades and provides a diversified range of financial services that are supportive of private sector investments, including credit, payment and remittance solutions and insurance products. The sector has over the last five years been boosted by mobile money (MM) services provided by several telecommunication companies which is increasing accessibility or financial inclusion even in very remote rural areas as well as boosting commercial transactions[6]. The flow of direct foreign investments (DFIs) and diaspora remittance inflows has maintained a positive trend over the same period. However, less-than-desired growth is being realized in the capital markets with fewer companies listing on the Uganda Securities Exchange (USE).

Uganda's public debt has over the last ten years maintained a steep upward trajectory, reaching US$ 11.1 Billion in December 2017 (38.4 percent of GDP) from US$ 1.9 Billion in FY 2008/09. Though the national debt burden is still below the international prescribed debt sustainability threshold of 50 percent of GDP, the debt servicing/ repayment allocation (at 32 percent of the 2018/19 national budget expenditure) is considerably high and is of worrying concern. However, with the substantial portion (over 70 percent) of the public debt being incurred for investments in infrastructure, it is anticipated that the overall debt impact on economic growth and development will yield positive dividend in the medium and long term.

Another key aspect relates to the high population growth rate. Uganda's population (estimated at 40 million in 2017)[7] has been growing at a very high rate[8] and is thus exerting pressure on government expenditure and natural resources especially land for agricultural production since majority of the people (more than 70 percent) live in rural areas and derive their livelihood from agricultural activities.

Although Uganda's economy has grown significantly over the past decade, low levels of investments by the smallholder farmers and agri-SMEs continue to subsist and thus to constrain the growth of the agricultural sector[9]. The major reasons for the slow investments in agriculture include limited or no access to affordable finance, limited outreach of extension services, low farm-level productivity that increase unit cost of production and reduce eventual profit margins at marketing and thus diminishing appetite for reinvestment, weak farmers' institutions, land tenure challenges and systemic risks relating to adverse weather and market fluctuations, as well as limited outreach mechanisms that should strength smallholder operations such as Outgrowers schemes and contracts.

2.2 RELEVANT LAWS, POLICIES AND REGULATIONS

The overall national policy framework is guided by Uganda Vision 2040 which is implemented through the NDP (rolled out through 5-year national development plans). Uganda Vision 2040 has 33 Indicators with 41 Targets.

At the sector level, relevant policies and strategies guide the implementation of government programmes for the sector that are outlined in the sector policy statements and annual Budget Frame Work Paper that informs the appropriation for the sector in the annual national budgets and the medium-term expenditure framework (MTEF).

The National Agricultural Policy (NAP), 2013 provides the country's strategic direction for the development of sustainable agriculture. The policy vision is "*A competitive, profitable and sustainable commercial agricultural sector*" with an overall objective of providing food and nutrition security and to improve household incomes. The NAP guides all agriculture and agriculture-related subsector plans, policy frameworks and strategies that are developed and pursued to realize the national and CAADP outcomes and targets (e.g. Under the Comprehensive Africa Agriculture Development Programme CAADP)[10]. The Agriculture Sector Strategic Plan (ASSP)[11] is the National Agriculture Investment Plan, a strategic document that guides the implementation of the NAP.

Therefore, the NAP is expected to provide an effective enabling environment for private sector investments in the sector as well as guiding public investment and financing, collaboration and partnerships, and regulation and linkages. It adopts a broader lens and therefore addresses all the key issues that cut across the entire value chain (research, inputs supply, productivity, post-harvest handling, aggregation and storage, value addition and processing, marketing, farmer groups/ organisations, etc.) as well as financial services and synergy through linkages with other relevant government MDAs. In addition, in the Public Investment Management for Agro-Industrialization (PIMA), nine commodity value chains have been prioritised over the medium term. These are coffee, tea, cotton, cassava, maize, oil palm, fish, dairy and beef.

Other relevant laws and policies relate to monetary, fiscal and trade/investment aspects, including;

- Fiscal regime and investment incentives embedded in relevant taxes acts as regularly amended by bills to take into account the government's annual tax revenue measures and targets (e.g. income tax, exercise duty and stamp duty for domestic taxes, and import duty for external/ import taxes) and the investment code act.
- Business registration and licensing laws and regulations, and dispute resolution procedures/ mechanisms (within the established legal framework and principles).
- Trade policies and regulations, including those relating to international trade agreements and protocols to which Uganda is a signatory (see Annex 5). Uganda has also signed a number of investment treaties and bilateral trade agreements (highlighted in Annex 5).
- Financial Institutions Act and other related laws, policies and regulations, focusing on monetary policy and, financial sector development, growth and stability, and for Anti- Money Laundering and Combating of Financing of Terrorism (AML/CFT) provisions.
- Laws regulating Direct Foreign Investments, including guidelines for repatriation of profits, importation of labor, registration of business, tax and investment incentives and access to land for investments.
- Environmental compliance laws and guidelines, including those related to environmental impact assessments (EIA).

To streamline the policy direction on agricultural finance, the National Agricultural Finance Policy and Strategy[12] is being developed (under the coordination of the Ministry of Finance Planning & Economic Development (MOFPED), with technical support being aggregated and provided to MOFPED through the Agriculture Finance Platform which is hosted by Uganda Agribusiness Alliance - UAA) and is expected to be approved for adoption before the end of the current financial year (2018/19) In addition, there are other laws that are still in draft form such as the Biosafety and Biotechnology Bill that are relevant for the growth and investments in agriculture.

Therefore, the relevant laws, policies and regulations that should guide and/or catalyze investments and financing in the agricultural sector, including in agribusinesses, are in place and are continuously reviewed for relevancy to the operations in the sector. What is important for the investors (small, medium and large scale) is to assess their relevance and impact on their prospective investments and how to comply with their requirements. There is also a growing space for advocacy with many SAFIN partners supporting activities in the enabling environment for smallholder and agri-SMEs development.

2.3 RELEVANT GOVERNMENT IMPLEMENTING AGENCIES AND KEY PRIVATE SECTOR ENTITIES

The key relevant government institutions/agencies and private sector organizations, in the context of this coffee sector IP include:

Ministry of Agriculture Animal Industry and Fisheries (MAAIF)
• The mandate of the MAAIF is to "formulate, review and implement national policies, plans, strategies, regulations and standards and enforce laws, regulations and standards along the value chain of crops, livestock and fisheries". MAAIF is also responsible for the "enhancement of crop production and productivity, in a sustainable and environmentally safe manner, for improved food and nutrition security, employment, widened export base and improved incomes of the farmers. • **Uganda Coffee Development Authority** (UCDA): is responsible for the regulation of the coffee sector in Uganda, including licensing of coffee processors and exporters, monitoring the compliance with existing regulations and initiating new policies and strategies[13] for the sector, and monitoring the trends in the global and domestic coffee markets. • **National Agricultural Research Organisation** (NARO), an Apex body responsible for guiding and coordinating all the national agricultural research initiatives, including developing new agricultural technologies for farmers such as new crop varieties. The National Coffee Research Institute (NACoRI) is a constituent institute of NARO that is dedicated for the applied research relating to coffee and cocoa in Uganda. • **National Agricultural Advisory Services** (NAADS), for provision of farmer-centred technical advisory services for increasing production and productivity. • **The Sector Working Group** (SWG): A multi-stakeholder platform in the planning and budget process for the agricultural sector as a whole and identifying policy issues for consideration and action by MAAIF, composed of MAAIF departmental heads, Civil Society Organisations, Development Partners (DPs), private sector players and other interested parties including farmers and farmer organisations.

Ministry of Trade Industry and Cooperatives (MTIC)
• Trade licensing roles and registration of cooperatives (by the registrar of cooperatives and his subordinated

Ministry of Trade Industry and Cooperatives (MTIC)
commercial/ cooperative officers at the local government level). • Overseeing the activities of cooperatives (commercial and financial services providers e.g. SACCOs), including audit function and providing borrowing references to lenders. • **Uganda Cooperative Alliance** (UCA), for capacity building of farmer cooperatives (including SACCOs) and other farmer-based organizations (FBOs) with a focus on increasing productivity, efficiency and profitability of the assisted entities or firms. • **Uganda Industrial Research Institute** (UIRI), for promoting industrial growth and development and providing incubation services to businesses in relation to technology development and transfer.

Ministry of Finance, Planning and Economic Development (MoFPED)
• Responsible for the country's overall macroeconomic policy and planning (including fiscal policies) and implementing the national budget that caters for approved sectoral allocations, including for the agricultural sector. • **Bank of Uganda** (BOU), responsible for the national monetary policy, and financial sector regulation (for the regulated financial institutions) and growth. • **Uganda Investment Authority** (UIA), responsible for promotion, facilitation and coordination of new investments, including issuing of investment licenses/ certificates for qualifying investments. UIA also provides a one-stop-center for new investments by having the necessary business and investment registration and licensing in one place that is enabling the speedy processing of new investments. • **Uganda Revenue Authority** (URA), responsible for collecting national taxes in accordance with existing tax laws and policies, issuance of necessary certificates such as certificate of origin, and phytosanitary certificates for exports through the well-established Asycuda system, as well as issuing the rules of origin for the exporters. It is effectively ensuring the legal compliance of businesses and investments for tax purposes such as issuing of tax identification numbers (TIN) and VAT registration numbers.

Ministry of Energy and Mineral Development (MEMD)
• Electricity Regulatory Authority (ERA), for regulation (including approval) of electricity tariffs.

Ministry of Energy and Mineral Development (MEMD)
• UMEME Limited, for new electricity connections and billing/sale of electricity to end-users, including for business/ investment operations.

Ministry of Water and Environment (MWE)
• Responsible for implementing the National Irrigation Policy • **National Environment Management Authority** (NEMA); responsible for ensuring compliance with the national environment management laws in regard to safety, pollution and soil degradation, including issuing of EIA certificates for investment projects where required.

Ministry of Lands, Housing and Urban Development (MLHUD)
• Responsible for land registration, public land management and registration of commercial mortgages.

Other Relevant Government Agencies and Key Private Sector Entities
• **Uganda Registration Services Bureau** (URSB), responsible for registration of businesses (including for foreign enterprises) operating in the country, patents and brands, and legal and statutory documents. • **Uganda National Bureau of Standards** (UNBS), responsible for developing national and sector-specific standards and monitoring compliance with the developed standards. • **Insurance Regulatory Authority** (IRA), government agency mandated to ensure the effective administration, supervision, regulation and control of the business of insurance in Uganda, including licensing of insurance companies and insurance brokers. • **Private Sector Foundation Uganda** (PSFU), for technical advice and business development services focusing on enhancing the efficiency of the private sector actors and, policy and regulatory lobby/ advocacy. • **UAA** for technical advice and business development services focusing on enhancing the efficiency of the private sector actors and, policy and regulatory advocacy for the agri-food industry.

Other Relevant Government Agencies and Key Private Sector Entities
• **Uganda Export Promotion Board** (UEPB), is Uganda's national focal point responsible for export promotion and development. • **Uganda National Chamber of Commerce and Industry** (UNCCI), responsible for promoting trade and investment in the private sector and enhancing business growth. • District Local Governments, for coordinating new investments in the districts, upgrading rural infrastructure such as roads and, planning and overseeing the distribution of government-funded inputs under OWC. • Industry Associations; including Uganda Manufacturers Association (UMA), the Uganda Small Scale Industries Association (USSIA), the Uganda Bankers Association (UBA), Association of Microfinance Institutions in Uganda (AMFIU) – a membership organisation of microfinance institutions (including regulated ones such as MDIs). • District Farmers Associations (DFAs), an association of farmer membership clustered on a district basis.

The existence of the above agencies and other support entities provides a good opportunity for the planning, coordination and alignment of delivery of investment and financing initiatives that should step up the commercial engagements by the smallholders and agri-SMEs in the coffee sector. However, weak coordination continues to limit effective operations and impacts of these institutions and their programmes, projects and initiatives for smallholders and agri-SMEs.

MAPPING OF SAFIN LOCAL PARTNERS

This section of the IP presents the portfolio of programmes of the SAFIN local partners that target to benefit smallholder farmers and agri-SMEs by especially integrating their operations in the commercially viable transactions of specific agricultural value chains, and those that enhance access to finance that should equally benefit smallholders and agri-SME operations.

The rationale for presenting the programme portfolio of SAFIN local partners is to highlight the intervention areas of the programmes that should enable SAFIN and other stakeholders to know who is doing what in the sector and thus the assessment of the potential collaboration, including joint programming of resources that should increase investments in the sector that will benefit smallholders and SMEs.

The information presented focuses on the existing/ current programmes of the SAFIN local partners. At the time of preparing this IP a number of local partners such as USAID had had many of their programmes wound up and are thus in the process to formulate follow-on programmes. The exclusion of the prospective programmes has been necessitated by the cautious stance of the partners as to whether and when such programmes will be actualized, and with what budget. Thus, the portfolio presented in the IP can be updated as and when new programmes are brought on board and also as new SAFIN local partners are enlisted.

The programme interventions of the SAFIN partners that are relevant for the Uganda's smallholder and agri-SME actors is presented in the table below and the detailed analysis (including tenure, funding amounts and geographical focus of the respective programmes where indicated) is in annex 8.

Table 3.1: SAFIN Partners Portfolio of Programmes relevant for smallholders and agri-SMEs

SAFIN Partner Entity	Portfolio interventions benefiting smallholder farmers and SMEs, and financial sector institutions
IFAD (Uganda Country Programme)	• Under the Vegetable Oil Development Program (VODP), interventions to increase domestic production of vegetable oil crops (sunflower, soya, groundnuts and oil palm) and their bi-products through assisting smallholder farmers to increase production and establish commercial relations to link them directly to processors. • Increasing sustainable production, productivity and climate resilience of small holder farmers (maize, rice, beans and cassava) with increased and profitable access to domestic and export markets • Under PROFIRA Program, supporting increased access to and use of financial services in rural areas by strengthening SACCO and CSSG sector as well as policy for the microfinance industry • Public Sector support to NAADS and NARO

SAFIN Partner Entity	Portfolio interventions benefiting smallholder farmers and SMEs, and financial sector institutions
USAID	Under its *Feed the Future program*, USAID supports market-linked value chain development targeting coffee, maize and beans (and other food crops with nutritional impact). The interventions focus on; • Productivity and post-harvest quality enhancement through best practice demonstrations; • Increasing market access and linkages for smallholders and SMEs (including the youth); • Supporting increased access to improved inputs; • Improving access to financial services by enhancing capacity of financial institutions to lend to agribusiness actors and supporting the grass root farmer-based financial institution models; • Strengthening rural collective marketing initiatives through producer organisations; and • Supporting enabling environment for agribusinesses, including policy alignment.
European Commission	Is implementing two programmes; • Development Initiative for Northern Uganda (DINU) that focuses on supporting agricultural recovery to improve the livelihoods of farming household in Northern Uganda. • SME Agribusiness Development/Equity Fund that provides leveraged investment and equity funding for agri-SMEs
Palladium Group	Is implementing the DFID-funded NUTEC – MD programme for Northern Uganda. The programme key intervention areas include: • Supporting the smallholders to access improved seed by working with the private sector to increase importation of Hybrid sunflower seed and supporting production/ multiplication of improved OPV sunflower and soya seed. • Supporting animal feeds production in collaboration with the private sector actors. • Supporting innovative market linkage models such as village buying agents/ champions for sunflower and soya that are linked to specific oil seed millers. • Mechanization (tractor hire services) for smallholder farmers and refugees in partnership with private sector tractor owners. • Enhancing access to the market for refugees' crop production activities in West Nile. • Enhancing improved access to financial services for smallholders and SMEs in the focus value chains.
Oikocredit	• Wholesale lending to lower Tier FIs in Uganda to enhance their liquidity and enable appropriate structuring of loans extended to agribusiness clients such as to permit grace periods and extended tenure. The lending targets to benefit, among others, smallholder farmers and agribusiness SMEs; • Lending to SMEs and farmer cooperatives for working capital and medium-term financing needs; and

SAFIN Partner Entity	Portfolio interventions benefiting smallholder farmers and SMEs, and financial sector institutions
	• Supporting technical assistance for strengthening the capacity of MFI borrowers.
International Trade Centre (ITC)	EU-EAC Market Access Upgrade Programme – MARKUP: Focusing on: • Improving market access to EU and the East African region for five EAC partner countries (Burundi, Kenya, Rwanda, Tanzania and Uganda) agro-industrial crop and horticultural sectors, including avocado, cocoa, coffee, spices and tea. • Addressing both supply side and market access constraints of key export-oriented sectors; and • Supporting SMEs trade activities with regional and European partners
WFP	Is implementing the Agriculture and Market Support Project that focuses on farmer group formation/ strengthening and group savings, improved post-harvest management, clustering of farmers for collective marketing that prioritize the maize and beans value chains (the principal relief food commodities), infrastructural development i.e. construction of commodity aggregation facilities. The project is currently focusing on Karamoja region and refugee hosting districts.
AFD	Is implementing the Agreenfi programme that is supporting local FIs to develop their financial services to the agricultural (smallholders and SMEs) and other rural stakeholders.
Grow Africa	TA support to Uganda to adapt the Country Agribusiness Partnership Framework (CAP-F) - a CAADP country engagement and partnership tool for effective mainstreaming of private sector priorities and formation of agribusiness partnerships aligned to national agricultural transformational goals.
Uganda Agribusiness Alliance	Engages public and private sector actors to identify and address legal, regulatory, and policy barriers; target key infrastructure investments; and facilitate dialogue and learning exchange.

It should be noted that although not all the SAFIN partners' programmes are focusing on the specific agricultural sectors of the IP, their interventions in a way impact the IP sectors' smallholder farmers and agri-SMEs as the activities of the target beneficiaries are usually cross-cutting and interlinked e.g. farmer organisation strengthening, improving access to financial services, etc.

Overall, the SAFIN local partners have a diversified pool of programme portfolios of activities that are supportive of smallholder and agri-SME integration in meaningful and commercial undertakings that should help to spur investments and financing for these actors. This should provide a solid base for re-aligning investment and financing resources for the IP sector, including efforts to facilitate initial collaboration amongst the partners and other stakeholders that are actively engaging in supporting the coffee value chain and the financial services sector.

UGANDA'S COFFEE SECTOR OVERVIEW

The rationale for the presentation in this section is to highlight the key transactional levels of the coffee value chain that are the critical nodes for investment and financing interventions in terms of enabling the analysis of available opportunities and existing constraints that are impacting the efficiency of the value chain. It is also to provide a snap overview of the policy and regulatory environment as well as the existing programmes and initiatives that can be leveraged for investments and financing in the coffee sector. Thus the analyses in this section should assist in deriving informed decisions for investment and financing in the sector.

4.1 SECTOR ACTORS, INVESTMENT AND FINANCING OPPORTUNITIES AND GAPS

A simplified Ugandan coffee value chain map is presented in annex 1. The coffee value chain actors that help to focus the perspective of the IP include input suppliers, coffee farmers, traders, exporters, transporters and value chain enablers. The principal transactional actors in the value chain are discussed in the following sub sections.

INPUTS SUPPLIERS: These include suppliers of inputs such as seedlings and clonal coffee cuttings, fertilizers, herbicides and pesticides, tools & basic farm equipment, sundries such as tarpaulins, etc. These actors play a key role in enabling coffee farmers increase production and productivity (by way of enhancing the adoption of good agronomical practices), control pests and ensure sound post-harvest handling practices. With the exception of coffee nursery operators, most inputs dealers transact in inputs for many crops and thus cross-sell coffee sector-specific inputs alongside inputs for other agricultural enterprises.

COFFEE FARMERS: This refers to farmers that are engaging in coffee primary production activities through conversion of inputs to realizing the production output. A number of farmers (through their farmer groups and associations, or individually) have gone beyond the primary production level and are engaging in value addition of primary processing of the coffee and marketing the coffee of added value[14]. In essence the smallholder farmers are being encouraged and organized to own their coffee along the different stages of the value chain for realization of better prices and income, albeit with challenges of multiple household financing needs such as school fees, medical care, food and other sundries. For many of the Arabic coffee farmers, primary processing is by way of the wet processing (pulping) by the farmers.

According to UBOS and UCDA data, there are approximately 1.7 million households in Uganda that are engaging in coffee production, with coffee farm acreage of 0.5 to 2 Ha per household. The smallholder coffee farmers produce 85 percent of the total coffee produced and marketed in Uganda, while SMEs produce the other 15 percent. There are very few large coffee plantations or estates in the country such as for Kaweri Coffee in Mubende.

TRADERS: Traders usually transact in: (1) Unprocessed coffee that they buy directly from the farmers (after or before harvest) and either undertake primary processing and sell to big buyers (as Fair Average Quality (FAQ) or parchment coffee). These are often referred to as middlemen who take possession of the coffee for a very short transactional duration. In majority of cases, middlemen are agents of big buyers or processors. Despite the role that middlemen play, as farmers increasingly undertake primary processing and marketing of the processed coffee, the role of middlemen is progressively getting diminished and so is the opportunity for investment and financing operations at this level of the value chain. This role will further diminish if farmers can access finance for their pre-harvest household financing needs. (2) Bulking larger volumes of processed coffee (FAQ and/or parchment) for either sale to exporters or directly export by themselves. A notable variant of this category of the coffee value chain actors is the farmer cooperatives that buy the farmers coffee after collective processing and market it and thus bearing the market (and other associated) risks. However, to ensure transparency, these cooperatives are answerable to their farmer members about the actual market changes such as higher spot prices and in many cases provide a second payment that may arise from the high prices realized after taking care of the associated operational costs[15].

PROCESSORS (SMEs): These engage in primary processing activities either for a service fee or as traders themselves. As such, they engage in buying unprocessed coffee and processing it for themselves for subsequent sale to big buyers or to export market. They are licensed and regulated by UCDA and are thus operating under very clear guidelines that have prescribed penalties and sanctions in cases of non-compliant or errant processors.

Processing operations that are dominated by SMEs involve both dry processing (principally for most of the Robusta coffee from Kiboko to FAQ) and wet processing mainly for Arabic coffee from red cherries to parchment. Wet milling is by either using wet coffee pulpers (that are either hand operated or motorized) and/or coffee wash stations. These are complemented by other facilities such as those for fermentation and drying. This category of actors also includes those engaging in secondary processing of parchment into green coffee beans and grading the beans for export, and those engaging in coffee roasting and grinding especially for the local market, albeit at very low scale of operation for the latter category due to a local market that is still constrained by demand (low local consumption).

As the volumes of traded unprocessed coffee continue to decline, many processors are providing processing hire services. Also, and most important, these actors are available and accessible and thus the processing level for the coffee value chain is currently not constrained. However, this is likely to change as production volumes increase in tandem with the national targets for coffee production and exports, and also as coffee growing expand into new locations that are currently not actively engaging in coffee production such as in most parts of Northern Uganda.

EXPORTERS: These engage in export of the coffee that meet the requirements specified by the importers and under clear contractual transactional relationship. These export coffee as either conventional coffee or specialty coffee that goes to a niche market such as for Fair Trade or certified organic coffee trade. These include individuals, SMEs (including farmers' cooperatives) and affiliates of multi-national coffee trading companies such as SUCAFINA, Volcanoes and ED&F Man that are best categorized as large enterprises, including Kyagalanyi, Ibero, Ugacof, Kawacom, etc. The latter group plays an important role in enhancing the efficiency of the coffee value chain and to some extent influence the investment and financing by the other actors, including providing short term advances to traders and farmers cooperatives that supply processed coffee to them. If their activities are constrained, the value chain efficiency can be adversely impaired and therefore for any meaningful investment and financing initiatives that should target smallholder farmers and SMEs, it is imperative to understand the operational efficiency of the large corporate off-takers and strengthen market linkages to them.

A number of exporters are also playing a key role of enabling access to inputs (specifically fertilizer and herbicides) by smallholders[16], especially through their farmer groups and cooperatives. This latter intervention for the provision of inputs is however being done as a stop-gap due to constrained access to finance by the smallholder farmers and is thus not their core business. Its outreach coverage in terms of the number of the coffee farmers accessing inputs through this mechanism is also very limited and thus one would categorize it as a pilot intervention. Thus, the sustenance of this linkage and the potential to expand it as demand steps up is difficult to predict.

According to UCDA, the number of registered coffee exporters stood at 92 in the coffee year 2017/18 (compared to 73 in 2016/17 and 54 in 2015/16), and it is thus fair to conclude that the exporter level of the coffee value chain is currently not constrained in terms of accessible exporters but may be rather constrained by the accessible volumes of coffee for export.

TRANSPORTERS: These provide haulage services for coffee and inputs from one transactional point to another, including those operating with light trucks, big tonnage trucks and containerized trucks. It also includes railway haulage especially for heavy inputs import cargo for fertilizer and export of coffee. The operations of these equally cut across for short to long distance haulage, including for transit cargo.

VALUE CHAIN ENABLERS: These are entities and institutions that do not engage in the actual handling of the commodities along the coffee value chain but are rather facilitating and catalyzing the efficiency of specific actors and ultimately of the entire value chain. It is important to note that potential investors and financiers in Uganda's coffee sector can leverage from any support interventions that may be subsisting in the value chain and/or are necessitated by mandatory regulations at the particular time of investing and/or financing.

Thus, the actors in this category include relevant government MDAs, Development partners, NGOs, value chain or sector apex associations and private service providers such as business development services (BDS) providers, financial institutions, insurance companies, telecommunication companies, etc. It should be noted that the support interventions have a ripple effect to smallholder farmers and agri-SMEs because of the linkages in the value chain. This is because, for example, support services to large exporters strengthen the market for these groups and thus stimulating investments and financing at these levels. Similarly support for interventions such as research in better coffee varieties and/or for increasing financial services, benefit all the value chain actors including smallholder farmers and SMEs.

4.2 POLICIES & REGULATIONS RELEVANT TO THE SECTOR

Uganda's coffee sector is comprehensively and adequately regulated. Key relevant policies that provide a base for a robust and competitive coffee production, trading, processing and exporting environment are in place. The overall guiding law is embedded in the Uganda Coffee Development Authority Act (1994). The UCDA (a government agency under MAAIF) is mandated and thus responsible for the regulation of Uganda's coffee sector, including overseeing the implementation of the relevant coffee sector-specific policies and regulations such as the licensing and monitoring of the internal and external marketing of coffee (coffee traders, processor and exporters). As such, the Coffee Regulations (1994) provides a comprehensive framework for the implementation of the UCDA act above. UCDA accomplishes this mandate in coordination and collaboration with other agencies that are responsible for other related policies such as UNBS, MTIC, NARO, UIA, URA, etc.

The flagship policy for the sector is the National Coffee Policy, 2013. Other coffee specific regulations relate to the regulation of coffee processing and exports. The general agricultural and trade, and investment facilitation policies in place for business registration, agricultural inputs quality, taxation, investment incentives, etc., also apply for the specific coffee sector investment and trading/export undertakings. The Uganda National Coffee Strategy 2015/16-2019/20 also provides a national road map (with indicative interventions) for the accelerated development of the coffee sector that focuses on achieving the country's ambitious goal of realizing an annual coffee production/export volume of 20 million bags of 60 Kgs each by the year 2025.

In addition, the international laws and standard relating to exports such as documentation for phytosanitary certificate, quality certificate, etc. are clearly specified and exporters have to comply with them. UCDA, in collaboration with URA, is ensuring the compliance to the mandatory international requirements by the coffee exporters. Thus, for policy and regulatory related matters for coffee sector investments, investors should be primarily assisted by UCDA, and wherefrom necessary referral to other agencies (e.g. UIA, UNBS, URSB, URA, etc.) on such matters may be made.

In essence, the government policy and regulatory environment puts emphasis on increased production and export volumes of coffee, enhancing value addition, improving quality and promoting domestic market for coffee. Relatedly, the policy and regulatory environment directly and indirectly enhances the increased investment in and financing of the coffee sector. However, there are notable weaknesses and gaps in respect of the laws and regulations that impact the effectiveness of investments and financing in the agricultural sector in general and potentially for the coffee sector in particular. The gaps relate to inadequacies, lapses in implementation and restrictiveness of existing laws, policies and legal processes in specific cases, notably:

Weaknesses and Gaps in Relation to Sector Laws & Regulations
• Inadequate monitoring of the quality of agricultural inputs on the market by MAAIF (Crop Protection) and UNBS that should help to rid the market of counterfeit and substandard inputs. • Inadequate monitoring of the coffee harvesting and post-harvest processes to ensure compliance with requirements for the market standard, specifically perpetuated by the coffee buying middlemen and pre-selling by the coffee farmers. • Restrictive requirements for licensing financial institutions in a given tier, specifically in regard to minimum mandatory capital requirement. • Restrictive warehouse receipt system law that has not assisted to bring on board smallholder farmers and SMEs in spite of its intended benefits, including requirements for performance bonds, insurance, etc. that are not easily tenable by SME-operated warehouses.

Weaknesses and Gaps in Relation to Sector Laws & Regulations
• Inadequate legal provisions for diversifying collateral sources (collateral substitutes acceptable by the financial institutions and manageable by smallholder farmers and agri-SMEs) that constrain access to finance by these agribusiness actors. • Weaknesses in enabling contracts enforcement. • Lengthy and protracted court litigation processes and weak punitive measures/sanctions. • Taxes on agricultural inputs and equipment as well as transactional tax such as withholding tax that are borne by the smallholder farmers. • Taxes on farmers' cooperatives and SACCOs. • Security of land ownership/tenure for non-registered land, with associated fear of eviction. • Bio-technology and Bio-safety laws not enacted and thus constraining efforts promoting GMOs and other related researched plant varieties and breeds.

4.3 CURRENT PROGRAMS AND INITIATIVES SUPPORTING THE COFFEE SECTOR

The coffee sector benefits from a number of government programs, though most of them are not specifically or solely designed for the coffee sector. Notable among these are:

Current Programmes and Initiatives Supporting the Coffee Sector
• Operation Wealth Creation (OWC): This is a government program that procures and distributes free improved agricultural inputs to smallholder farmers in Uganda with the overall goal of improving farm-level productivity and production, and value addition that should ultimately lead to improved household incomes and reduced poverty. OWC, in partnership with UCDA and NAADS, distributes high yielding and disease resistant coffee seedlings to all coffee growing areas in Uganda. Ideally, the distribution of the inputs should be on demand-led basis and is expected to supplement the farmers' efforts in accessing high quality inputs. Thus, the program does not in any way substitute the access of inputs by farmers through the commercial channel. Indeed, the nursery operators do sell the seedlings/ cuttings through both OWC and private buyers. • Investment Incentives: These cover the investment benefits and subsidies provided under the Investment Code Act (currently tabled to parliament for amendment[17]) that covers the relevant investment portfolios. • Coffee Cess: a 1 percent levy on all coffee export proceeds for boosting the funding of UCDA that should help to step up its sector policy and regulatory compliance monitoring functions and other support interventions for the sector. • Research: Coffee sector-specific applied research by the government National Coffee Research Institute (NaCORI) at Kituza. The institute (under NARO) is enabling the increased availability and accessibility to improve coffee planting materials that should enhance the production and productivity of coffee farmers. The challenge in this area mainly

Current Programmes and Initiatives Supporting the Coffee Sector
relate to adequacy of funding that should step up the tasks of the research institutions in order to match the growing needs for higher yielding (and disease resistant) coffee varieties. • Agricultural Extension: The government extension services that are provided under the National Agricultural Advisory Services (NAADS) and the Agricultural Technology and Agribusiness Advisory Services (ATAAS) project target, among others, the coffee sector. The major gap under these initiatives is the effectiveness and outreach of these initiatives. There is potential to address this gap especially if the public extension services are linked to private and DPs-supported extension initiatives. • Other Government Initiatives: These include infrastructure development for roads and electricity that are facilitating access to power for processing investments and efficient haulage of coffee and inputs along the value chain. For electricity supply, new connection costs are fully recoverable by way of deductions from post-connection power usage bills under the government's Electricity Connection Policy. Also, a number of coffee sector SME actors (including farmers cooperatives) are eligible to access the government Agricultural Credit Facility (ACF) that provides a line of credit accessible by commercial banks for concessional lending to agricultural value chains and credit guarantee to the lenders (initially targeting value addition but recently diversified to cater for production and marketing operations). • DPs and NGO Initiatives: There are many development partner engagements (both in the recent past and currently) supporting Uganda's agricultural sector in general and the coffee subsector in particular. The support ranges from smallholder farm level productivity enhancement, farmer organisation strengthening, value addition initiatives, grading of coffee for export, market and financial services access linkages and, policy and regulatory environment. The key on-going DP projects that are supporting the coffee sector include USAID, EU, GIZ and aBi Trust/aBi Finance.

Overall, it is important to note that Uganda's coffee sector is highly competitive with the resultant impact of the farmers (principally smallholder farmers) realizing a substantial share (averaging 75 percent) of the final or export price.

4.4 FINANCIAL ECOSYSTEM FOR THE COFFEE VALUE CHAIN

The Bank of Uganda (BOU) is mandated to regulate the formal financial sector and thus to maintain financial stability through appropriate monetary policies that are supportive of sound economic activities that promote growth and development. It thus supports the development of the local financial sector through regulation of specific (deposit-taking) financial institutions[18], foreign exchange bureaus and remittance service providers, including licensing and supervision. It also supervises the primary dealers through the Capital Markets Authority.

The analysis of the financial services that should underpin meaningful investments and financing in Uganda's coffee sector is focused in a demand and supply lens for the purpose of this IP. On the supply side, the providers and the challenges they face are elaborated while on the demand side access opportunities and gaps are also discussed. Detailed analysis is presented in Annexes 3 and 4. In addition, the current initiatives by the financial services providers to increase access to financial services for agriculture in general and potentially for the coffee sector are also presented.

The discussion under this sub-section should help existing and potential investors in the coffee sector to make reasoned choice on sourcing appropriate investment and financing resources for their prospective enterprises and to strengthen/ expand on-going operations. It should also assist financial institutions to properly focus the financial services that should unlock the operational constraints in the sector and thereby helping to enhance efficiency. In addition, it should help to coordinate initiatives to strengthen access to financial services by the value chain enablers through addressing the demand and supply gaps and challenges such as by strengthening the bankability of specific value chain actors and the capacity of financial services providers to competently provide appropriate financial services that are properly tailored to match the characteristics of the target market/ clientele.

4.4.1 DEMAND SIDE OPPORTUNITIES AND ISSUES

There is existence of qualified demand for finance for investments in the respective levels of the coffee value chain, covering both CAPEX funding needs and working capital financing (comprehensively elaborated in this section of the IP). At the smallholder farmers (production) level, demand for stepping up investment in improved inputs for higher production and productivity (for both established and start-up operations) and to meet labor and other operational costs is commercially sustainable and with high potential for growth. This is particularly underpinned by the higher levels of profit margins (and ROI) that are realized by the farmers (especially those adopting GAP and with established coffee fields that are rendering the operational costs to be low). For the other value chain levels (traders/bulkers, processors, transporters and exporters) demand for CAPEX (storage, equipment, haulage, etc.) and working capital financing investments exists and is strong.

As noted earlier, a relevant financing dimension for the smallholder coffee farmers is in regard to non-production household financing need. These often times are exerting pressure on the farmers to pre-sell the coffee (before harvest) as a coping mechanism which not only undermines the farmers' capacity to realize favorable margins but has demonstrable potential to distort the market by compromising quality and disabling the capacity of the farmers' cooperatives /organizations and Apex bodies to meet supply targets[19].

The pattern of demand indicates the need for short, medium and long-term investments and financing depending on the activities being financed. It also indicates the financing levels, tenure and repayment capacities as dictated by the investments' cash flow potential. Therefore, and as much as is practical, investment and financing of the coffee sector actors must meet the needs and priorities of the respective actors. Any generalization of financing solutions is bound to fail to meet expectations of the target market (smallholder farmers and SMEs) that are dictated by the characteristics of the activities of the ventures being financed.

Demand-side issues raised by the value chain actors during the development of this IP and also captured in several accessed documents include:

1. High cost of credit (interest and charges).
2. Inadequate sources of patient projects' funds (for start-ups and projects with longer gestation and pay-back period such as for new coffee fields, processing and storage).
3. Inadequate sources for medium to long term funds.
4. Inappropriate terms of credit for smallholder farmers (and often for SMEs) such as small loan amounts, no grace periods and poorly structured repayments/ installments.
5. Prohibitive access requirements (specifically collateral and, business track record and transactional documentation).
6. Constrained convenience of accessing financial services including proximity to the service points.
7. Limited risk mitigation solutions (for instance in case of production failure and stressed market).
8. Constrained awareness of existing financing facilities within financial institutions that are appropriate for investments in the target value chain levels.
9. High non-financial costs for valuation of collateral, mortgage charges, high credit access transport costs, etc. constrain access by smallholders.

4.4.2 SUPPLY SIDE LANDSCAPE AND ISSUES

The supply of financial services that should benefit Uganda's coffee sector is reasonably deepened in terms of the mix of financial products and services, and the composition of the providers of financial services. However, the supply of insurance products for agriculture in general and for the coffee sector in particular is highly constrained thus rendering credit risk mitigation through insurance to be of less impact for the lenders and the value chain borrowers.

The main instruments used to finance the coffee value chain include:

- **Grant instruments**: These include technical assistance, design funding, performance-based payments & results-based financing (RBF), challenge funds and prizes.
- **Debt instruments**: In addition to more traditional instruments such as direct loans and credit lines, other concessional debt instruments include: repayable grants (interest free loans/ zero interest loans); advances, rebates; subordinated loans, junior.
- **Guarantee and insurance instruments**: These include credit guarantees; subsided production insurance (using the agriculture insurance scheme).
- **Equity**: In addition to direct equity investments in companies other equity related instruments include first loss tranches and other equity products.

The main players in the supply of financial services (currently and potentially accessible for smallholder farmers and SMEs financing in the coffee sector) include:

Suppliers of Financial Services in Uganda
a) **Uganda's regulated financial institutions** (Commercial Banks, Credit Institutions and MDIs)[20]. These provide facilities ranging from savings, loans, overdrafts and revolving lines of credit, leases, performance bonds and letters of credit, depending on the financing need.
b) **Uganda Development Bank** (a GOU-owned development bank) provides development finance (medium to long term) that focuses on financing large investments in processing, storage and haulage fleet. It also provides short term working capital finance that targets production and bulking/ marketing levels particularly through farmer cooperatives and, large traders, processors and exporters.
c) **Unregulated financial institutions**[21] (MFIs and SACCOs). These mainly provide short-term facilities (mainly credit) and of relatively small amounts. As such, they are more suited to be accessible by smallholder farmers and small scale traders. The SACCOs being member-owned institutions only take savings and provide credit to their members. Also, many farmer cooperatives such as ACEs operate own SACCOs to provide financial services to their members. A key important aspect of the SACCO financial services is the capacity to provide credit for household income smoothing needs that should address the challenge of pre-selling amongst coffee smallholder farmers. Some of the MFIs (for example Stromme Microfinance East Africa) are leveraging liquidity from their international parent entities/ foundations and are therefore having reasonable capacity to finance agricultural value chain actors, including

Suppliers of Financial Services in Uganda
through wholesale lending to lower tiers FIs. d) **Off-shore sources for development and social funds, and grants** either provided directly to the value chain actors or channeled through regulated and non-regulated financial institutions. For example, aBi Finance provides lines of credit for the agribusiness enterprises that are accessible through partner financial institutions. These are often provided to address liquidity constraints and shortage of medium and long-term liabilities. aBi Trust and many DP programs (GIZ, USAID Feed the Future, etc.) also provide grants to the actors in the coffee value chain that are helping to catalyze demand for investment and financing in the coffee sector. Other social financing entities that target to catalyze investments in agriculture by SMEs such as Pearl Capital Partners (PCP) are gaining root in the Uganda's financial sector space. PCP accessed funding for its agribusiness financing portfolio from, among others, IFAD and EU[22]. e) **Government supported (catalyst) credit under ACF and the MSCL**. The ACF (a 50 percent matched refinance facility) is provided through participating regulated financial institutions to benefit agricultural value chain actors, including those engaging in value addition or processing, production and grain bulking. The MSCL (also GOU-owned) provides wholesale loans to SACCOs to boost their liquidity and thus for intermediation to members. The MSCL loans are provided at interest rate that is relatively lower[23] (especially for loans targeting agricultural sector) than that of commercial banks and also for extended tenure depending on the needs of the borrowing institution. MSCL also provides loans to farmers' cooperatives and agricultural SMEs. f) **Concessional lines of credit**: A number of financial institutions (especially commercial banks) access concessional (and of extended tenure) lines of credit from multi-lateral institutions such as the European Investment Bank/ Fund for lending to targeted segments in specific sectors. For example, six Uganda's commercial banks[24] accessed lines of credit from the European Investment Bank (EIB), with complementary TA, under a EUR 40 million Private Enterprise Finance Facility (PEFF II) for lending to SMEs including those engaging in agribusinesses. Also, EADB has a line of credit from EIB for on-lending to Uganda's SMEs, including those in the agricultural sector. Also, in 2018, DFCU accessed US$ 30 Million credit from FMO and PROPARCO for on-lending to SMEs (including those engaging in agribusiness). g) **Pension Fund sources**: Though Uganda' s pension sector is yet to be fully liberalized, the National Social Security Fund (NSSF) generates and has accumulated substantial amounts of mandatory savings by private sector employees and non-pension public enterprise workers that can be channeled to finance agriculture among others. This is thus providing a good avenue for banks and social investment fund schemes to diversify their sources of funding, including for medium to long-term liabilities that are often constraining access to appropriate finance by agribusiness SMEs. h) **Capital market** (Uganda Securities Exchange): Though expected to provide a cheaper source of equity and debt financing, including for agriculture, such as through issuing of bonds and listing shares, access to this source is only by listed companies. Presently none of the actors (including corporate entities) in the coffee sector is listed on the Uganda Securities Exchange. i) **Venture capital funds**: As explained earlier, this source of funding is least explored in the coffee sector. This source

Suppliers of Financial Services in Uganda	
	would potentially provide redeemable equity funds and thus a cheaper (and long-term funds) source for investment funds compared to commercial loans. Providers of venture capital undertake adequate analysis of enterprise risk (deep due diligence) that in many instances constrain access by prospective SME beneficiaries. Accessible sources on the Ugandan market include Africa Agricultural Capital Fund (AACF)[25], GroFin[26] and PCP. Capital funds under these sources are usually complemented with value-added business development support services that are necessary for the growth of the recipient enterprises.
j)	**Insurance companies**: For provision of insurance financial services for risk mitigation, including for loan loss recovery in the case of insured loans. As at end of 2017, there were 29 licensed insurance companies and 35 insurance brokers. Uganda's insurance sector is still in its nascent stages and in 2015, penetration was at 0.76 percent of GDP. Among the initiatives undertaken in the insurance industry to improve services are: (i) streamlining of claims handling requirements to ensure seamless claims payment; (ii) increasing public education initiatives through media and one-on-one engagement to increase the understanding and appreciation of insurance; (iii) customer satisfaction surveys which feed into product design and delivery; (iv) online-agents-licensing-system to create more efficiency in the licensing process; (v) in the financial year 2016/17, Government entered into a partnership with a coalition of insurance companies (through the Agriculture Insurance Consortium (AIC)) to improve access to agricultural insurance by Ugandan farmers by providing insurance premium subsidies of 30 percent for large farmers, 50 percent to smallholder farmers and 80 percent to farmers in disaster prone areas. Coffee is one of the insured crops that include tea, cotton, beans, bananas, Irish potatoes, fruit trees, maize, rice, barley and horticulture; and (vi) the development of bancassurance regulations to enable insurers to sell their products through bank distribution channels. However, uptake is still hindered by high premiums and limited marketing. As of 30 June 2018, a total of 64,318 policies had been sold, 99 percent of which are to crop producers. Total premiums stood at UGX 8.573 billion against premium subsidies of UGX 5.704 billion (67 percent) with the total sums insured standing at UGX 365.300 billion.

The following sub section presents quantitative information from the different financial services providers.

4.4.2.1 SUPPLY OF CREDIT BY TIERED FINANCIAL INSTITUTIONS

The proportion of private sector credit to agriculture has been on an upward trajectory. In 2013, it was 7.82 percent; by 2018, it was 12.34 percent. Absolute values of private sector credit to agriculture is shown in

Source: Bank of Uganda

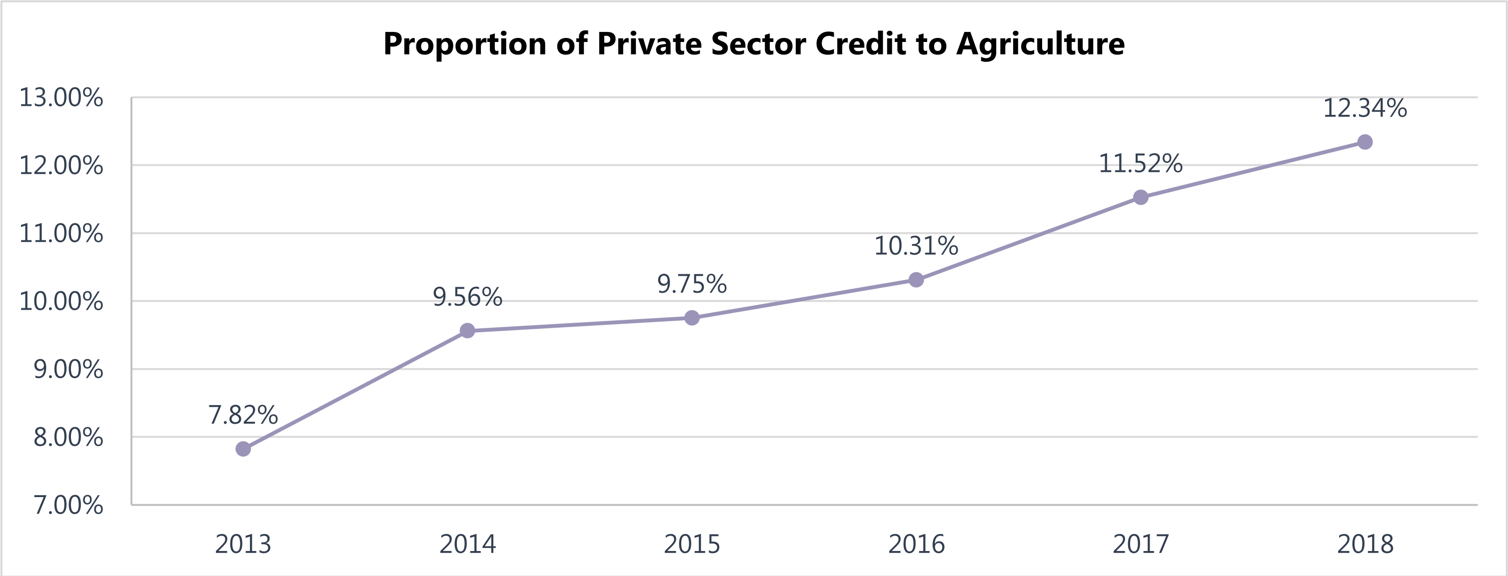


Figure 4.1.

Source: Bank of Uganda

Figure 4.1: Proportion of private sector credit to agriculture

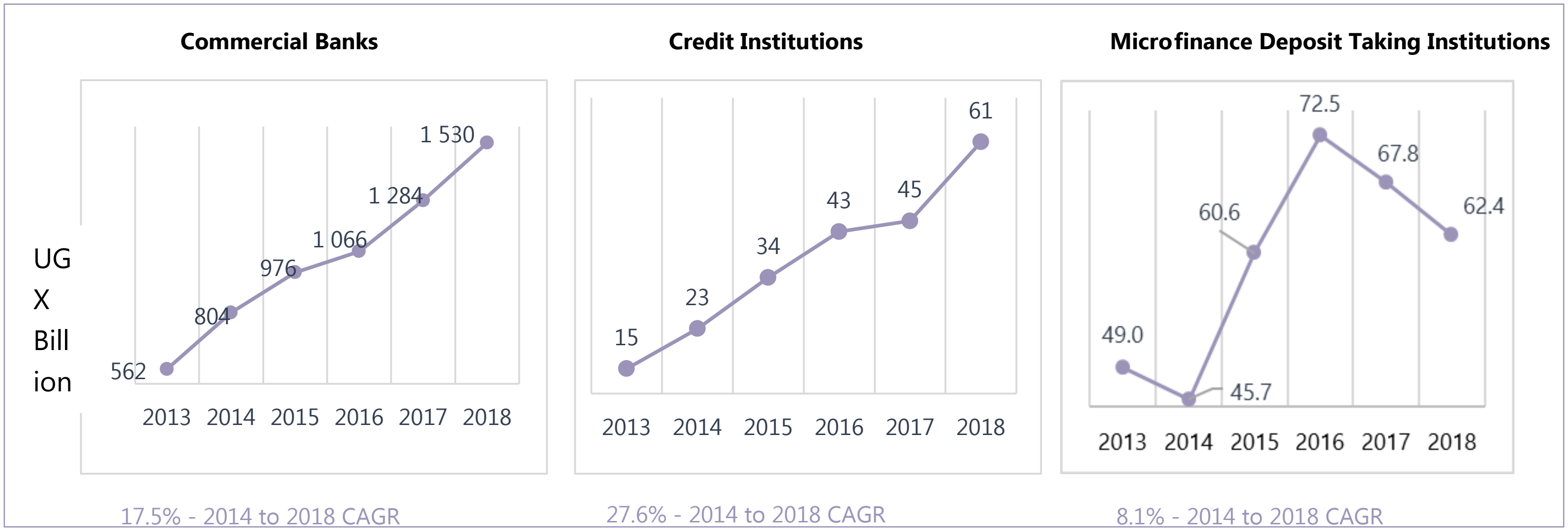
Regarding absolute values, private sector credit to agriculture has historically been on an upward trajectory increasing from UGX 562 Billion in 2013 to UGX 1.530 Trillion in 2018. This trajectory is shown in Figure 4.1 and the grand total for different tiers of financial institutions graphed in the tables and figures below.

Table 4.1: Trajectory of Private Sector Credit to the Agriculture Sector

	2013	2014	2015	2016	2017	2018
Commercial Banks (UGX Billions)	561.95	803.94	975.92	1,066.14	1,283.66	1,530.45
Credit Institutions (UGX Billions)	15.05	23.16	33.54	42.82	45.01	61.01
Micro Finance Deposit Taking Institutions (UGX Billions)	48.99	45.75	60.58	72.52	67.78	62.44
Total (UGX Billions)	**625.99**	**872.85**	**1,070.05**	**1,181.48**	**1,396.45**	**1,653.90**

Source: Bank of Uganda

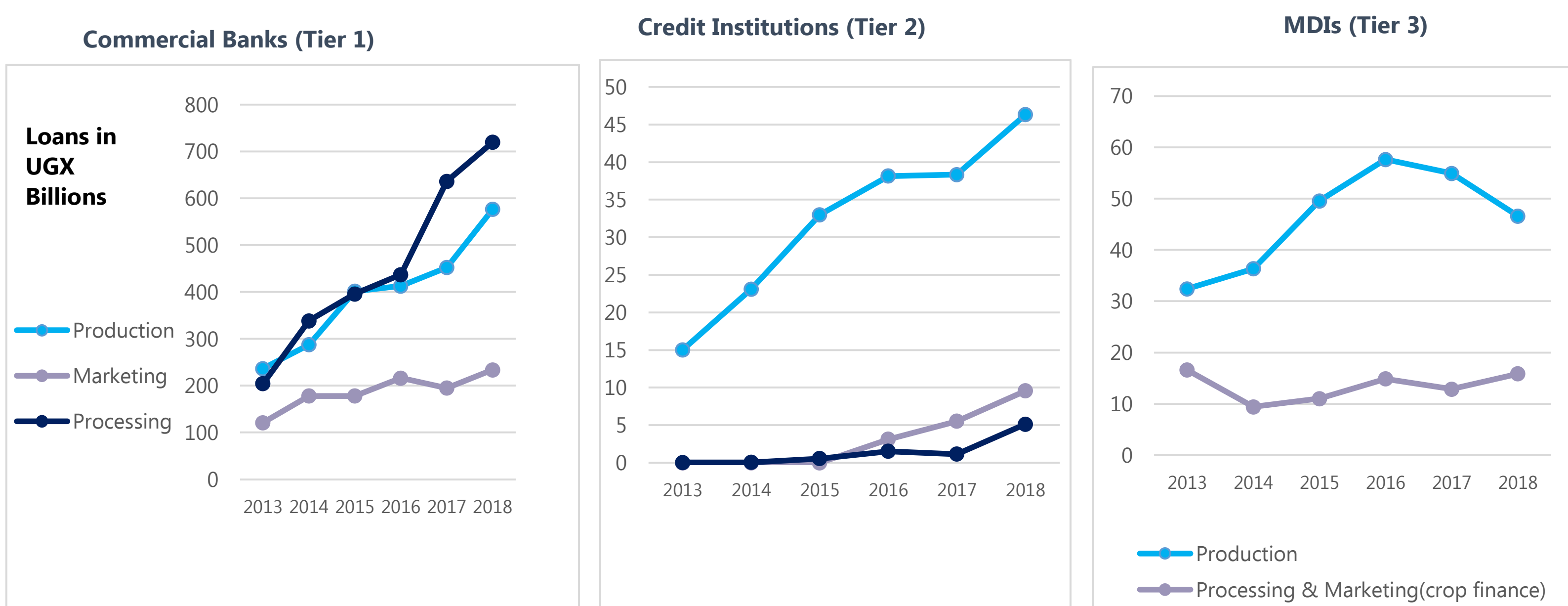
Supply of Private Sector Credit to Agriculture by Different Tiers of Financial Institutions



Source: Bank of Uganda

The different tiers of financial institutions target different levels of the value chain. Most commercial bank loans are towards processing while that of Credit Institutions and MDIs are towards production especially smallholder farmers. This is graphed as in Figure 4.3. However, the financial institutions are not disaggregating the financing to the agriculture to specific value chain such as coffee.

Disaggregation of Private Sector Credit to Agriculture by Levels of the Value Chain



Source: Bank of Uganda

Figure 4.3: Levels of the value chain financed by different tiers of financial institutions

4.4.2.2 SUPPLY OF CREDIT BY GOVERNMENT

Agricultural Credit Facility: This facility was developed to provide a first loss guarantee as well as concessionary loans to financial institutions for agricultural lending. However, financial institutions are not utilising it to its potential.

There is also a Technical Working Group at The Ministry of Finance that is developing an Agriculture Finance Policy that outlines the solutions the Government plans to put in place to ease financing in the agricultural sector.

Features of the ACF
• Implemented by BOU and issued through Participating Financial institutions (PFIs): Commercial Banks, Uganda Development Bank (UDB), Micro Deposit Taking Institutions (MDIs) and Credit Institutions. • Objective is to promote commercialization of agriculture. • Medium to long term Target is projects involved in agribusiness, agro-processing, modernization and mechanization. • Interest rate: 12 percent. • Grace period: three years. • Loan amount: Up to UGX 5 Billion. • Loan term: 6 months up to 8 years. **Note:** A working loan for grain trade under the ACF can also be accessed up to a maximum of UGX 10 Billion at 15 percent per annum.

Source: Bank of Uganda

The Microfinance Support Center (MSCL): A GOU-owned financial intermediary providing wholesale loans to SACCOs to boost their liquidity and thus for intermediation to members. The MSCL loans are provided at interest rate that is relatively lower[27] (especially for loans targeting agricultural sector) than that of commercial banks and also for extended tenure depending on the needs of the borrowing institution. MSCL also provides working capital (for crop finance and inputs purchase) loans to farmers' cooperatives and agricultural SMEs.

4.4.2.3 SUPPLY OF CREDIT BY DEVELOPMENT FINANCE INSTITUTIONS (DFIS)

START Facility Under DINU Programme: START is structured as a blended financing facility providing a customized mix of business development services, project development and financial structuring services and financial products. The programme was designed to support the implementation of the Development Initiative for Northern Uganda (DINU) Food Security and Nutrition component and will benefit the 33 districts in Northern Uganda.

Supply of Finance Route	Target agribusinesses directly through open call for proposals
Capitalization	Current capitalization is EUR 4 Million (UGX 16.9 Billion), expected to leverage EUR 8 Million (UGX 33.8 Billion) from existing UDB facilities and other debt and equity providers
Terms and conditions of finance	1. Project Development Grant: Up to 10 percent of the financing requirement payable to third party providers. 2. Loans: • zero rated loans to cover up to 40 percent of the financing requirement subject to special conditions. • Concessional loans to cover up to 75 percent of the financing requirement; 10 to 12 percent annual interest rate; Max tenure is five (5) years, loan tenure is one (1) year; 1 percent appraisal fee is charges on concessional loans disbursed. 3. Guarantees: Project based guarantees up to 50 percent of the external loan. 4. Equity: 25 percent equity contribution from the project developer is receivable in cash, land and business-related assets.
Agribusiness financing requirement	• Minimum: EUR 10,000 (approximately UGX 42.3 million). • Maximum: EUR 100,000 (approximately UGX 423 million).
Target Agribusinesses	• Capital-intensive agricultural projects • Agro-processing/value addition e.g. processing plants, storage facilities and any other agricultural value addition projects. • Focus on support projects that contribute to economic empowerment of women and youth. • Encourage projects that aim at reducing environmental risks and ecological scarcities.

Source: UNCDF

aBi Finance: aBi Finance Limited is the investment arm of aBi Trust that provides financing for agribusiness development. aBi Finance focuses on risk management and return on investment to ensure sustainability of aBi Trust. aBi Finance is funded by the Governments of Denmark and Uganda. It supplies credit to all tiers of financial institutions. The main products include: Lines of Credit and Agribusiness loan guarantee; Technical assistance.

Table 1.: Breakdown of aBi Finance's guarantee Scheme Tier Utilization by Gender and Region as at 30th Sept 2018

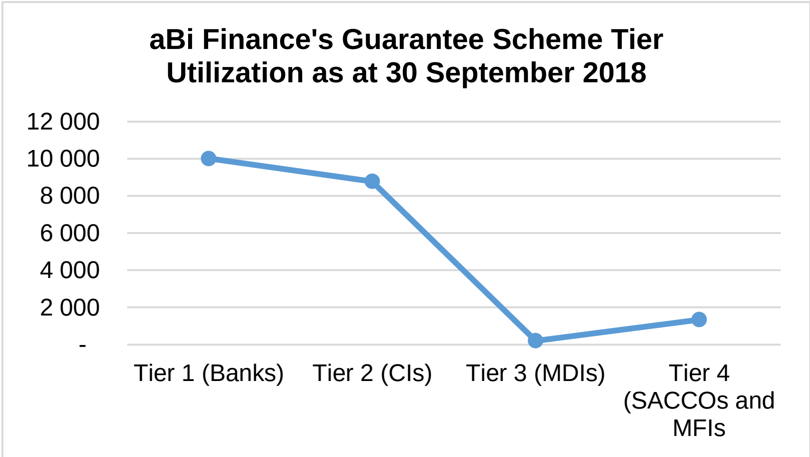
Guarantee Scheme	Male	Female	Central	Eastern	Northern	Western
Tier 1 (Banks)	8,598	1,409	1,776	3,727	1,213	3,290
Tier 2 (CIs)	6,693	2,084	2,207	1,536	1,136	3,898
Tier 3 (MDIs)	174	33	84	33	29	62
Tier 4 (SACCOs and MFIs)	1,181	163	0	0	0	1,344
Total	**16,646**	**3,689**	**4,067**	**5,296**	**2,378**	**8,594**

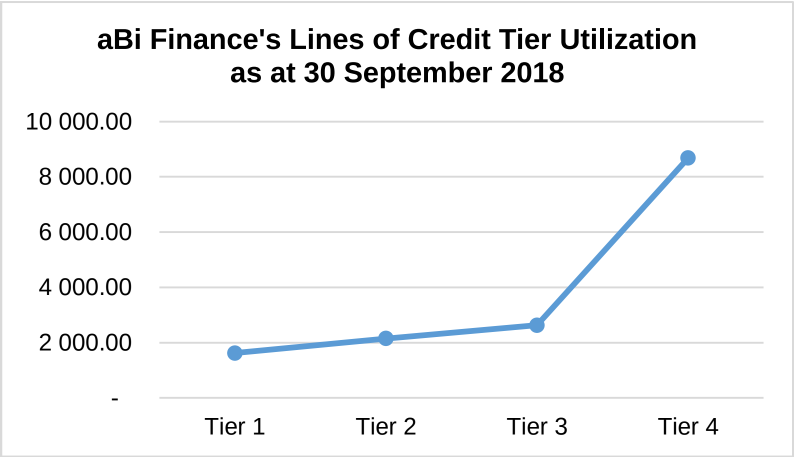
Source: aBi Finance

Table 2.: Breakdown of aBi Finance's Lines of Credit Tier Utilization by Gender and Region

Lines of Credit	Male	Female	Central	Eastern	Northern	Western
Tier 1	1,275	344	157	207	1,137	118
Tier 2	1,412	737	729	290	14	1,116
Tier 3	1,850	780	93	234	406	1,897
Tier 4	2,316	6,365	2,286	1,437	-	4,958
Total	**6,853**	**8,226**	**3,265**	**2,168**	**1,557**	**8,089**

Source: aBi Finance





Source: aBi Finance

aBi Finance is a major player in the supplier of Ag. Finance as demonstrated by the aBi Finance new loans as a percentage of national outstanding loans graphed in Figure 4.4.

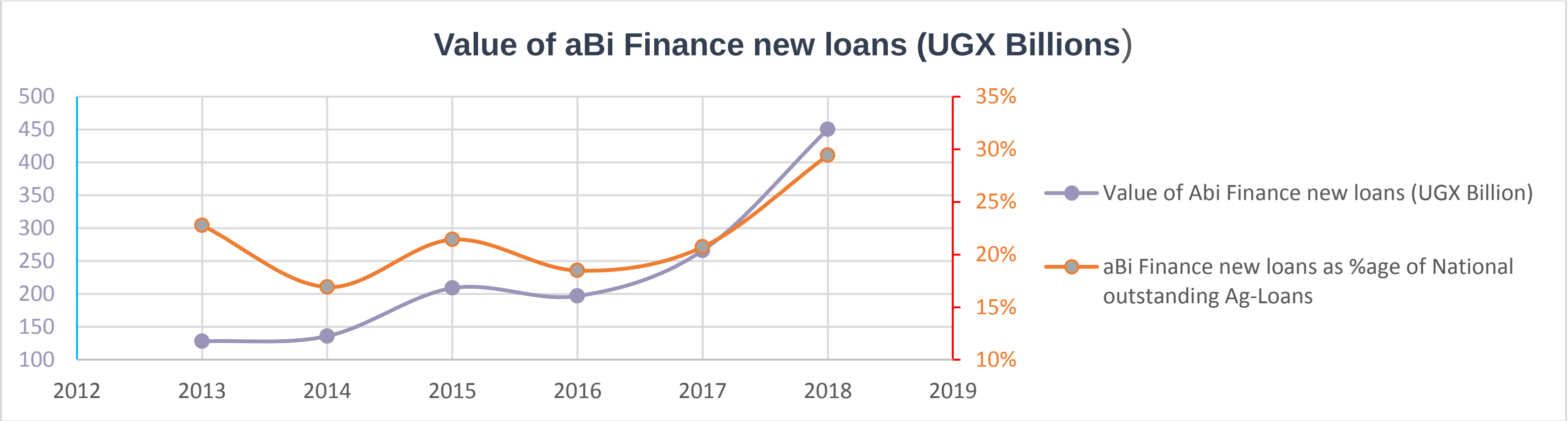


Figure 4.4: Value of aBi Finance new loans

4.4.2.4 SUPPLY OF CREDIT BY INVESTMENT FUNDS

Pearl Capital Partners: Pearl Capital Partners (PCP) is an independent investment fund manager specializing in investing risk capital in Small and Medium-sized Enterprises (SMEs) operating in the agriculture value chain.

PCP's financial structures are tailored to the needs of the individual investee, including both equity and debt instruments. The company seeks investments in agriculture across different levels of the value chain. The company uses an enterprise model, in that it identifies large companies with investment requirements of US$ 1 Million to US$ 3 Million (UGX 3.73 Billion to UGX 11.19 Billion).

AgDevCo - Long-term investment vehicle, largely funded by DFID.

Agribusiness Target Clients	• Early stage businesses. • They have thus far targeted four (4) agribusinesses located in, or with linkages to NU.
Financing Instruments Offered	Flexible and depends on the needs of the prospective client. They have previously offered working capital and long-term debt (8 to 10 years). They can similarly opt for equity though from their experience, agribusinesses are reluctant about this option. Also provides technical assistance and grants to investees through its smallholder development unit. This is critical in both increasing farmer productivity, as well as organizing and connecting farmers to markets, to be able to drive long-term returns.
Investment Sizes (Moving Forward)	• Min: US$ 1 Million (UGX 3.73 Billion). • Max: US$ 10 Million (UGX 37.3 Billion).
Sample Investments Made	• **Gulu Agricultural Development Company (GADC):** US$ 5 Million (UGX 18.7 Billion) in working capital: pre-financing purchase of cotton. Off taker agreements for the cotton is used as collateral. • **Talian**: US$ 300,000 (UGX 1.1 Billion) in working capital; US$150,000 (UGX 560 Mil) 3-year loan for a dryer. • **Nakifuma Farming Company:** Financing start-up to US$ 2.3 Million (UGX 8.6 Billion).

Source: AgDevCo Interview

Mango Fund

Agribusiness Target Clients	Doing some form of value addition
Financing Instruments Offered	Debt, Agric loan portfolio as at the end of 2017 was about US$ 670,000 (UGX 2.5 Billion), 40 percent of which was absorbed by the NU market.
Product Offering	• Asset financing loan. • Working capital loans.
Partners	World Friends Korea; Korea International Cooperation Agency.

Source: Mango Fund Interview

Acumen Fund

Agribusiness Target Clients	Companies focused on integrating smallholder farmers into global supply chains and providing them with access to better products that allow them to sustainably increase production and sell more crops
Financing Instruments Offered	US$ 200,000-2M (UGX 0.75 Million – 7.5 Billion) investments (equity or quasi-equity capital structures) to help start-ups validate assumptions, bring products and services to market, and begin to grow and scale.
Post Investment Engagement	• Access to expertise and a network of advisors with deep insight into sectors, channels and customers in these communities. • Active post investment support in the areas of strategic financing, impact, sales and marketing, talent and technology.
Investment in Uganda	• US$ 2.2 Million (UGX 8.2 Billion) from a co-investment between Acumen Fund and Root Capital, with the goal of improving Gulu Agricultural Development Company's organic cotton output.

Source: Acumen Fund Website

Based on the foregoing analysis, although Uganda's financial services supply landscape is reasonably robust with high potential to meet the financing demand of the actors in the coffee sector (and other agricultural sectors), the challenge is in increasing the accessibility by the actors to financial services that appropriately meet the commercial characteristics of their investment propositions and projects (amount, tenure, grace period, timing and repayment structuring). The FI's capacity to deliver desired financing to the value chain's smallholder farmers and SME actors, including products offering/range and terms, skills, policies and procedures, and outreach efficiency is of critical significance.

The **supply-side issues** that constrain availability of commercial credit for smallholders and agri-SMEs stem from, among others:

- Information asymmetry in regard to available financing opportunities and risks in the value chain.
- Availability of access requirements (collateral, financial statements and business track record documents).
- Legal and contractual capacity of borrowers, especially for farmer groups and small-scale agribusiness SMEs, in regard to formal registration and commercial strength.
- Gaps in financial institutions' products and, procedures and policies.
- High cost of credit delivery to smallholder farmers and small-scale SMEs.
- High risk of credit to specific value chain actors such as smallholder farmers and generally low risk appetite for the agricultural portfolio.
- Offsetting liabilities that are skewed to short term and of high cost.
- Constrained risk-sharing schemes for value chain actors (insurance, guarantees, etc.).
- Weak farmers' organisations and cooperatives.
- Inadequate and weak market and inputs supply linkages that should permit structured lending (disbursements and recovery) to mitigate diversion risk.
- Inability to introduce and/or diversify innovative financial products that should increase smallholders and SME engagement such as WRS and micro leasing because of (among others) legal provisions, higher operationalizing costs such as for collateral management, affordability, etc.

These are critical areas that warrant affirmative investment and financing action by all the stakeholders engaging in improving delivery of financial services to Uganda's agricultural sector, including to the coffee sector.

4.5 SELECT INVESTMENT OPPORTUNITIES

4.5.1 COFFEE GRADING

In the 2017/18 financial year, approximately 3.38 million 60-kg bags of Robusta coffee were exported. Most of the coffee is exported as green beans with Robusta green beans forming the bulk of exports. The major export market is the European Union, other destinations include: Sudan, India, Morocco and the USA. The investment opportunity lies in the secondary processing of Fair Average Quality beans to graded coffee for export to regional and international markets.

Export grading facilities are involved in secondary processing of Fair Average Quality coffee to green bean for export based on international standards. The FAQ is cleaned, dried, graded and thereafter bagged for export. Coffee beans are separated into quality grades using screens to separate the beans by size and shape. Gravity separators are also used to separate and grade beans by density which isolates defective coffee beans. These factors affect the overall quality of the coffee, thus higher grades attract higher prices. Specialty coffees such as fair trade and organic coffees also attract higher prices.

Majority of export grading companies are in Kampala as this is the central market place for coffee destined for export. There are currently about 92 coffee exporters. A range of businesses are involved in export of coffee including sole traders, small and medium sized enterprises, farmer groups and affiliates of multi-national coffee trading companies. The top 10 exporters have a market share of 70-80 percent; this includes companies such as Kyagalanyi coffee, Ibero, Ideal Quality Commodities and Olam Uganda. Majority of exporters export Robusta coffee only. Coffee prices are influenced by global supply and consumption which puts downward pressure on prices where supply exceeds demand and vice versa.

Expenses involved in grading of coffee are dominated by cost of Fair Average Quality coffee, followed by packaging costs and electricity. Use of bulk packaging can be used to reduce operating expenses. Additionally, targeting specialty and niche markets can be used to obtain a higher price for coffee exported.

Investment in a mid-sized export grading facility, located within Wakiso District, with an output capacity of 171,000 60-kg coffee bags for export requires a total capital expenditure of US$ 3.8 million dollars. This generates a net present value of US$ 906,000 with 100 percent equity financing. Use of debt increases the return on investment, therefore affordable debt finance can be used to amplify returns as shown in Figure 4.5.

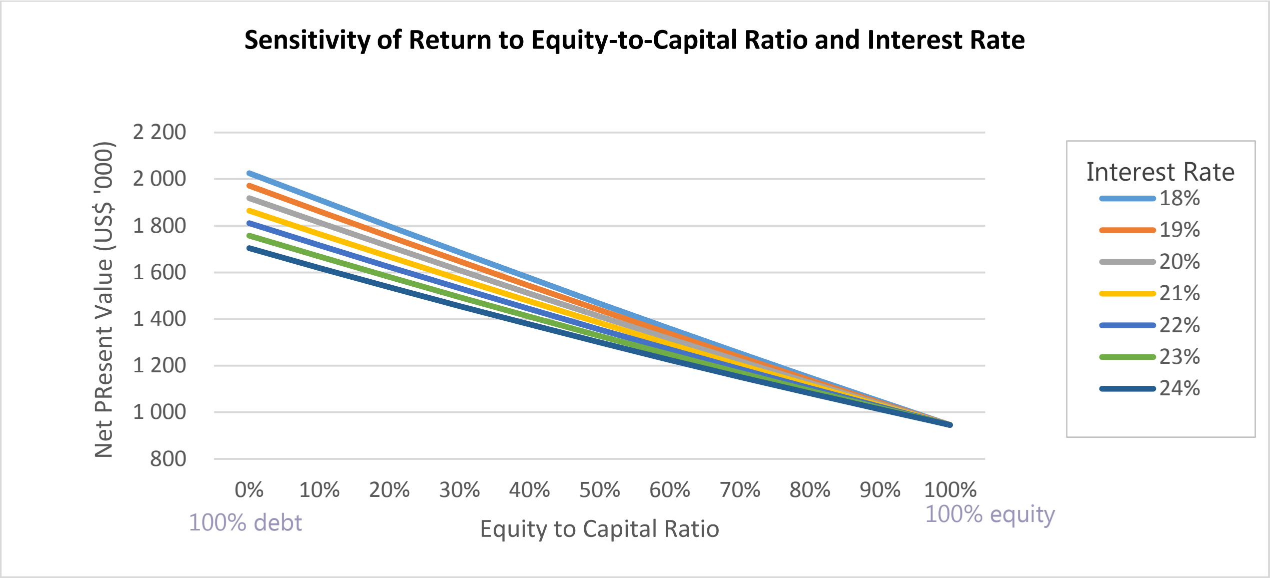


Figure 4.5: Sensitivity of NPV (US$ '000) to Equity to Capital Ratio and Interest rate

With more use of debt (lower equity to capital ratio), a higher return on investment is attained. The same can be seen the lower the interest rate on debt since it reduces interest expense.

4.5.2 DRY COFFEE PROCESSING

Primary processing is a key stage for post-harvest handling of coffee, transforming coffee cherries from the farm into Fair Average Quality coffee which is then further processed into green bean coffee suitable for export or roasted for consumption. Uganda produced 302,063 tonnes of coffee in 2017, 75.7 percent of this was Robusta coffee. This coffee is grown across the Central, Eastern, Western and Southern areas of the country and grows best in low altitude areas.

Robusta coffee is typically processed through dry method which is a two-stage process involving drying of coffee fruits (mechanically or using sun drying), followed by hulling of coffee. There is an investment opportunity at this stage of the value chain to set up a dry processing facility for Robusta coffee. This requires capital expenditure of US$ 173,500 for a facility with an annual capacity of 3,750 tonnes of dry coffee fruit annually.

Different levels of automation can be used for a processing facility and this affects the required capital expenditure. Equipment may also be purchased from international manufacturers such as BrazAfric or locally fabricated equipment. The investment considered is for the lower-end level of automation using locally fabricated equipment.

Dry processors earn revenue from three streams including: sale of Fair Average Quality coffee to processors, offering hulling hire services and, sale of coffee husks. Purchase of coffee fruits makes up 83 percent of expenses, while labor expenses make up 6 percent of total expenses. The Net Present Value for a US$ 210,000 processing facility financed fully with equity is US$ 289,000 with a payback period of 3.75 years. As more debt is used to finance the investment, the net present value increases as illustrated in Figure 4.6.

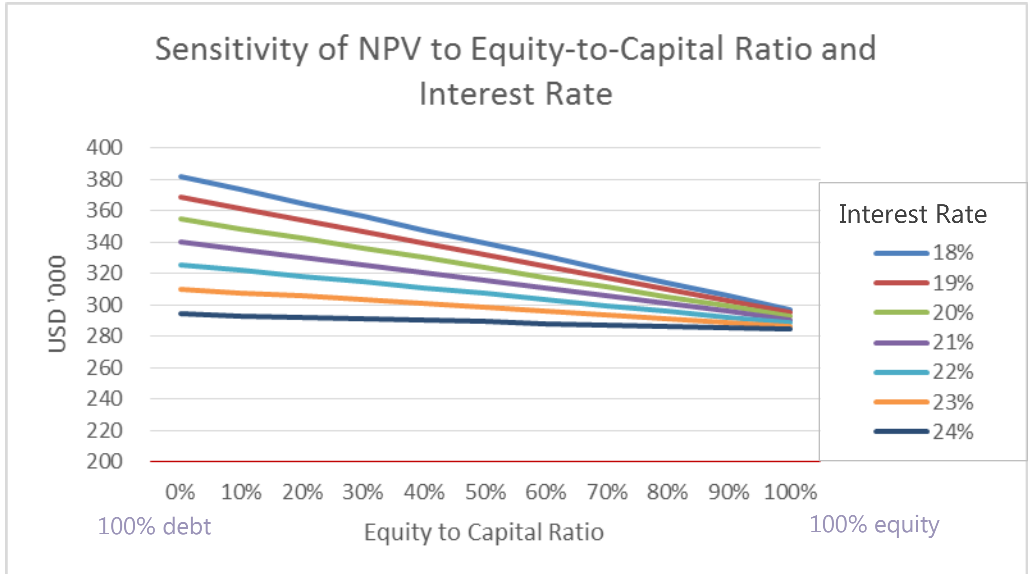


Figure 4.6: Sensitivity of NPV to Equity to Capital Ratio and Interest Rate

The higher equity-to-capital ratio, the lower the net present value. Higher interest rates also reduce the net present value of the investment. Optimizing the capital structure with debt with attractive interest rates can be used to increase profitability.

4.5.3 SMALLHOLDER COFFEE FARMING

Given the high demand for coffee beans, an investment opportunity exists in setting up a coffee farm that will sell Robusta Kiboko to local coffee traders and exporters. The farmer will require UGX 2.58 Million (US$ 697) in order to establish a coffee garden with the optimal capacity of 450 coffee trees using Robusta Clonal Cuttings.

Table 4.2: Investment Requirements of a Coffee Farm

Investment Requirements (UGX)	
Land	1,000,000
Clonal Cuttings	450,000
Establishing a Coffee Garden	1,130,000
Total	**2,580,000**

The Return on Investment will depend on whether the farm is using Traditional Agronomical Practices, Improved Agronomical Practices or Recommended Agronomical Practices farming methods. The Return on Investment for a coffee farm that uses the Recommended Agronomical Practices has a higher rate of return than the farm that uses fewer or none of the Good Agronomical Practices (GAP) as shown in the table below.

Table 4.3: Coffee Farm's Return on Investment

	Traditional	Improved	Recommended
NPV (UGX Million)	(0.68)	(0.02)	1.20
IRR	19%	24.8%	32.5%
PBP (Years)	4.96	4.62	4.39

Return on Investment for the Coffee Farm will depend on the capital expenditure spent on land at the start of the coffee farm. In order to attain a return on investment for the coffee farm, the cost of land should not exceed the amounts shown below.

Table 4.4 Cost of Land at which Net Present Value is Zero

	Traditional	Improved	Recommended
Cost of Land Per Acre (UGX)	318,519	298,901	1,500,654

It is recommended that when the cost of land exceeds the above costs for each farming method, the farm should lease land instead of purchasing it.

CONCLUSION

In conclusion, the macro environment for the potential to increase investment and financing for smallholder farmers and agri-SMEs in the Uganda's coffee sector is favorable. This IP should therefore help to catalyze and re-align the necessary investments and financing for the sector that target the two (2) categories of the entities emphasized in this report. However, and equally important are the existing gaps and challenges that inhibit the efficient flow of investments and financing in the sector which require attention, especially by the non-actor stakeholders and other value chain enablers. It is important that a multi-dimensional approach (multi-stakeholder and multi-pronged initiatives) are considered in addressing the gaps/challenges if substantial and broader impact in accelerating the flow of investments and finance for the smallholder farmers and SME businesses in the coffee sector is to be realized in the short to medium term.

Given the importance of smallholder farmers and agri-SMEs as the engine that creates more jobs and improves more livelihoods than any other sector in the history of Uganda, public and philanthropic interventions are required to support lenders in closing the financing gap for this segment and to unlock market development. In the past, donors have invested in building markets like for microfinance. There is thus need to see such development at unprecedented scale for the coffee sector.

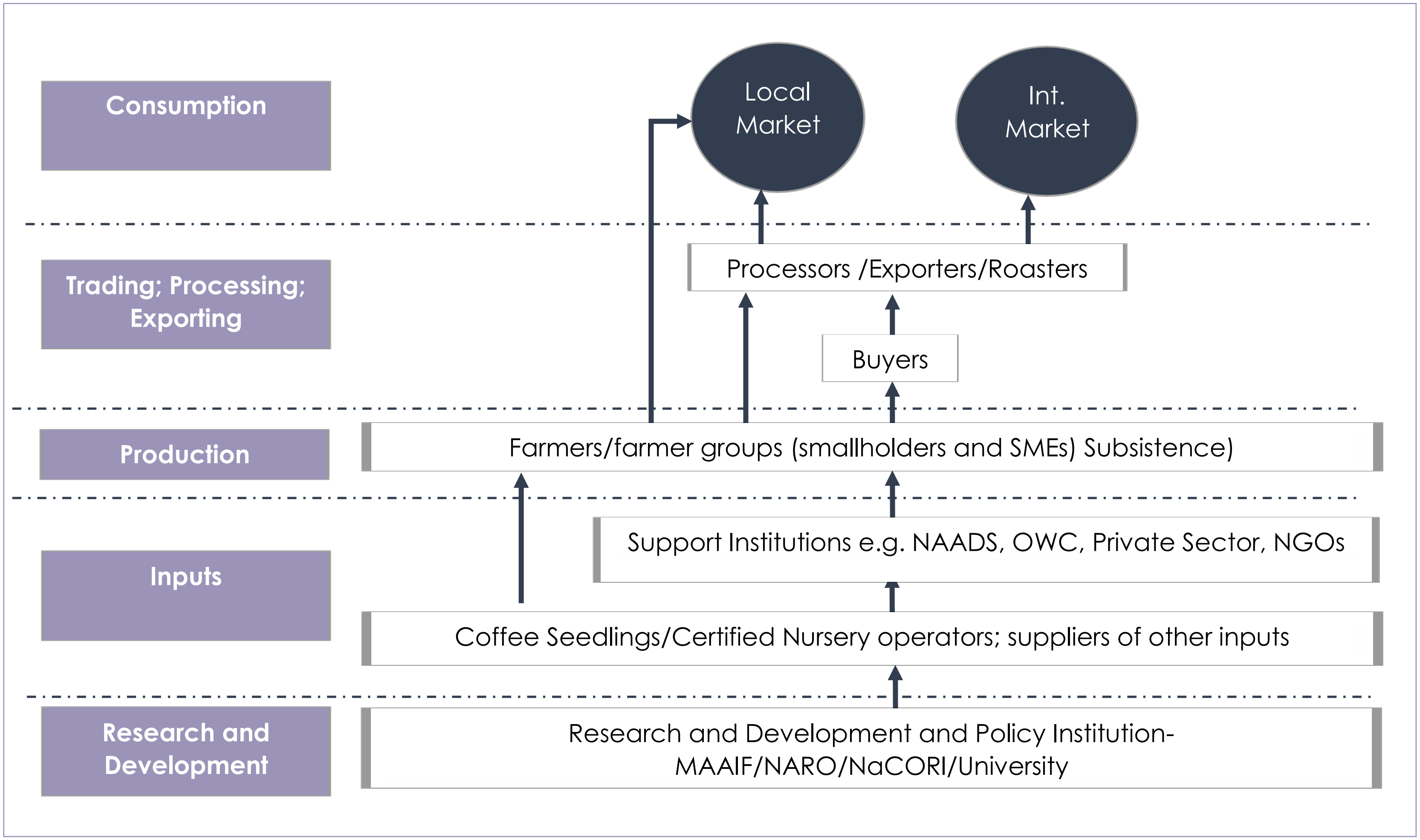
The following key action points should be of priority consideration by private and public sector actors, development partner organisations and other stakeholders in the coffee sector to step up the flow of investments and finance to the smallholder farmers and SMEs. These actions embed investment, financing and, policy and regulatory dimensions.

- Strengthening the farmers' institutions to increase their commercial engagement capacity and enhance their bankability (business planning, governance and management, contracting and contracts enforcement mechanisms, digital data for members' activities, logistical efficiency enhancement, etc.).
- Enhancing the development of diversified appropriate (and affordable) financial products, including insurance products, cutting across the entire value chain (production credit, inventory credit and trade finance, structured trade products, weather and price insurance, asset leasing, digital-anchored financial services, etc.).
- Enhancing production and productivity of smallholders and other farm level enterprises – research, extension (GAP and PHH practices).
- Supporting financing for smallholder-tailored specific technologies such as for irrigation and wet coffee processing, with emphasis on accessing them through commercial channels.

- Incentivizing lending to smallholders and SMEs in the coffee sector through affirmative interventions such as partial risk sharing mechanisms, including credit guarantees and subsidy for agricultural insurance premiums (by government and development partners).
- Enhancing MIS functionality of financial institutions to monitor investment/financing to the coffee sector (e.g. number or volume and value of credit for the respective levels of the value chain, none performing loans, etc.). If possible, this may need to a regulatory requirement by the central bank.
- Targeted investments and affirmative action to stimulate local market (consumption) for coffee.
- Deepening the investment and finance fund sources that should increase availability and accessibility of low cost-equity and social capital as well as concessional long tenure lines of credit from multilateral and other impact lenders.

ANNEXES

ANNEX 1: UGANDA'S COFFEE VALUE CHAIN MAP



ANNEX 2: COFFEE SMALLHOLDER AND AGRI-SME FINANCE – DEMAND SIDE

The actors in the coffee value chain have demonstrable qualified demand for financial services that is anchored by the robust liquidity and the attractive investment returns in the Uganda's coffee value chain. The demand is for cross-cutting value chain activities (production, trading, processing, bulking and marketing) and actors (smallholder farmers, traders, farmer groups/associations, Apex bodies such as NUCAFE and UCFA, processors and exporters). Thus, if properly understood and harnessed by the providers of the financial services, the demand can generate sustainable commercial financing and/or other investment financing portfolios.

Aggregation of smallholder coffee farmers through their associations and cooperatives engaging in collective marketing is enabling the building up of capacity to meet the requirements for credit such as business track record, proof of market, disbursement and recovery structuring to mitigate credit diversion risk, etc. It is also providing an effective avenue to minimize lending costs associated with credit to smallholder farmers and other small-scale operators in the value chain.

The demand for finance is propelled by the nature and level of required investments in these activities and the transactional tenure as elaborated below.

1. **Inputs suppliers:** These include coffee nursery operators and importers and traders in other coffee production and marketing inputs such as fertilizers, pesticides, herbicides, equipment and tools, post-harvest handling materials, etc. These have financing demand relating to the working capital needs for acquisition of stocks, coffee nursery establishment and management, and meeting operational costs.
2. **Smallholder farmers and SMEs engaging in coffee production:** The demand is principally to enable them purchase the required production inputs (seedlings, fertilizer, tools) and materials for post-harvest activities such as tarpaulins; paid labor for field-related activities; expansion of coffee acreage and replacement of poorly yielding coffee trees; and household financing need that manifest before harvest and marketing such as for school fees, medical, food, etc. As the effects of climate change (specifically prolonged drought) continue to escalate, financing for cost-effective irrigation systems is increasingly being demanded by the farmers, especially those that are not adversely constrained by access to adequate water sources.
3. **Farmer associations, cooperatives and apex bodies, and independent traders:** These require finance for bulking and marketing the farmers' coffee (including for processing hire charges) that is repayable on receipt of proceeds of marketed coffee from the buyers. Also financing for associated storage and haulage facilities for this level of the value chain is desired by many entities (SMEs).

4. **Processors:** The major component of financing demand is for procuring and installing processing machinery alongside with associated equipment for weighing, moisture testing, drying, grading, etc., and supportive milling infrastructure such as housing structures. Many processors provide hire services only and are thus not desirous to access working capital. However, it should be noted that the coffee primary processing level is not constrained at all in many coffee producing areas in Uganda but rather the subsistence of chronic under or idle capacity utilization is highly evident. Thus, financing these investments should be underpinned by properly assessed viable ventures.
5. **Traders** (in both coffee and coffee husks), including processor buyers: These mainly require financing for short-term working capital to procure the require stocks as well as meet operational costs such as for transport, packing materials and storage.
6. **Exporters:** Those with existing operations mainly demand finance for working capital for buying coffee as well as facilities to enhance quality and reduce operational costs such as driers. For backward linkages, many exporters invest in operations that address pre-purchase activities such as inputs supply through linked MOUs[28], coffee wash stations, coffee nursery initiatives, etc. This is principally to strengthen the coffee supply channels that should ensure realization of commercial volumes of desired quality for the exporters.
7. **Tertiary Processors** (mainly for local market): Demand for financing for equipment (roasters, grinders and packing machinery and accessories) as well as for working capital to purchase the coffee is gradually picking up and stabilizing with high potential to grow. The major issue in this category is the nascent market that is requiring substantial support by way of catalytic and social capital investment.

Key concerns and issues put forth by the coffee actors accessing (and those prospecting to access) finance include
1. Lower productivity (at farm level) that increases the unit cost of production. However, this may be equally a result of constrained access to finance (to enhance efficiency in production). 2. Longer turnaround time for approval of financing requests. 3. Unfavourable terms of the loans (not adequately tailored to the transactions /operations they seek to finance) e.g. inadequate loan amounts, no grace periods, repayment structuring that mismatch borrower cash flow patterns and, high interest rates and other access charges. 4. Collateral requirements that render exclusion of many smallholder farmers and other small-scale actors (SMEs). 5. Constrained institutional capacities of farmer organisations/cooperatives, including inadequate performance track record, poor business plans, weak governance and management teams, informal operations, etc. 6. Inability by lenders to cater for household financing needs for smallholder farmers that render many of them

Key concerns and issues put forth by the coffee actors accessing (and those prospecting to access) finance include
to pre-sell the coffee and also not to engage in collective marketing. 7. Limited uptake of insurance services that ought to catalyze investment and financing by immunizing the risk embedded in the operations such as production failure, market collapse and other perils.

ANNEX 3: COFFEE SMALLHOLDER AND AGRI-SME FINANCE – SUPPLY SIDE

Diversified sources of investment financing is available for the coffee sector actors, including from both formal and informal financial services sector. Also, the sources include a mix of risk capital or equity (specifically investors' savings) and debt. For example, majority of smallholder farmers with comparatively lower scale of operation and limited use of purchased inputs finance their production investment by household savings, in additions to the activities that are principally accomplished by family labor. In terms of financial services providers, multiple sources exist that should permit reasonable levels of accessibility, including a number of banks with units or divisions/departments dedicated to lend to agriculture and agriculture tailored financial products such as Centenary, Tropical, Post Bank, Housing Finance and DFCU. Other financial institutions that have agricultural financial products include Stromme Microfinance, Finance Trust Bank and Pride Microfinance Ltd. However, the main issue is about how effective (and therefore the level of impact) are the suppliers of financial services in reaching the value chain actors.

The outreach for delivery of financial services is further enhanced by Agent Banking, Interswitch access and Bancassurance. The Islamic finance/ Banking that is expected to be operationalized in the near term will be expected to benefit many sectors including the agricultural sectors especially with low cost funds. However, the insurance products for agriculture in general and for the coffee sector smallholder farmers and SMEs in particular is highly constrained thus rendering credit risk mitigation through insurance to be of less impact for the lenders and the value chain borrowers.
The main players in the supply of financial services (currently and potentially accessible for smallholder farmers and SMEs financing in the coffee sector) include:

Players in the supply of financial services
• **Uganda's regulated financial institutions** (Commercial Banks, Credit Institutions and MDIs). These provide facilities ranging from savings, loans, overdrafts and revolving lines of credit, leases, performance bonds and letters of credit, depending on the financing need. The tenure of the facilities includes short-term, medium term and long term. A number of financial institutions e.g. Centenary Bank, Stanbic, Housing Finance Bank, DFCU Bank and Post Bank provide a full range of facilities that cater for the entire value chain (inputs imports and trading credit, production credit, processing credit, bulking credit, transport/asset loans and leases, and mortgage loans that can cater for buildings infrastructure). However, many FIs have preference for non-production levels of the value chain (inputs supply and upstream operations) ostensibly to mitigate production failure-related risks. Further, facilities are accessible for farmer group-based transactions such as for coffee bulking and collective inputs procurement initiatives of farmer cooperatives. • **Uganda Development Bank** (a GOU-owned development bank) provides development finance (medium to long-term) that focuses on financing large investments in processing, storage and haulage fleet. It also provides working capital finance that targets bulking/ marketing levels particularly through farmer cooperatives and exporters. Other potential sources of development finance for the coffee sector SMEs may be accessed from regional and international financial institutions such as EADB, Trade and Development Bank (formerly PTA Bank), Overseas Private Investment Corporation (OPIC29), etc. • **Unregulated financial institutions**[30] (MFIs and SACCOs). These mainly provide short-term facilities (mainly credit) and of relatively small amounts because of liquidity constraints. As such they are more suited to be accessible by smallholder farmers and small-scale traders. The SACCOs being member-owned institutions only take savings and provide credit to their members. Also, many farmer cooperatives such as ACEs operate own SACCOs to provide financial services to their members. A key important aspect of the SACCO financial services is the capacity to provide credit for household income smoothing needs that should address the challenge of pre-selling amongst coffee smallholder farmers, albeit with a major challenge of liquidity. • **Off-shore sources for development and social funds, and grants** either provided directly to the value chain actors or channeled through regulated and non-regulated financial institutions. For example, aBi Finance provides lines of credit for the agribusiness enterprises as well as credit guarantee for agribusiness loans through partnering financial institutions. The lines of credit are mainly provided to address liquidity constraints and shortage of medium and long-term liabilities. aBi Trust and many DP programs also provide grants to the actors in the value chains that are helping to catalyze demand for

Players in the supply of financial services
investment and financing in the coffee sector. Also, some coffee sector SMEs have in the past accessed concessional social capital funds from Rabobank (and Rabo Foundation)[31] and Root Capital[32]. • **Government supported credit under ACF and the MSCL**. The ACF (a refinance facility) that is administered by the BOU is provided through participating regulated financial institutions to benefit agricultural value chain actors, including those engaging in value addition or processing, production and grain marketing. The MSCL (also GOU-owned) provides wholesale loans to SACCOs to boost their liquidity and thus for intermediation to members. The MSCL loans are provided at relatively lower interest rate (especially for loans targeting agricultural sector) than that of commercial banks and also for extended tenure depending on the needs of the borrowing institution. MSCL also provides loans to farmers' cooperatives and agricultural SMEs. • **Concessional lines of credit**: A number of financial institutions (especially commercial banks) access concessional (and of extended tenure) lines of credit from multi-lateral institutions such as the European Investment Bank (EIB) for lending to targeted segments in specific sectors. For example, six Uganda's commercial banks accessed lines of credit (with complementary TA) from EIB under the EUR 40 million Private Enterprise Finance Facility (PEFF II) for lending to SMEs including those engaging in agribusiness. Also, EADB has a line of credit from EIB for en-lending to Uganda SMEs, including those in the Agricultural sector. • **Pension Fund sources** (institutional investments): The Uganda National Social Security Fund (NSSF) generates and has accumulated substantial amounts of mandatory savings by private sector and employees non-pension public enterprise workers that can be channeled to finance agriculture among other. This is thus providing a good avenue for financial institutions and equity capital providers to diversify their sources of funding, including for medium to long-term liabilities that are often constraining access to appropriate finance by agribusiness SMEs. However, much of NSSF's investment portfolio is in government debts (treasury bills and government bonds) because of the low risk associated with such investments compared with lending to commercial banks. • **Capital market** (Uganda Securities Exchange): Though expected to provide a cheaper source of equity and debt financing, including for agriculture, such as through issuing bonds and listing shares, access to this source is only by listed companies. Presently none of the actors (including corporate entities) in Uganda's coffee sector is listed on the Uganda Securities Exchange. • **Venture capital Funds**: As explained earlier, this source of funding is least explored in the SME segment. This source would potentially provide redeemable equity funds and thus a cheaper (and long-term

Players in the supply of financial services
funds) source for investment funds compared to commercial loans. Providers of venture capital undertake adequate analysis of enterprise risk (deep due diligence) that in many instances constrain access by prospective beneficiaries. • **Insurance companies**: For provision of insurance financial services for risk mitigation, including for loan loss recovery in the case of insured loans. As at end of 2017, there were 29 licensed insurance companies and 35 insurance brokers. However, the outreach of these financial services to the agricultural sector, especially for smallholder farmers, is very dismal particularly on account of high premium33 and limited financial literacy for the potential agricultural clients about the costs and rewards of insuring their investments. • **Other financial services**: Payment and transfers services are available and accessible both from regulated financial institutions, licensed money transfer institutions and mobile money (MM) service providers (telecommunication companies). These services are not currently constrained at all, except for the impact on the MM transaction of the recently introduces MM withdraw tax of 0.5 percent of the value withdrawn and constrained accessibility to MM agents in many rural locations. • **Other options** such as for public private partnerships (PPPs) are possible such as for bigger investments e.g. for tertiary processing (soluble plant establishment) and establishing bigger coffee plantations as has been in the cases with similar value chains such as oil palm. The GOU owned Uganda Development Corporation (UDC) is the entity spearheading the PPPs. • **Catalytic capital** in form of grants such as provided by aBi Trust and other DP programs.

The outreach of financial services providers is in the table below.

Table 3.: Financial service providers (regulated) and their outreach as at December 2017

Type and service	No.
Commercial Banks	24
Credit Institutions	3
MDIs	5
Foreign exchange bureaus	188
Money remitters	67
Bank branches	544
ATMs	822
MDI branches	78
Credit institution branches	66
Forex bureau branches	260
Money remitters branches (forex bureaus, MDIs and CIs)	241

Source: BOU - Annual supervision Report (December 2017)

Table 4.: Financing Gaps and Challenges

Financing Gaps and Challenges
1. Limited low-cost liabilities rendering the lending rates (interest) to be high and thus a disincentive for borrowing by the value chain actors. 2. Constrained sources of long-term debt such as for fixed investments such as processing machinery, warehouses and silos, coffee wash stations, etc. amongst many financial institutions 3. Information asymmetry in regard to financing opportunities available in the coffee value chain and the associated risks. Thus, skills enhancement and market analysis studies (value chain analyses) would help to mitigate this shortcoming. 4. Inadequacies in the existing products that in many instances are not tailored for the specific value chain transactional characteristics. 5. Constrained liquidity (and other institutional weaknesses relating to governance and management) of lower Tier financial institutions such as MFIs and SACCOs that would otherwise best serve the smallholder coffee farmers given their proximity. This often is a disincentive for linkage banking and other wholesale lending opportunities. 6. Limited innovative coffee sector targeted financial products such as for structured savings, micro-leasing, structured trade financing, coffee price hedging, etc. 7. Stringent access requirements such as for collateral that are cutting off many prospective creditworthy (by

Financing Gaps and Challenges
assessed profitability/ return on investment) value chain borrowers such as the smallholder farmers. 8. Risk posed by borrowers that access finance from multiple sources, often resulting in overfunding as well as diminished royalty to particular lenders. This is however manageable through the existing credit reference bureau (CRB) mechanism/ service if effectively utilized. 9. Non-funded (by financial institutions and many private sector actors) investments or activities such as research, extension, market studies or value chain analyses, etc.). This pushes these investments to be more of public goods, yet they contribute to growth of the sector. 10. Low uptake of innovative financial services delivery platforms such as digital financial services by the lower tier financial institutions due to financial capacity constraints.

In light of the gaps identified above, there is a strong case for public (government and DPs) investments that should address these gaps and thereby enabling the efficient flow of financing in the coffee sector.

ANNEX 4: UGANDA'S REGULATED (LICENSED) FINANCIAL INSTITUTIONS AS AT JUNE 31, 2018

Tier	Name of Institution	
Commercial Banks – Tier 1	• ABC Capital Bank Limited • Barclays Bank of Uganda Limited • Bank of Baroda • Bank of Africa Uganda Ltd • Bank of India (Uganda) Ltd • Cairo International Bank Ltd • Commercial Bank of Africa (Uganda) Ltd • Centenary Rural Development Bank Limited • Citibank Uganda Ltd • DFCU Bank • Diamond Trust Bank Uganda Limited • Ecobank Uganda Limited	• Equity Bank Uganda Ltd • Exim Bank (Uganda) Ltd • Finance Trust Bank Ltd • Guaranty Trust Bank (Uganda) • Housing Finance Bank Ltd • KCB Bank Uganda Limited • NC Bank Uganda Limited • Orient Bank Ltd • Stanbic Bank Uganda • Standard Chartered Bank Uganda Limited • Tropical Bank Ltd • United Bank for Africa Uganda
Credit Institutions – Tier 2	• Post Bank Uganda • Mercantile Credit Bank	• Opportunity Bank Uganda
Microfinance Deposit-Taking Institutions (MDIs) – Tier 3	• FINCA Uganda Limited • Pride Microfinance Limited • Top Finance Bank Uganda Limited	• UGAFODE Microfinance Limited • EFC Uganda Limited • YAKO Microfinance Limited

Source: BOU Web data sources

ANNEX 5: INTERNATIONAL INVESTMENT / TRADE AGREEMENTS AND PROTOCOLS

Uganda is a signatory to major international investment and business protocols, including:

- Multi - lateral Investment Guarantee Agency (MIGA)
- Overseas Private Investment Corporation (OPIC) of USA
- Convention on the Recognition and Enforcement of Foreign Arbitral Award (CREFAA)
- Islamic Corporation for the Insurance of Investment and Export Credit (ICIEC)
- International Centre for Settlement of Investment Disputes (ICSID)
- Agreement on Trade Related Investment Measures (TRIMS)
- General Agreement of Trade in Services (GATS)
- Agreement on Trade related Aspects of Intellectual Property Rights (TRIPS)
- Duty and quota free access into China (quota free access for over 650 products) and the USA (AGOA)
- Generalized System of Preferences (GSP) scheme with European Commission
- EU (Everything But Arms) markets
- African Continental Free Trade Area (AfCFTA)
- Economic Partnership Agreement (EPA)
- East African Common External Tariff (CET)

Table 5.: Investment Treaties and Bilateral Trade Agreements (BTTAs) Signed by Uganda

Bilateral Investment Treaties		Avoidance of Double Taxation Treaties	
Country	Date	Country	Date
Mauritius	August 19, 2003	Mauritius	August 19, 2003
France	January 03, 2003	India	April 30, 2003
Denmark	November 26, 2001	Italy	October 06, 2000
Netherlands	May 30, 2000	Netherlands	May 03, 2000
South Africa	May 08, 2000	Denmark	Dec. 22, 1954 & Jan, 2000
U. K. & Ireland	April 20, 1998	Norway	September 07, 1999
Italy	December 12, 1997	Kenya	April 14, 1999
Egypt	November 04, 1995	Tanzania	April 14, 1999
Germany	August 19, 1968	South Africa	May 27, 1997
Switzerland	May 08, 1972	Zambia	August 24, 1968
		United Kingdom	Dec. 23, 1959

Source: UIA Database

ANNEX 6: RELEVANT TAX AND INVESTMENT INCENTIVES/EXEMPTIONS

Income Tax Exemptions:	
Investor (Who qualifies)	**Conditions for granting exemption**
Exporters of finished consumer and capital goods	Apply to the Commissioner of Domestic Taxes to be issued with a certificate of entitlement valid for 10 years tax holiday but must export at least 80 percent of his/her production of goods
Agro – Processors	Apply to the commissioner for a certificate of exemption: • Applicant or associate of applicant has not previously carried on agro processing of a similar or related agricultural product in Uganda, and • Applicant must invest in plant and machinery not previously been used in Uganda by any person to process agricultural products for final consumption. • Process agricultural products grown or produced in Uganda. • Person regularly files return and fulfils all his tax obligations under the income tax act. • Certificate of exemption issued is valid for one year and may be renewed

Source: Extracted from URA web documents

Relevant Investment Incentives (Holders of Free Zone Licenses)
• Exemption on export processing zone imported raw materials and intermediate goods, machinery and equipment, spare parts for exclusive use in the Free Zone. • Tax holiday for the first 10 years on export of finished consumer and capital goods and 30 percent is charged for each year thereafter after allowable deductions • 100 percent exemption from tax on income from agro-processing (requires a certificate of exemption from the URA Commissioner General) • 100 percent exemption on expenditure on scientific research. • 100 percent exemption on training expenditure • 100 percent exemption on income of a person offering technical assistance (subject to a Technical assistance agreement) • Unrestricted remittance of profits after tax earned by the developer • Exemption on intangible assets e.g. computer software • There is no liability to tax until there is profit made by the developer of the Free Zone. Tax is on income after business commences not during set up or start-up • Exemption from customs duty on plant and machinery used in the free zones for 5 years and 1 day • Exemption from all taxes on exports from the free zones

Relevant Investment Incentives (Holders of Free Zone Licenses)
• Exemption from state and local government taxes, levies and rates applicable to exports such as excise duty and customs taxes • Exemption from payment of stamp duty on Free Zones for land owned by the Authority • Rent free land for the first five years, thereafter, rent shall be as determined by the Authority • Exemption from property rates where Government has a contractual obligation not to levy fees and tax against an institution • Exemption from taxation of 5 percent of the cost of construction of the building (industrial building allowance) • Various exemptions from withholding tax • Various exemptions from Value Added Tax

Source: UIA (extracted for NU-TEC report - October 2018)

ANNEX 7: KEY COFFEE SECTOR STATISTICS AND PRODUCTION INFORMATION

Table 6.: Registered Post-harvest Industry Players

Registered Post-harvest Industry Players in CY 2011/12 to 2017/18							
Industry Players	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18
Exporters	42	54	54	58	54	73	92
Export grading plants	30	32	34	36	36	36	36
Primary Processing Plants & Wash Stations	308	395	363	441	476	549	559
Roasters	14	14	11	13	14	12	17
Total	**394**	**495**	**462**	**549**	**580**	**670**	**704**

Source: UCDA

Table 7.: Uganda's Coffee Exports Performance

Uganda Coffee Export Performance							
Industry Players	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18
Exporters	42	54	54	58	54	73	92
Export grading plants	30	32	34	36	36	36	36
Primary Processing Plants & Wash Stations	308	395	363	441	476	549	559
Roasters	14	14	11	13	14	12	17
Total	**394**	**495**	**462**	**549**	**580**	**670**	**704**

Table 8.: Export of Coffee in the East African Region

Exports of coffee by countries in the East African Region (60 bags "000")					
Calendar years	2013	2014	2015	2016	2017
Burundi	195	252	230	261	169
Dem, Rep. of Congo	140	151	128	171	142
Ethiopia	2,870	3,117	2,985	3,001	3,773
Kenya	815	799	712	727	699
Rwanda	254	256	263	244	246
Tanzania	935	718	709	905	664
Uganda	3,672	3,442	3,596	3,543	4,774
Total	**8,880**	**8,734**	**8,623**	**8,852**	**10,468**

Source: International Coffee Organisation/UCDA

Table 9.: Profitability of coffee production (per acre/year)

Profitability of coffee production (per acre/year)						
Items for Analysis	Institution 1		Institution 2		UCDA	
	Traditional	With GAP	Traditional	With GAP	Traditional	With GAP
Yield per tree/year (kgs)	1	5	1	3	5	4
Yield per acre (kgs)	680	3,400	450	1,350	2.250	3,500
Price per Kg	1,000	1,000	2,000	2,000	2,000	1,000
Total Revenue (UGX)	680,000	3,400,000	900,000	2,700,000	4,500,000	3,500,000
Cost of Purchased Inputs	-	590,000	-	-	-	230,000
Hired labor Cost	-	160,000	-	-	-	1,098,000
Processing and marketing costs	-	-	-	-	-	-
Total Costs	-	750.000	-	500,000	-	1,328,000
Margin	680,000	2,650,000	900,000	2,200,000	3,700,000	2,172,000
Return (per year)		353%	-	440%	463%	164%

Source: Field interviews and UCDA data

Profitability of coffee production (per acre/year)			
Items for Analysis	**Institution 1**	**Institution 2**	**UCDA**

Table 10.: Uganda's Coffee Harvest and Marketing Season

Uganda's Coffee Seasons												
Region	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	June	Jul	Aug	Sep
Central		Main Crop (Robusta)						Fly Crop (Robusta)				
Masaka	Fly Crop (Robusta)							Main Crop (Robusta)				
Eastern		Main Crop (Robusta)						Fly Crop (Robusta)				
Bugisu/Sebei		Main Crop (Arabica)						Fly Crop (Arabica)				
Western	Fly Crop (Robusta)						Main Crop (Robusta)					
	Fly Crop (Arabica)						Main Crop (Arabica)					
West Nile	Main Crop (Arabica)						Fly Crop (Arabica)					

Source: UCDA

Table 11.: Other Schemes Supporting the Coffee Sector

Other Schemes Supporting the Coffee Sector				
Organization	Target	Intervention / funding source	Activity Type	Tenure
PSFU –CEDP	Coffee& non-traditional exports	Matching Grants -World Bank (US$ 3M)	BDS	2015-2019
UNCDF/PSFU/ UDBL –START/DINU	10 priority agricultural value chains including coffee	Blended financing including matching grants& financial credit –EU (EUR 4.5M) EU funds	Capital investments for Agro-processing & value addition	2018 -2021
PCP –YIELD Investment Fund	All sectors across the agriculture value chains including Coffee & cocoa	Investment capital finance & matching grants (Limited to entities that invest) –EU through IFAD &NSSF (EUR 12M)	BDS, Fund management	2017 -2027
MAAIF –ACDP	Coffee, maize, beans, rice & cassava	Matching grants -(US$ 20M) World Bank	Processing& value addition	Yet to start
AGRA	Agriculture sector including coffee and cocoa	Grants for agribusiness - development partners (over 25) Basket of funds	For seed supply, fertilizer value chains, awareness, markets, financial & capacity building	

ANNEX 8: SAFIN – UGANDAN LOCAL PARTENRS' PROGRAMMES

Development Partner Portfolio of Programmes for support to agricultural development and financing in Uganda				
Name of programme/ Project	**Description / Key intervention areas (focus of the programme)**	**Target beneficiaries and specific value chains**	**Implementation period; & geographical focus**	**Funding size**
DP/ DP programme: IFAD – Uganda Country Programme				
Vegetable Oil Development Project (VODP2)	Increase domestic production of vegetable oil and its bi-products, thus raising rural incomes for smallholder producers. The project helps farmers to increase production of crushing material and establish commercial relations to link them directly to processors	Smallholder farmers and SMEs	• 2011 – 2018 (8 years) • Northern and Eastern Uganda for oil seeds, and Kalangala and Buvuma for oil palm	$52M + $1M grant to SNV for OSSUP
Project for Restoration of Livelihoods in the Northern Region (PRELNOR)	Increased sustainable production, productivity and climate resilience of smallholder farmers with increased and profitable access to domestic and export markets	• Smallholder farmers • Priority crops - maize, rice, beans and cassava	• 2015 – 2022 (7 years) • Acholi sub-region and Adjumani District	$70.7M
Project for Financial Inclusion in Rural Areas (PROFIRA)	Sustainably increase access to and use of financial services by the rural population by strengthening SACCO and CSSG sector as well as policy for the microfinance industry.	Rural Tier IV FIs; rural households	• 2015 – 2022 (7 years) • Central, Eastern and Northern Uganda	$36.6M

Development Partner Portfolio of Programmes for support to agricultural development and financing in Uganda				
Name of programme/ Project	**Description / Key intervention areas (focus of the programme)**	**Target beneficiaries and specific value chains**	**Implementation period; & geographical focus**	**Funding size**
Public Sector Support through ATAAS	Public Sector support to NAADS and NARO	Smallholder farmers (through access to better inputs and advisory services)	• Up to Dec 2018 (*has been extended*) • National	$14M
DP/ DP programme: USAID (Feed the Future)				
Enabling Environment for Agriculture	Activity is focusing on improving agricultural production and trade for farmers through a policy and regulatory framework that advances agribusiness	• Smallholder farmers (to transform subsistence farms into more commercial operations), farmer associations, agriculture dealers (SMEs) • All focus on maize, beans and coffee (but also other food crops on nutritional outcomes for the third programme)	2013 – 2018	
Support to aBi Trust	Funding provided under cooperation agreement for the development interventions in the coffee sector			
Name of DP/DP Programme: Palladium Group				
Northern Uganda: Transforming the Economy Through Climate-smart agribusiness (NUTEC – MD) -	Technical and financial support to agribusiness operations that impact Northern Uganda through partnership with the private sector actors. • Supporting the smallholders to access improved seed using the village agent model - NUTEC MD is working with private sector to increase import of	• Targeting increased income and resilience of 75,000+ smallholder households to improve their livelihoods directly through working with the private sector off-	2014 – 2021 (7 Years)	GBP £48M

Development Partner Portfolio of Programmes for support to agricultural development and financing in Uganda				
Name of programme/ Project	**Description / Key intervention areas (focus of the programme)**	**Target beneficiaries and specific value chains**	**Implementation period; & geographical focus**	**Funding size**
Market Development Programme	Hybrid seed and supporting production of improved OPV seed. • Supporting animal feed production in collaboration with the private sector actors • Supporting rice multiplication (Namche variety) and production • Mechanization (tractor hire services) for smallholder farmers and refugees with private sector tractor owners • Seed and fertilizer interventions: Increasing access and adoption of improved inputs • Enhancing access to the market for refugee's crop production activities in West Nile • Enhancing improved access to financial services for smallholders and SMEs	taker SMEs and large enterprises; • Focus value chains of vegetable oil crops (sunflower, sesame soybeans, cotton, stevia, sorghum and chia seed) • Project focus is Northern Uganda (West Nile, Acholi and Lango Sub Regions)		
DP/ DP Programme: European Commission				
Development Initiative for Northern Uganda (DINU)	Focusing on Northern Ugandan agricultural recovery	Northern Uganda & Karamoja region	2017 – 2022 (5 years)	€130M
SME Agribusiness Development	• Private sector development; agricultural finance (Partner Institution/ Implementation Agency – IFAD)	National focus	2015 – 2025 (10 years)	€15M

Development Partner Portfolio of Programmes for support to agricultural development and financing in Uganda				
Name of programme/ Project	**Description / Key intervention areas (focus of the programme)**	**Target beneficiaries and specific value chains**	**Implementation period; & geographical focus**	**Funding size**
Fund/Equity Fund				
DP/ DP Programme: International Trade Centre				
EU-EAC Market Access Upgrade Programme – MARKUP	Focusing on: • Improving market access to EU and the East African region for five EAC partner countries (Burundi, Kenya, Rwanda, Tanzania and Uganda) for agro-industrial crop and horticultural sectors. • Address both supply side and market access constraints of key export-oriented sectors; and • Support SMEs trade activities with regional and European partners	National focus; value chains - avocado, tea, cocoa, coffee and spices.	July 2018 – July 2022	
DP/ DP Programme: World Food Programme				
Agriculture and Market Support	• Training to commercialize smallholder agriculture: e.g. farmer group formation /strengthening, group savings, improved post-harvest management, clustering of farmer group and farmer organization business development, collective marketing • Market facilitation including linkage with the WFP local food purchase footprint, WFP's cash-based transfers, Karamoja school meals programme • Infrastructural development: i.e.	• 26,000 smallholder households (the number may change over the five-year period of the programme implementation) • Mainly maize and beans. • Geographical priorities: Green belt in the Karamoja region;	2018 – 2022	$3M (GOU)

Development Partner Portfolio of Programmes for support to agricultural development and financing in Uganda				
Name of programme/ Project	**Description / Key intervention areas (focus of the programme)**	**Target beneficiaries and specific value chains**	**Implementation period; & geographical focus**	**Funding size**
	construction of commodity aggregation facilities of 100 to 300 metric tons • Strengthening national institutions and market systems (e.g. training of trainers for local government staff, advocacy and participation in policy dialogue and support to the districts in activity and partner coordination).	Refugee hosting districts		
DP/ DP Programme: AFD				
Agreenfi programme AFD	Supporting local FIs to develop their financial services to the agricultural and rural stakeholders so as to eventually improve the living conditions of family farmers by their better integration into value chains	The Project will target smallholder farmers as well as micro, small and middle-sized enterprises (MSMEs) in rural areas	2019-2021	Approx. US$ 15M initially
DP/ DP programme: Oikocredit				
Lending to MFIs and SACCOs	• Wholesale funds for on-lending	• Smallholder farmers and small traders	Loans of 3 to 6 years	EUR 8.1M
Lending to Agriculture SMEs and FBOs	• Trade finance for SMEs and FBOs	• Coffee farmers/ farmer cooperatives and coffee traders	Loans of 3 to 5 years	EUR 1.36M
Capacity Building for MFIs and	• Capacity building for MFIs working in rural areas to expand their outreach to smallholder farmers	• Smallholder farmers in Dairy, bananas, Maize	2018-2019	EUR 40,000

Development Partner Portfolio of Programmes for support to agricultural development and financing in Uganda				
Name of programme/ Project	**Description / Key intervention areas (focus of the programme)**	**Target beneficiaries and specific value chains**	**Implementation period; & geographical focus**	**Funding size**
SACCOs	• Capacity building for SACCOs based in the rural areas to expand their products to agriculture	• Smallholder farmers for coffee, dairy and maize	2018 only	EUR 25,000
DP/ DP Programme: Grow Africa				
Technical Assistance Project	• Support Uganda to adapt the Country Agribusiness Partnership Framework (CAP-F) - a CAADP country engagement and partnership tool for effective mainstreaming of private sector priorities in refreshed NAIPs and formation of agribusiness partnerships aligned to national agricultural transformational goals. • Support will be provided for establishment of country coordination structures and their operationalization • A successful CAP-F will unlock private sector investment in agriculture, contributing to achievement of national goals	• Agribusinesses • Smallholder farmers Government (MAAIF)	One year of technical and financial support for CAP-F operationalization	Estimated US$ 50,000

ANNEX 9 AGRICULTURE SECTOR DEVELOPMENT PARTNERS' GROUP: MEMBERS' CONTACT DETAILS

DP	Representative	Title	E-mail address	Phone number
GERMANY/GIZ	Hans-Hinrich Schnelle	Deputy Head, Development Co-operation, Embassy of the Federal Republic of Germany	wz-10@kamp.auswaertiges-amt.de	0414-501-111 (LL) 0793-494-459 (M)
	Armin Kloeckner	Head of Programme, Agriculture and Rural Finance/GIZ	armin.kloeckner@giz.de	0414-253-840 (LL) 0791-749-553 (M)
	Robert Ocaya	Agriculture and Rural Finance Advisor/GIZ	robert.ocaya@giz.de	0414-253-840 (LL) 0772-308-992 (M)
WFP	Miyuki Yamashita	Head, Agriculture and Market Support	Miyuki.yamashita@wfp.org	0772-287-044 (M)
	Richard Sewava	Programme Officer, Agriculture & Market Support	richard.sewava@wfp.org	0312-242-430 (LL) 0772-287-017 (M)
	Johnson Kagoye	Programme Officer, Zero Food Loss Initiative	Johnson.kagoye@wfp.org	0312-242-217 (LL) 0772-287-033 (M)
USAID	Sheila Desai	Director, Economic Growth Office	sedesai@usaid.gov	0414-306-001 (LL) 0772-138-365 (M)
	Martin Fowler	Senior Agriculture Advisor, Economic Growth Office	mfowler@usaid.gov	0414-306-595 (LL) 0712-859-402 (M)
	Laura Gonzalez	Feed the Future Coordinator, Economic Growth Office	lagonzalez@usaid.gov	0414-306-019 (LL) 0772-318-366 (M)
	Gaudensia Kenyangi	Agriculture Unit Leader, Economic Growth Office	gkenyangi@usaid.gov	0414-306-551 (LL) 0772-138-459 (M)
Agence Française de Développement,	Virginie LEROY-SAUDUBRAY	Agence Française de Développement, c/o Ambassade de France	leroy-saudubrayv@afd.fr	0414-304-533 (LL)

DP	Representative	Title	E-mail address	Phone number
c/o Ambassade de France AFD	Thierry Loussakoueno	Economic Counsellor, French Embassy	thierry.loussakoueno@dgtresor.gov.fr	0414-304-540 (LL) 0791-304-540 (M)
	Juliet Abaliwano	Programme Officer	abaliwanoj@afd.fr	0775-788-804 (M)
IFAD	Lakshmi Moola	Country Programme Manager		
	Dagmawi Habte-Selassie	Programme Officer		
UNDP	Simon Peter Nsereko	Economic Analyst, Strategy and Policy Unit	simon.nsereko@undp.org	0417-112-100 (LL) 0772-289166(M)
AfDB	Asaph Nuwagira	Senior Agriculture & Rural Development Specialist	a.nuwagira@afdb.org	0414-236-167 (LL) 0772-412-718 (M)
WORLD BANK	Joseph Oryokot	Senior Agriculture Specialist	joryokot@worldbank.org	0312-221-416 (LL) 0772-200-261(M)
	Kevin Crockford	Senior Rural Development Specialist	kcrockford@worldbank.org	0414-302-207 (LL)
FAO	Charles Owach	Assistant Representative (Programmes)	charles.owach@fao.org	0414-340-324 (LL) 0776-487-079 (M)
	Martin Ameu	Programme Associate	Martin.Ameu@fao.org	0414-340-324 (LL) 0772-387-397 (M)
DANIDA	Mads Mayerhofer	Counsellor, Royal Danish Embassy	madmay@um.dk	0312-263-211 (LL) 0772-254-020 (M)
	Vuzzi Azza Victor	Senior Advisor, Agriculture and Rural Development, Royal Danish Embassy	vicvuz@um.dk	0312-363-020 (LL) 0772-979-709 (M)
DFID	Radio Save	Growth Adviser	R-Save@dfid.gov.uk	0414-331-111 (LL) 0771-002-181 (M)
	George Kanyomozi	Deputy Programme Manager	g-kanyomozi@dfid.gov.uk	0414-331-136 (LL) 0772-767-792 (M)

DP	Representative	Title	E-mail address	Phone number
JICA	Yamagami Keisuke	Representative	Yamagami.Keisuke@jica.go.jp	0772-050-921 (M) 0200-911123/22 (LL)
	Sato Akiko	Agriculture Project Formulation Advisor	Sato.Akiko.3@jica.go.jp	0775-260-490 (M) 0200-911123/22 (LL)
	Paul Lubega	Programme Officer, Rural/Agriculture Development	lubegapaul.ug@jica.go.jp	0774-724-120 (M) 0200-911123/22 (LL)
	Jiro Nozaka	Agriculture Planning Advisor, Agricultural Planning Department, Ministry of Agriculture, Animal Industry and Fisheries	nozaka.jiro@friends.jica.go.jp	0772-510-558 (M)
	Aiko Hino	Second Secretary, Embassy of Japan	aiko.hino@mofa.go.jp	0414-349-542 (LL) 0752734484 (M)
	Naho Sakano	Agriculture Advisor, Embassy of Japan	naho.sakano@mofa.go.jp	0414-349-542 (LL) 0793-748269 (M)
EUD	Aloys Lorkeers	Head of Sustainable Development Section	aloysius.lorkeers@eeas.europa.eu	0312-701-095 (LL) 0789 929-729 (M)
	Adolfo Cires Alonso	International Cooperation Officer, Sustainable Development Section	adolfo.cires-alonso@eeas.europa.eu	0312-701-079 (LL) 0751 155-207 (M)
	Patrick Seruyange	Operations Adviser, Sustainable Development Section	patrick.seruyange@eeas.europa.eu	0312-701-012 (LL) 0772-461-078 (M)
KOICA	Young-Eun JUN	Deputy Country Director	pocalan@koica.go.kr	0414 258648 (LL)
	Peter Lubaale	Agricultural Specialist	peterlubaale@yahoo.com	0414-258637 (LL) 0774-300757(M)
	Ms. Jiin Lee	Specialist in political and economic affairs,	Bless160@gmail.com	0414- 500-197/8(LL)

DP	Representative	Title	E-mail address	Phone number
		Embassy of the Republic of Korea to the Republic of Uganda		078-135-4 605(M)
	Dr. Hongsik Shim	Country Director, Korea Program on International Agriculture (KOPIA) Uganda Center	Shim2385@gmail.com	039-321-7769(LL) 0773-100-062(M)
Embassy of Iceland	Maurice Ssebisubi	Senior Programme Officer (Fisheries and Environment)	maurice@iceida.is	0312 531100 (LL) 0783-185-981 (M)
	Arni Helgi Helgason	Program Director	arnih@iceida.is	0312 531100 (LL)
UNIDO	Bruno Otto Tokwiny	Country Representative, Uganda	b.otto@unido.org	0759-711-711 (M)
	Rebecca Najala	National Project coordinator	R.Nanjala@unido.org	0750-854-275 (M)
UNHCR	Zewdu Samuel	Senior Livelihoods Expert	ZEWDUS@unhcr.org	0414-230-011 (LL)
EKN	Anno Galema	First Secretary, Food Security and Private Sector Development	Anno.galema@minbuza.nl	0204-346-011 (LL) 0789-906-778 (M)
	Josephat Byaruhanga	Senior Policy Officer, Agriculture & Agribusiness	josephat.byaruhanga@minbuza.nl	0414-346-000 (LL) 0772-918-372 (M)

Source: USAID (The membership is subject to change from time to time)

END NOTES

[1] Vision 2040 and NDPII.
[2] Background to the budget 2018/19.
[3] The current NDP (NDP11) covers the period 2015/16 – 2019/20.
[4] In the NDP II, there is an emphasis on the importance of agro-processing and Value addition of Uganda's crops.
[5] Including liberalization of foreign exchange and divesting most of the state-owned enterprises/businesses.
[6] 23.4 million registered MM users and transaction value of UGX 63.1 Trillion as at December 2017.
[7] Latest estimate (October 2018) by United Nations puts the Uganda's population at 44.8 million.
[8] Average of 3.2 percent p.a.
[9] National agricultural output has grown at only about 2 percent per annum over the last five years (Uganda Economic Update 12th Edition 2018, World Bank).
[10] CAADP is an initiative of the New Partnership for Africa's Development (NEPAD) under the African Union. It aims at accelerating growth and eliminating poverty and hunger among African countries by enhancing development in agriculture. The main goal is to help African countries reach a higher path of economic growth through agriculture led-development. The main principles being the pursuit of 6 percent average annual sector growth rate and the allocation of 10 percent of the public budget to agriculture. Uganda signed the CAADP compact in 2010.
[11] It replaced (and therefore overrides) the Development Strategy and Investment Plan (DSIP).
[12] This will be the first Agriculture Finance Policy for Uganda.
[13] UCDA has in place a coffee sector transformational road-map that outlines priority areas as being: 1) Build structured demand & brand Uganda coffee; 2) Support local coffee businesses; 3) Strengthen farmer organisations; 4) Support JVs & concessions; 5) Improve quality of planting materials; 6) Improve access to quality inputs (prevent counterfeiting); and 7) Develop coffee financing programme.
[14] The farmers that engage in primary processing of their coffee are able to increase their margin by 20 percent (UCDA data).
[15] ACPCU is operating under this model.
[16] Ibero, Kyagalanyi and Ugacof are engaging in input linkages with farmers' cooperatives and Yara.
[17] Investment Code Amendment Bill 2018.
[18] Provided in the Financial Institutions Act 2004.
[19] GIZ Coffee Support Project.
[20] Further detailed listing of the regulated financial institutions is in Annex 5.

[21] In the context of not being regulated by BOU but will be regulated by the Microfinance Regulatory Authority.
[22] CPC is managing the €12 million (UGX 46B) Yield Uganda Investment Fund provided by EU, IFAD and NSSF.
[23] As low as 9 to12 percent p.a. depending on the assessed creditworthiness and risk of the borrower.
[24] Centenary Bank, Bank of Africa, DFCU Bank, Housing Finance Bank, Bank of Baroda and Crane Bank (defunct).
[25] Central Coffee Farmers Association (CECOFA), a farmer owns coffee processor accessed UGX 5.14 billion through the AACF.
[26] Small and Growing Business Fund (SGB).
[27] As low as 9 to12 percent p.a. depending on the assessed creditworthiness and risk of the borrower.
[28] For example, Ibero, Ugacof and Kyagalanyi coffee are engaging is linkage for fertilizer supply with Yara Ltd in Kenya.
[29] OPIC is being restructured and will be replaced by International Development Finance Corporation (IDFC).
[30] In the context of not being regulated by BOU but will be regulated under the Microfinance Regulatory Authority.
[31] Bukonzo Coffee Farmers Cooperative in Kasese (Western Uganda) accessed funds from Rabobank.
[32] Ankole Coffee Producers Cooperative Union (ACPCU) has in the past accessed funds from this source.
[33] As was the case for the low uptake of aBi supported Kungula insurance piloted by Lion Assurance in 2016.

SAFIN UGANDA INVESTMENT PROSPECTUS

(COFFEE SECTOR)

Coffee Grading Investment Opportunity

March 2019

Table of Contents

1 EXECUTIVE SUMMARY

In the 2017/18 financial year, approximately 3.38 million 60-kg bags of Robusta coffee were exported. Most of the coffee is exported as green beans with Robusta green beans forming the bulk of exports. The major export market is the European Union, other destinations include; Sudan, India, Morocco and the USA. The investment opportunity lies in the secondary processing of Fair Average Quality beans to graded coffee for export to regional and international markets.

Export grading facilities are involved in secondary processing of Fair Average Quality (FAQ) coffee to green bean for export based on international standards. The Fair Average Quality is cleaned, dried, graded and thereafter bagged for export. Coffee beans are separated into quality grades using screens to separate the beans by size and shape. Gravity separators are also used to separate and grade beans by density which isolates defective coffee beans. These factors affect the overall quality of the coffee, thus higher grades attract higher prices. Specialty coffees such as fair trade and organic coffees also attract higher prices.

Majority of export grading companies are in Kampala as this is the central market place for coffee destined for export. There are currently about 78 coffee exporters. A range of businesses are involved in export of coffee including sole traders, small and medium sized enterprises, farmer groups and affiliates of multi-national coffee trading companies. The top 10 exporters have a market share of 70-80 percent, this includes companies such as Kyagalanyi coffee, Ideal Quality Commodities and Olam Uganda. Majority of exporters export Robusta coffee only. Coffee prices are influenced by global supply and consumption which puts downward pressure on prices where supply exceeds demand and vice versa.

Expenses involved in grading of coffee are dominated by cost of Fair Average Quality coffee, followed by packaging costs and electricity. Use of bulk packaging can be used to reduce operating expenses. Additionally, targeting specialty and niche markets can be used to obtain a higher price for coffee exported.

Investment in a mid-sized export grading facility, located within Wakiso District, with an output capacity of 171,000 60-kg coffee bags for requires a total capital expenditure of US$ 3.8 million dollars. This generates a net present value of US$ 906,000 with 100 percent equity financing. Use of debt increases the return on investment, therefore affordable debt finance can be used to amplify returns as shown in Figure 1.1.

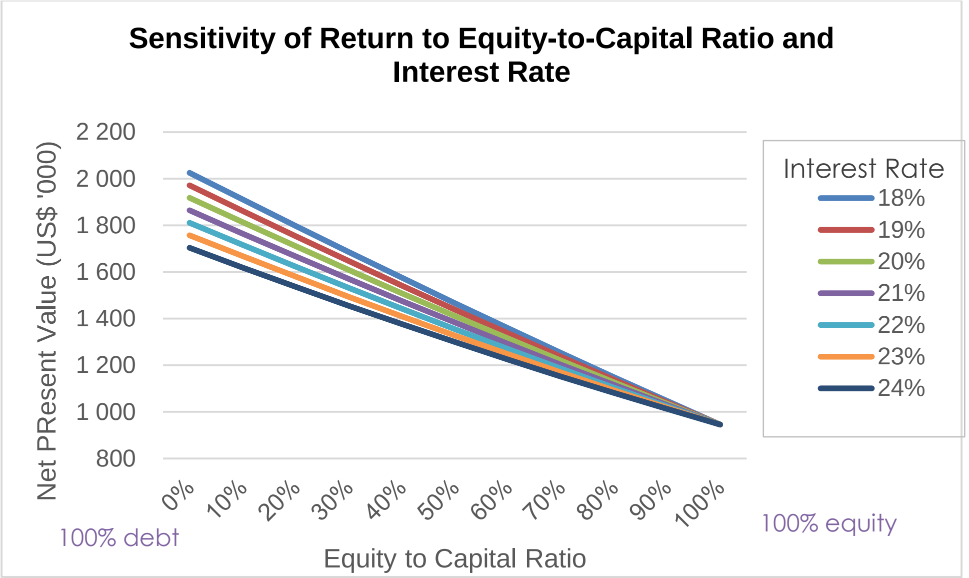


Figure 1.1: Sensitivity of NPV (US$ '000) to Equity to Capital Ratio and Interest rate

With more use of debt (lower equity to capital ratio), a higher return on investment is attained. The same can be seen the lower the interest rate on debt since it reduces interest expense.

2 PROPOSED BUSINESS MODEL

The business model will involve purchase of Fair Average Quality Robusta coffee from traders who transport the coffee to the factory. This is in order to keep the business asset light and avoid additional capital and operating expenditure in setting up collection centres in coffee growing regions. The Fair Average Quality coffee is then cleaned, sorted, graded and packaged for export. Clearing and forwarding companies will be used to transport the green beans to Mombasa for export to the final destination.

2.1 INVESTMENT REQUIREMENTS

In order to set up an export grading facility with output of 171,000 bags of coffee (60 kgs), an investment of US$ 3.8 Million is required. The investment covers cost of equipment needed including a rotary drier, gravity separator and upward flow grader and related accessories (elevators, conveyor belts etc.).

There is need for storage space to allow storage of both Fair Average Quality coffee as well as storage of processed green bean coffee for export. Storage capacity is at 2000 T.

Table 2.1: Investment Requirements

	US$ '000
Rotary drier	320
Gravity Separator	620
Upward flow grader	620
Generator	50
Weighing scales	3
Processing Facility + Office	1,710
Storage	453
Land	47
Licenses and fees	1
Total	**3,823**

2.2 REVENUE STREAMS

There is one revenue stream from sale of green bean for export.

2.3 DIRECT COSTS

Fair Average Quality coffee beans are purchased from traders who deliver the coffee to the factory. Direct costs are therefore cost of the FAQ, coffee handling costs as well as packaging of coffee in 60 kg jute bags.

2.4 OPERATING EXPENSES

Operating expenses include personnel expenses to manage the operation and general and administrative expenses.

The business cost structure is shown in Figure 2.1. Majority of the business' expenses are on purchase of Fair Average Quality coffee beans for grading.

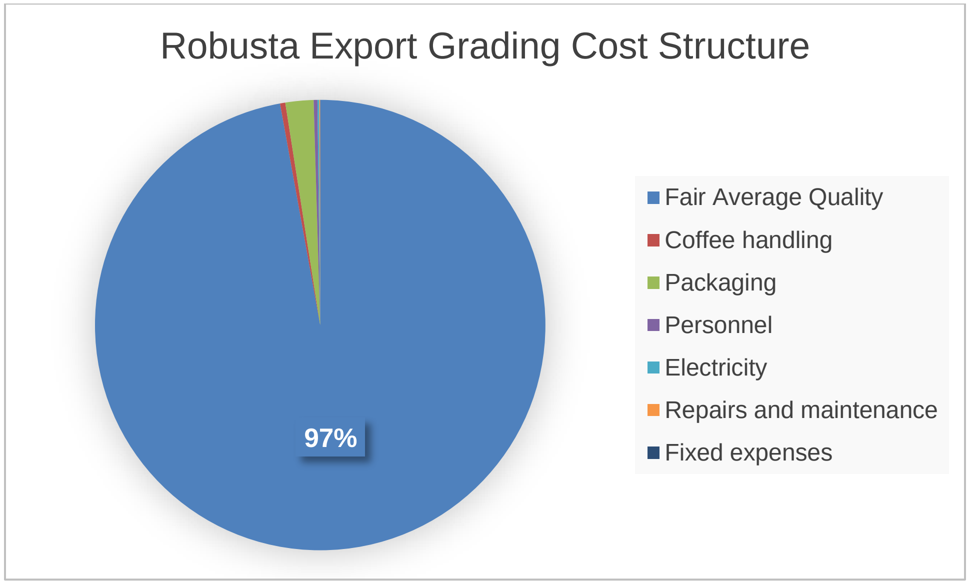


Figure 2.1: Export Grading Cost Structure

3 FINANCIAL ANALYSIS

3.1 RETURN ON INVESTMENT

Detailed five-year financial projections for a coffee export grading factory have been developed as can be seen in the Appendix.

With an equity investment of US$ 3.1 Million, the export processing business has a net present value of US$ 906,000. This is with a price of US$ 1.6 per kg of green bean and purchase price of US$ 1.2 for Fair Average Quality coffee.

3.1.1 SENSITIVITY OF RETURNS TO EQUITY CAPITAL RATIO AND INTEREST RATES

Debt may be used to finance part of the investment; the debt is assumed to have a tenure of 5 years with a 1-year grace period on principal. Table 3.1 shows sensitivity of the net present value in thousands of dollars to the equity to capital ratio and the interest rate, with more use of debt (lower equity to capital ratio) the net present value is higher. The NPV declines as the interest rate increases.

Table 3.1: Sensitivity of NPV (US$ '000) to Equity to Capital Ratio and Interest rate

		Interest Rate						
		18%	19%	20%	21%	22%	23%	24%
Equity to Capital Ratio	0%	1,986	1,933	1,879	1,825	1,772	1,718	1,665
	10%	1,871	1,823	1,774	1,726	1,677	1,628	1,580
	20%	1,758	1,715	1,671	1,627	1,584	1,540	1,497
	30%	1,646	1,608	1,570	1,531	1,493	1,454	1,416
	40%	1,536	1,503	1,470	1,437	1,403	1,370	1,337
	50%	1,427	1,399	1,372	1,344	1,316	1,288	1,260
	60%	1,320	1,297	1,275	1,253	1,230	1,208	1,185
	70%	1,214	1,197	1,180	1,163	1,146	1,129	1,112
	80%	1,110	1,098	1,087	1,076	1,064	1,053	1,041
	90%	1,007	1,001	995	990	984	978	973
	100%	906	906	906	906	906	906	906

Table 3.1 is presented graphically in Figure 3.1

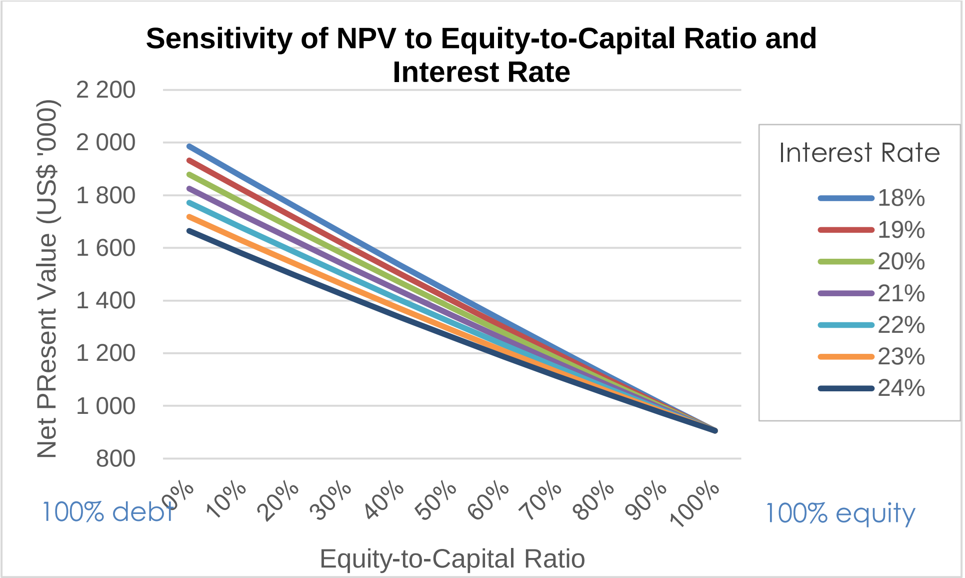


Figure 3.1: Sensitivity of NPV (US$ '000) to Equity to Capital Ratio and Interest rate

4 RECOMMENDATIONS

4.1 BULK PACKAGING OF GREEN BEANS FOR EXPORT

Use of bulk packaging of green beans for export significantly reduces packaging costs as it eliminates the need for Jute bags. Seeking markets with preference for this kind of packaging allows the business to reduce its operating expenditure, increasing income and profitability of the investment.

4.2 TARGETING SPECIALITY AND NICHE MARKETS WITH HIGHER PREMIUMS

Increasing volumes of graded coffee that attracts higher premiums such as organic Robusta coffee increases the income generated and the profitability of the business.

4.3 MAKE USE OF DEBT FINANCING WITH ATTRACTIVE REPAYMENT AND INTEREST

Use of debt can enhance the profitability of the business, however the debt should have affordable interest rates. Additionally, a longer repayment period reduces the principal payments due and allows the business to repay the loan more easily.

5 APPENDIX - FINANCIAL ASSUMPTIONS

5.1 CAPACITY

The factory will have an annual capacity of 10,800 tonnes of green bean processed.

5.2 REVENUE ASSUMPTIONS

5.2.1 COFFEE GREEN BEAN REVENUE

While the capacity of the plant is 10,800 tonnes, there will be some production losses estimated at 5 percent. Output of the plant is therefore 10,260 tonnes equivalent to 171,000 bags (60 kgs) of green bean.

According to the February 2019 UCDA monthly report, average Robusta export prices were US$ 1.54 per Kg. This is converted to Uganda Shilling at projected exchange rate of 4,035 shilling per dollar.

	Units	Year 1	Year 2	Year 3	Year 4	Year 5
Green Bean Revenue	**US$ '000**	16,416	16,416	16,416	16,416	16,416
Green Bean Revenue	**UGX Mil**	66,239	71,273	76,689	82,518	88,789
No. of 60 Kgs Bags of Green Bean Sold	**#**	171,000	171,000	171,000	171,000	171,000

5.3 COST OF SALES ASSUMPTIONS

Costs of sales include costs of Fair Average Quality coffee purchased, coffee handling costs, packaging and clearing and forwarding costs.

- Prices of Fair Average Quality have historically been approximately 80 percent of the export price of green beans. This proportion is used to project the purchase price of Fair Average Quality coffee.
- Coffee handling costs are at UGX 1,000 (US$ 0.27) per 100kg sack of Fair Average Quality coffee purchased.

- The processed green bean for export packaged in Jute bags. The estimated cost of this is at US$ 30 per tonne.

	Units	Year 1	Year 2	Year 3	Year 4	Year 5
Cost of Sales	US$ '000	15,090	15,002	14,921	14,845	14,774
Cost of Sales	UGX Mil	60,890	65,135	69,704	74,619	79,908

5.4 OPERATING EXPENSE ASSUMPTIONS

Operating expenses include personnel expenses to manage the operation, and general and administrative expenses.

5.4.1 PERSONNEL EXPENSES

Personnel include management, accountant, administrator and machine operators. Salaries are grown at inflation of 6 percent.

Position	Number	Monthly Salary (UGX Mil)	Monthly Salary (US$)
Manager	1	2.00	496
Accountant	1	0.80	198
Administrator	1	0.50	124
Machine operators	3	0.20	50

5.4.2 SALES & MARKETING EXPENSES

The business doesn't incur any expenses on sales and marketing. Buyers are readily available, and the only expenditures involved in engaging buyers are telecommunication expenditures which have been captured under general and administrative expenses.

5.4.3 GENERAL AND ADMINISTRATIVE EXPENSES

Fixed General and Administrative Expenses (G&A)

These include fixed expenses such as utilities, security and telecommunication expense.

- Utilities include water at UGX 150,000 (US$ 37).
- Security at UGX 6 million annually (US$ 1,500).
- Telecommunication expenses at UGX 1 million (US$ 40) per annum.

	Units	Year 1	Year 2	Year 3	Year 4	Year 5
Fixed G&A	US$ '000	1.19	1.17	1.15	1.14	1.12
Fixed G&A	UGX Million	5	5	5	6	6

Variable General and Administrative Expenses

- Electricity: Approximately 121,000 kwh are required to operate the machinery. The cost per kwh is at UGX 613 (US$ 0.15).
- Repair and maintenance expenses are estimated at 0.05 percent of revenues.

	Units	Year 1	Year 2	Year 3	Year 4	Year 5
Variable G&A	US$ '000	26.62	25.32	24.11	22.99	21.95
Variable G&A	UGX Million	107	110	113	116	119

5.5 BALANCE SHEET ASSUMPTIONS

5.5.1 CAPITAL EXPENDITURE

The business purchases the following equipment:

	US$ '000
Rotary drier	320
Gravity Separator	620
Upward flow grader	620
Generator	50
Weighing scales	3
Total	**1,613**

Additionally, there will capital expenditure on setting up processing facility, office and storage facilities.

- Storage facility cost is estimated at UGX 850,000 (US$ 212) per tons stored. 10 kgs of storage are required for every 60 kg bag of coffee produced.
- Civil works for processing facility and office is estimated US$ 10 per 60kg bag produced. This amounts to US$ 1.71 Million.
- Land cost is estimated at UGX 350 Million (US$ 87,500) per acre. The factory is on half an acre.

	US$ '000
Processing Facility + Office	1,710
Storage	453
Land	47
Licenses and fees	0.6
Total	**2,211**

5.5.2 WORKING CAPITAL

Receivables: The business will not have receivables as they are paid almost immediately for their goods once obligation of delivery to port is fulfilled.

Inventory: Inventory levels are estimated at 10 percent of cost of goods sold.

Payables: Payables are estimated at 3 percent of operating expenses.

5.5.3 FINANCING

The business may be financed by an appropriate mix of equity and debt. Debt has a tenure of 5 years and interest rate of 22 percent. Analysis of the equity to capital ratio and interest rates is presented in the Financial Analysis chapter.

The base case assumption is that equity will be used to finance the investment.

5.6 INCOME STATEMENT

5.6.1 INCOME STATEMENT IN US$ '000

	Year 1	Year 2	Year 3	Year 4	Year 5
Revenue:	16,416	16,416	16,416	16,416	16,416
Revenue Growth:	0.0%	0.0%	0.0%	0.0%	0.0%
Cost of Sales:	15,090	15,002	14,921	14,845	14,774
Gross Profit:	1,326	1,414	1,495	1,571	1,642
Gross Margin:	8.1%	8.6%	9.1%	9.6%	10.0%
Operating Expenses:					
Fixed	268.09	249.86	232.92	217.16	202.50
Personnel expenses	12	11	11	11	11
Depreciation	255	237	221	205	190
General & Administration	1.2	1.2	1.2	1.1	1.1
Variable	26.62	25.32	24.11	22.99	21.95
General & Administration	26.62	25.32	24.11	22.99	21.95
Sales & Marketing	-	-	-	-	-
Total Operating Expenses:	295	275	257	240	224
Operating Profit:	1,031	1,138	1,238	1,331	1,418
Operating (EBIT) Margin:	6.3%	6.9%	7.5%	8.1%	8.6%
Net Financing Costs:	-	-	-	-	-
Profit Before Income Tax:	1,031	1,138	1,238	1,331	1,418
Income Tax Expense:	(309)	(342)	(371)	(399)	(425)
Profit / (Loss) for the Period:	722	797	867	932	992
Effective Tax Rate:	30%	30%	30%	30%	30%
	16,416	16,416	16,416	16,416	16,416
EBITDA:	0.0%	0.0%	0.0%	0.0%	0.0%
EBITDA Margin:	15,090	15,002	14,921	14,845	14,774

5.7 CASH FLOW STATEMENT

5.7.1 CASH FLOW STATEMENT IN US$ '000

	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5
CASH FLOWS FROM OPERATING ACTIVITIES:						
Net Profit / (Loss) After Income Tax:		722	797	867	932	992
Adjustments for Non-Cash Charges:						
Depreciation and Amortization:		255	237	221	205	190
Changes in Operating Assets and Liabilities:						
Trade and Other Receivables:		-	-	-	-	-
Inventories:		(1,509)	(98)	(98)	(98)	(98)
Trade and Other Payables:		9	0	0	0	0
Net Cash Provided by Operating Activities:		(523)	936	990	1,039	1,085
CASH FLOWS FROM INVESTING ACTIVITIES:						
Purchases of Property, Plant, & Equipment (CapEx):	(3,823)	-	-	-	-	-
Net Cash Used in Investing Activities:	(3,823)	-	-	-	-	-
CASH FLOWS FROM FINANCING ACTIVITIES:						
New Equity Issued by Company:	3,823	523	-	-	-	-
Increase (decrease) in Debt		-	-	-	-	-
Dividends paid						
Net Cash Provided by Financing Activities:	3,823	523	-	-	-	-
Change in Cash and Cash Equivalents:	(0)	-	936	990	1,039	1,085
Beginning Cash:		-	-	870	1,728	2,572
Ending Cash:	(0)	-	936	1,860	2,768	3,657

SAFIN UGANDA INVESTMENT PROSPECTUS

(COFFEE SECTOR)

Dry Coffee Processing Investment Opportunity

March 2019

TABLE OF CONTENTS

1 EXECUTIVE SUMMARY

Primary processing is a key stage for post-harvest handling of coffee, transforming coffee cherries from the farm into Fair Average Quality coffee which is then further processed into green bean coffee suitable for export or roasted for consumption. Uganda produced 302,063 tons of coffee in 2017, 75.7 percent of this was Robusta coffee. This coffee is grown across the Central, Eastern, Western and Southern areas of the country and grows best in low altitudes.

Robusta coffee is typically processed through dry method which is a two-stage process involving drying of coffee fruits (mechanically or using sun drying), followed by hulling of coffee. There is an investment opportunity at this stage of the value chain to set up a dry processing facility for Robusta coffee. This requires capital expenditure of US$ 210,000 for a facility with an annual capacity of 3,000 tons of dry coffee fruit.

Different levels of automation can be used for a processing facility and this affects the required capital expenditure. Equipment may also be purchased from international manufacturers such as BrazAfric or locally fabricated equipment. The investment considered is for the lower-end level of automation using locally fabricated equipment.

Dry processors earn revenue from three streams including; sale of Fair Average Quality coffee to processors, offering hulling services and sale of coffee husks. Purchase of coffee fruits makes up 83 percent of expenses, while labor expenses make up 6 percent of total expenses. The Net Present Value for a US$ 210,000 processing facility financed fully with equity is US$ 289,000 with a payback period of 3.75 years. As more debt is used to finance the investment, the net present value increases as illustrated in Figure 1.1.

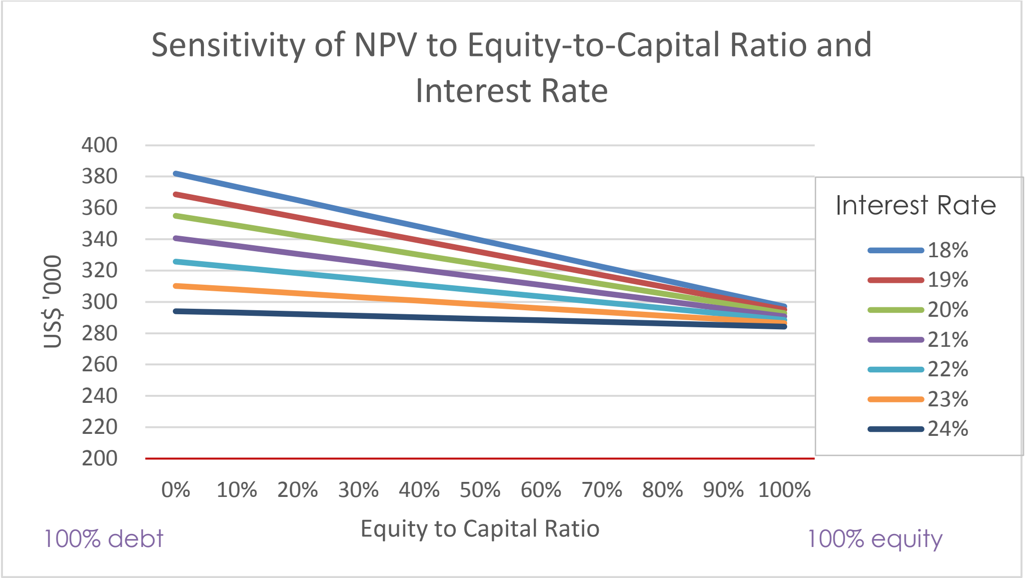


Figure 1.1: Sensitivity of NPV to Equity to Capital Ratio and Interest Rate

The higher equity-to-capital ratio, the lower the net present value. Higher interest rates also reduce the net present value of the investment. Optimizing the capital structure with debt with attractive interest rates can be used to increase profitability.

2 INTRODUCTION

The primary stage of coffee processing involves either dry or wet processing of ripe coffee fruits to either Fair Average Quality (FAQ) and parchment. Wet processing is typically done for Arabica coffees while dry processing is used for Robusta coffees. Over the years, Robusta coffee has been produced in significantly larger quantities compared to Arabica coffee accounting for approximately 70-80 percent of national coffee production.

Dry processing involves cleaning and drying of the coffee fruits followed by removal of dried coverings (husks). The FAQ is sent on to secondary processors who grade and mainly export green bean coffee or processing factories who roast the coffee for local consumption.

2.1 INVESTMENT OPPORTUNITY

There will be increasing need for primary processing as coffee production volumes and exports increase in line with national targets presenting investment opportunities. Additionally, opportunities will arise for processing of coffee as coffee production is expanded to new locations that are not actively engaging in coffee production such as in Northern Uganda.

A key factor affecting a business involved in dry processing of coffee is working capital needs since coffee fruits must be purchased from farmers in cash, other expenses such as transport and commissions also must be paid in advance. It is in a processors best interest to have enough working capital available to purchase sufficient coffee during peak seasons.

The business opportunity explored is for a processing facility with capacity of one tons of dry coffee cherries per hour, producing an output of 30 kgs of Fair Average Quality an hour. At maximum capacity utilization, the processing facility will have capacity to process 3,000 tons of dry coffee fruit annually. The required investment is US$ 210,000.

3 PROPOSED BUSINESS MODEL

The dry Robusta coffee processing mill will be set up in large coffee producing areas of Central Uganda in order to be near processors in Kampala. Agents will be used to procure dry coffee fruit from farmers at a farm gate prices, the dry coffee fruit will be transported to the processing facility for hulling (to produce Fair Average Quality coffee). The Fair Average Quality coffee is then transported to processors in Kampala.

3.1 INVESTMENT REQUIREMENTS

Capital expenditure required for dry processing of Robusta coffee include huller, weighing scales, trucks and civil works for processing and storage facilities. Contingency of 10 percent of estimated capital expenditure is included in investment requirements. The total investment requirement comes to US$ 210,000.

Table 3.1:Investment Requirements

	US$ '000
Huller	10.0
Generator	4.0
Weighing scales	2.7
Truck (12 tons - 1, 6 tons -1)	40.0
Protective gear (overalls, masks etc.)	0.5
Land	27
Licenses and Fees	1
Processing Facility & Office	27
Storage	80
Contingency	19
Total	**210.19**

3.2 REVENUE STREAMS

There are three revenue streams including sale of Fair Average Quality, providing hulling services as well as revenues from sale of coffee husks. Sale of Fair Average Quality beans accounts for 98 percent of total revenue.

3.2.1 SALE OF FAIR AVERAGE QUALITY

Sale of fair average quality coffee beans to processors.

3.2.2 REVENUE FROM HULLING SERVICES

Offering hulling services to farmers and other groups in need of post-harvest handling.

3.2.3 REVENUE FROM SALE OF COFFEE HUSKS

Coffee husks produced may be sold to briquette producers.

3.3 DIRECT COSTS

Coffee fruits are purchased directly from farmers at farm gate prices. Agents are used to purchase coffee from farmers in exchange for a commission per kg of coffee fruit procured. The coffee is then transported to the processing facility and off loaded. Additional direct costs include packaging costs of sold green beans and coffee handling costs.

3.4 OPERATING EXPENSES

Operating expenses include personnel expenses to manage the operation, sales & marketing, and general and administrative expenses.

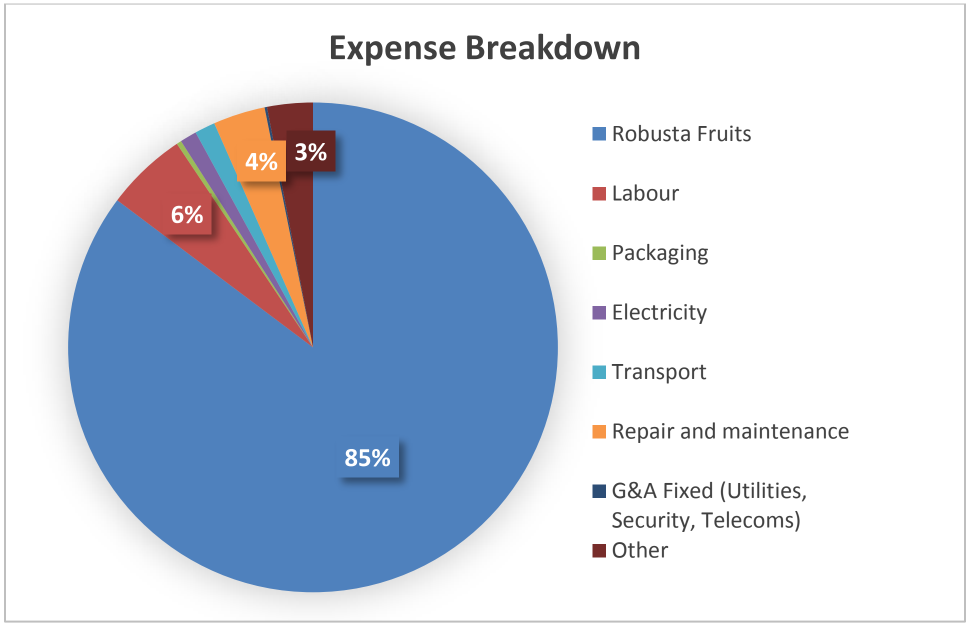


Figure 3.1: Expense Breakdown

4 FINANCIAL ANALYSIS

4.1 RETURN ON INVESTMENT

Detailed 5 year financial projections have been developed and are presented together with assumptions in the Appendix.

With an investment of US$ 210,000 the business has a net present value of US$ 289,000 and a payback period of 3.75 years. This is for a case with 100 percent equity financing for start up costs and use of debt to finance working capital needs.

4.1.1 SENSITIVITY OF RETURNS TO EQUITY TO CAPITAL RATIO AND INTEREST RATE

Use of debt enhances the return on invesment as shown in Table 4.1. With increasing use of equity, the return on investment declines. In all scenarios, debt is used to finance working capital for purchase of coffee fruits from farmers and related costs. It is assumed that working capital financing will be needed to cover purchases during peak production months (2 months).

Table 4.1: Sensitivity of NPV (US$ '000) to Equity to Capital Ratio and Interest Rate

		Interest Rate						
		18%	19%	20%	21%	22%	23%	24%
Equity to Capital Ratio	0%	382	369	355	341	326	310	294
	10%	373	361	349	336	322	308	293
	20%	365	354	342	331	318	305	292
	30%	356	347	336	326	315	303	291
	40%	348	339	330	321	311	301	290
	50%	339	332	324	316	307	298	289
	60%	331	324	318	311	303	296	288
	70%	323	317	311	306	300	294	287
	80%	314	310	305	301	296	291	286
	90%	306	302	299	296	292	289	285
	100%	297	295	293	291	289	286	284

Table 4.1 is represented graphically in Figure 4.1.

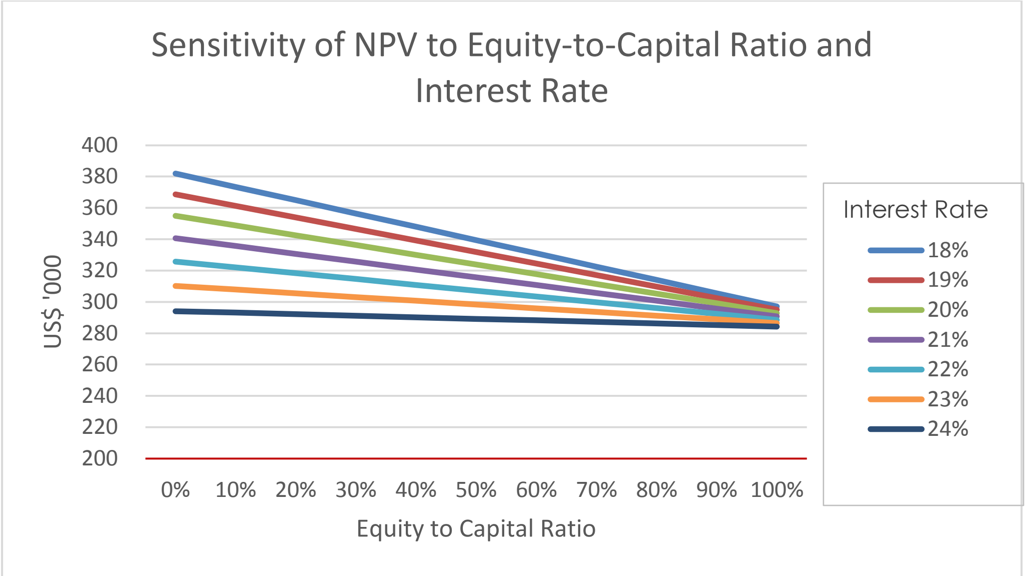


Figure 4.1: Sensitivity of NPV to Equity to Capital Ratio and Interest Rate

Debt at attractive interest rates can be used to finance part of the capital expenditures of the business to increase return on investment.

5 RECOMMENDTIONS

5.1 BUILD RELATIONSHIPS WITH FARMERS AND FARMER GROUPS

Building relationships with farmers and farmer groups serves two purposes; (1) securing inputs for the processing facility, and (2) creating opportunities to offer hulling services to farmers and farmer groups. One way of building good will could be by offering farmers coffee husks to be used as fertilizer.

6 APPENDIX 1 - FINANCIAL ASSUMPTIONS

6.1 CAPACITY

The annual capacity of the processing facility is assumed to be 3000 tons. This is based on a huller with a capacity of 1 Ton of coffee fruits processed per hour. This produces an output of 700 kgs of FAQ and 300 kgs of husks.

The facility is assumed to operate as follows over the two seasons:

Season 1	96% of production
Season 2	4% of production

.

The processing facility capacity utilization is as shown below.

	Units	Year 1	Year 2	Year 3	Year 4	Year 5
Coffee hulled	*ToTons*00.00	1,200.00	1,800.00	2,100.00	2,100.00	
Capacity Utilization	*%*	20%	40%	60%	70%	70%

6.2 REVENUE ASSUMPTIONS

There are three revenue streams including sale of FAQ, providing hulling services as well as revenues from sale of coffee husks.

6.2.1 FAQ REVENUE

Revenues from FAQ are driven by the amount of coffee processed and the selling price of the FAQ. 95 percent of the coffee hulled is assumed to be for internal use, the remaining 5 percent is hulled for clients who require hulling services.

According to UCDA January 2019 report, the price of FAQ was at UGX 4,450 (US$ 1.21) on average. The revenue generated from sale of FAQ is as follows.

	Units	Year 1	Year 2	Year 3	Year 4	Year 5
FAQ Revenue	**US$ '000**	**427**	**794**	**1,108**	**1,201**	**1,116**
FAQ Revenue	**UGX Million**	**1,725**	**3,449**	**5,174**	**6,036**	**6,036**
Internal FAQ Produced	tons	379	758	1,137	1,327	1,327

6.2.2 HULLING SERVICES REVENUE

Hulling services are offered to farmers, traders and other groups. The fee charged is at UGX 150 (US$ 0.04) per kg.

	Units	Year 1	Year 2	Year 3	Year 4	Year 5
Processing Hire Revenue	**US$ '000**	**0.70**	**1.31**	**1.83**	**1.98**	**1.84**
Processing Hire Revenue	**UGX Million**	**2.8**	**5.7**	**8.5**	**10.0**	**10.0**
FAQ Processed	tons	56.88	56.88	56.88	56.88	56.88

6.2.3 COFFEE HUSK REVENUE

Coffee husks may be sold to be used as energy source. The price per kg is at UGX 212 (US$ 0.06).

	Units	Year 1	Year 2	Year 3	Year 4	Year 5
Husk Revenue	**US$ '000**	**8.09**	**15.03**	**20.95**	**22.72**	**21.11**
Husk Revenue	**UGX Million**	**33**	**65**	**98**	**114**	**114**
Husks Sold	tons	154	308	462	539	539
Husks produced	tons	171	342	513	599	599

6.3 COST OF SALES ASSUMPTIONS

Cost of sales include the costs of the coffee fruits purchased, transport, loading and offloading, as well as agent commission and packaging.

- Coffee fruit prices are at UGX 2,250 (US$ 0.84) based on January 2019 prices (UCDA).
- Transport costs per truck are at UGX 100,000 (US$ 27)
- Loading and offloading costs are at UGX (US$ 0.27) per bag
- Agents are used to procure coffee fruits from farmers, and are paid a commission of UGX 150 (US$ 0.04) per kg
- The Fair Average Quality coffee is sold in 100kg bags at a cost of UGX 1000 (US$ 0.27) per bag

6.4 OPERATING EXPENSE ASSUMPTIONS

Operating expenses include personnel expenses to manage the operation, sales & marketing, and general and administrative expenses.

6.4.1 PERSONNEL EXPENSES

The processing plant requires the following personnel to run operations; manager, cashier, machine operators and casual labor. The manager and cashier salary are as follows.

Position	Number	Monthly Salary (UGX)	Monthly Salary (US$)
Manager	1	2	500
Cashier	1	0.5	133

Machine operators and casual laborers are paid per kg or per bag of coffee fruits or FAQ:

- Machine operators are paid per kg processed at UGX 15 (US$ 0.004). 15 operators are required to hull 10 tons of coffee fruits in a 10-hour work day.
- Casual laborers are paid UGX 1,000 (US$ 0.27) per bag of coffee handled.

	Year 1	Year 2	Year 3	Year 4	Year 5
Personnel Expenses (US$ '000)	**8.97**	**10.94**	**12.84**	**13.67**	**13.47**
Personnel Expenses (UGX Million)	**36.2**	**47.5**	**60.0**	**68.7**	**72.9**
Manager (UGX Million)	24.00	25.44	26.97	28.58	30.30
Cashier (UGX Million)	3.60	3.82	4.04	4.29	4.54
Machine Operators (UGX Million)	8.55	18.13	28.82	35.64	37.78

6.4.2 SALES & MARKETING EXPENSES

Sales & Marketing expenses are assumed to be 0.01 percent of revenues. This is based on estimates from a dry coffee processor located in Mukono.

	Units	Year 1	Year 2	Year 3	Year 4	Year 5
Sales & Marketing	**US$ '000**	**0.18**	**0.35**	**0.53**	**0.62**	**0.62**
Sales & Marketing	**UGX Million**	**5.14**	**10.27**	**15.41**	**17.12**	**17.12**
Sales & Marketing % of Revenue	**%**	0.01%	0.01%	0.01%	0.01%	0.01%

6.4.3 GENERAL AND ADMINISTRATIVE EXPENSES

Fixed

Fixed general and administrative costs will be incurred on utilities, security, and telecommunication.

	Units	Year 1	Year 2	Year 3	Year 4	Year 5
Security	**US$ '000**	1.49	1.58	1.67	1.77	1.88
Utilities	**US$ '000**	0.11	0.12	0.13	0.13	0.14
Telecommunication	**US$ '000**	0.25	0.26	0.28	0.30	0.31
Total	**US$ '000**	**1.85**	**1.82**	**1.79**	**1.77**	**1.74**

Variable

Variable general and administrative costs include electricity, repairs and maintenance and transport to processors.

- Electricity costs are based on kwh required for the machinery.
- Transport costs are at UGX 350,000 (US$ 93.3) per trip transporting 12 tons of Fair Average Quality.
- Repairs and maintenance are estimated at 3 percent of revenues.

	Units	Year 1	Year 2	Year 3	Year 4	Year 5
Electricity	**US$ '000**	1.4	2.6	3.6	3.9	3.6
Transport	**US$ '000**	2.7	2.5	2.4	2.2	2.0
Tarpaulins	**US$ '000**	0.19	0.37	0.55	0.63	0.62
Repair and maintenance	**US$ '000**	13.1	24.3	33.9	36.8	34.2
Total	**US$ '000**	**17.39**	**29.80**	**40.39**	**43.46**	**40.42**

6.5 BALANCE SHEET ASSUMPTIONS

6.5.1 CAPITAL EXPENDITURE

The required capital expenditure is US$ 210,000 as detailed below.

	US$ '000
Huller	10.0
Generator	4.0
Weighing scales	2.7
Truck (12 tons - 1, 6 tons -1)	40.0
Protective gear (overalls, masks etc.)	0.5
Land	27
Licenses and Fees	1
Processing Facility & Office	27
Storage	80
Contingency	19
Total	**210.19**

6.5.2 WORKING CAPITAL

Inventories: Inventories are at 5 percent of cost of goods sold.

Receivables: Receivables are at 2.3 percent of revenues.

Payables: Payables are estimated at 3 percent of operating expenses.

6.5.3 FINANCING

The business capital expenditure is assumed to be financed through equity in the base case scenario. Working capital requirements are financed by debt at 22 percent. Sensitivity analysis has been carried out on different capital structures and interest rates to assess the impact on profitability.

6.6 PROJECTED INCOME STATEMENT

6.6.1 PROJECTED INCOME STATEMENT US$ '000

	Year 1	Year 2	Year 3	Year 4	Year 5
Revenue from Continuing Operations:	**436.22**	**810.82**	**1,130.32**	**1,225.57**	**1,139.00**
Revenue Growth:	*0.0%*	*85.9%*	*39.4%*	*8.4%*	*(7.1%)*
Cost of Sales:	**335.99**	**626.55**	**876.43**	**953.72**	**889.74**
Gross Profit:	100.227	184.271	253.892	271.848	249.260
Gross Margin:	*23.0%*	*22.7%*	*22.5%*	*22.2%*	*21.9%*
Operating Expenses:					
Fixed	**33.74**	**55.84**	**63.20**	**63.06**	**61.95**
Personnel expenses	8.97	10.94	12.84	13.67	13.47
Depreciation	22.92	43.08	48.56	47.62	46.74
General & Administration	1.85	1.82	1.79	1.77	1.74
Variable	**17.43**	**29.88**	**40.50**	**43.58**	**40.54**
General & Administration	17.39	29.80	40.39	43.46	40.42
Sales & Marketing	0.04	0.08	0.11	0.12	0.11
Total Operating Expenses:	**51.17**	**85.72**	**103.70**	**106.64**	**102.49**
Results from Continuing Activities (EBIT):	**49.05**	**98.55**	**150.19**	**165.21**	**146.77**
Operating (EBIT) Margin:	*11.2%*	*12.2%*	*13.3%*	*13.5%*	*12.9%*
Net Financing Costs:	6.0	12.1	16.1	15.3	10.8
Profit Before Income Tax:	43.09	86.46	134.05	149.89	135.98
Income Tax Expense:	(12.9)	(25.9)	(40.2)	(45.0)	(40.8)
Profit / (Loss) for the Period:	**30.16**	**60.52**	**93.83**	**104.92**	**95.19**
Effective Tax Rate:	*30%*	*30%*	*30%*	*30%*	*30%*
EBITDA:	72.0	140.6	195.8	207.6	186.1
EBITDA Margin:	*16.5%*	*17.3%*	*17.3%*	*16.9%*	*16.3%*

6.7 PROJECTED CASH FLOW STATEMENT

6.7.1 PROJECTED CASH FLOW STATEMENT IN US$ '000

	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5
CASH FLOWS FROM OPERATING ACTIVITIES:						
Net Profit / (Loss) After Income Tax:		30	61	96	109	100
Adjustments for Non-Cash Charges:		-	-	-	-	-
Depreciation and Amortization:		23	42	46	42	39
Changes in Operating Assets and Liabilities:		-	-	-	-	-
Trade and Other Receivables:		(10)	(9.32)	(8.67)	(4.03)	-
Inventories:		(17)	(15.71)	(14.71)	(6.96)	(0.17)
Trade and Other Payables:		1.5	1.11	0.66	0.23	0.03
Net Cash Provided by Operating Activities:		27.8	79	119	140	140
		-	-	-	-	-
CASH FLOWS FROM INVESTING ACTIVITIES:		-	-	-	-	-
Purchases of Property, Plant, & Equipment (CapEx):	(210)	(74.35)	(69.10)	(32.48)	-	-
Net Cash Used in Investing Activities:	(210)	(74.35)	(69.10)	(32.48)	-	-
CASH FLOWS FROM FINANCING ACTIVITIES:						
New Equity Issued by Company:	210	-	-	-	-	-
Increase (decrease) in Debt		-	-	-	-	-
Dividends paid		-	-	-	-	-
Net Cash Provided by Financing Activities:	210	-	-	-	-	-
Change in Cash and Cash Equivalents:	-	(46.6)	10	86	140	140
Beginning Cash:		-	(43.3)	(31)	52	178
Ending Cash:	-	(46.6)	(33)	56	192	318

SAFIN UGANDA INVESTMENT PROSPECTUS
(COFFEE SECTOR)

Coffee Farming Investment Opportunity

March 2019

Table of Contents

1 EXECUTIVE SUMMARY

Given the high demand for coffee, an investment opportunity exists in setting up a coffee farm that will sell Robusta dry cherries (Kiboko) to local coffee traders and exporters. The farmer will require UGX 2.58 Million (US$ 697) in order to establish a coffee garden with capacity of 450 coffee trees using Robusta Clonal Cuttings.

Table 1.1 Investment Requirements of a Coffee Farm

Investment Requirements (UGX)	
Land	1,000,000
Clonal Cuttings	450,000
Establishing a Coffee Garden	1,130,000
Total	**2,580,000**

The Return on Investment will depend on whether the farm is using Traditional, Improved or Recommended Agronomical Practices. The Return on Investment for a coffee farm that uses the Recommended Agronomical Practices has a higher rate of return than the farm that uses fewer or none of the Good Agronomical Practices (GAP) as shown in the table below. Without use of recommended agronomical practices, coffee farming is not profitable.

Table 1.2: Coffee Farm's Return on Investment

	Traditional	Improved	Recommended
NPV (UGX Million)	(0.68)	(0.02)	1.20
IRR	19.0%	24.8%	32.5%
PBP (Years)	4.96	4.61	4.39

Return on Investment for the Coffee Farm will depend on the capital expenditure spent on land at the start of the coffee farm. In order to attain a return on investment for the coffee farm, the cost of land should not exceed the amounts shown below.

Table 1.3 Cost of Land at which Net Present Value is Zero

	Traditional	Improved	Recommended
Cost of Land Per Acre (UGX)	318,519	298,901	1,500,654

It is recommended that when the cost of land exceeds the above costs or it is not feasible to obtain land at this price, the farm land should be leased instead of purchased.

2 INTRODUCTION

Coffee is the main export of Uganda with high demand both in and out of Uganda. For this reason, the Government of Uganda's Coffee Policy intends to increase the coffee production in Uganda. Currently, the majority of coffee produce is grown from elite seedlings which takes up to five years to mature. There is an alternative to elite seedlings known as clonal cuttings which mature faster, have higher resistance to coffee wilt disease and have higher yield compared to the coffee trees that grow from elite seedlings.

An investment opportunity exists in setting up a coffee farm using clonal cuttings to take advantage of its benefits over elite seedlings.

3 PROPOSED BUSINESS MODEL

The coffee farmer will purchase Robusta Clonal Cuttings and establish a farm that has the optimal capacity of 450 coffee trees. The farmer will sell the dry red cherry coffee obtained from the mature coffee trees at least two years after the establishment of the coffee garden. The farmer will have to choose among the following farm methods:

1. Traditional Farming Methods in which Good Agricultural Practices (GAP) are not applied.
2. Improved Farming Methods in which a significant amount of GAP is applied.
3. Recommended Farming Methods in which the farmer adopts most of the GAP practices.

The total optimal yield obtained from the main and fly crop seasons will vary depending on farming methods employed by the farmer. The coffee trees start to bear fruit in the second year, however each tree starts out with lower yield in the first year of production and this grows until the optimal yield is attained in the 5th year.

Table 3.1 : Optimal Tree Yield per acre

	Traditional	Improved	Recommended
Total Optimal Yield (Kgs)	619	1,313	2,250

3.1 INVESTMENT REQUIREMENTS

The investment required to start a one (1) acre coffee farm are shown in the Table below.

Table 3.2: Coffee Farm's Investment Requirements

Investment Requirements (UGX)	
Land	1,000,000
Clonal Cuttings	450,000
Establishing a Coffee Garden	1,130,000
Total	**2,580,000**

3.2 REVENUE STREAMS

The main revenue streams come from the volume of dry coffee cherries sold and the price at which they are sold. The price of one (1) kg of dry coffee cherries ranges between UGX 1800 to UGX 2200 per kilo as reported by UCDA[1] . However, the price will differ depending on which farming method is employed by the farmer and are estimated as shown below.

[1] https://ugandacoffee.go.ug/fact-sheet

Table 3.3 Estimated prices of Robusta Kiboko

Price per kilo (UGX)	Traditional	Improved	Recommended
Robusta Kiboko	1800	1913	2045

The number of trees on the farm will affect the volume of coffee beans produced within a year. While the farm will have purchased 450 clonal cuttings, it is assumed that 97 percent of these cuttings will survive and amount to 437 trees within the farm.

There will be no revenue from the coffee trees in the first two years following establishment of the farm as the trees will not be mature. In the third year, coffee trees start to bear fruit however the yields are at 25% of the optimal yield and grow to optimal yields by the 5th year. The optimal yields by farming method employed are as shown below:

1. Traditional Farming Methods in which Good Agricultural Practices (GAP) are not applied. With this method, the optimal yield of dry red cherries is 1.38 kg per tree in the main crop season and 0.34 kg in the fly crop season.
2. Improved Farming Methods in which a significant amount of GAP is applied. With this method, the optimal yield of dry red cherries is 2.71 kg per tree in the main crop season and 0.68 kg in the fly crop season.
3. Recommended Farming Methods in which the farmer adopts most of the GAP practices. With this method, the optimal capacity of dry red cherries is 5 kg per tree in the main crop season and 1.25 kg in the fly crop season.

3.2.1 DIRECT COSTS

In the first two years of the farm, the farm will be incurring the costs of rearing of coffee trees until maturity. After the trees mature, these same costs will be incurred to maintain the trees for their lifetime. These direct costs are attributed to the crop management costs and post-harvest costs.

4 FINANCIAL ANALYSIS

A ten-year projected Financial Model of a coffee farm was developed and used in the Base Case Financial Analysis. The assumptions used to develop the Financial Model are in the Appendix.

4.1 BASE CASE

Using 100% equity to finance the setup of the coffee farm, the Return on Investment under different farming methods are shown in the table below. The cost of equity is estimated at 25%.

Table 4.1: Coffee Farm's Return on Investment

	Traditional	Improved	Recommended
NPV	(0.68)	(0.02)	1.20
IRR	19.0%	24.8%	32.5%
PBP (Years)	4.96	4.61	4.39

As shown in the table above, the coffee farm has a positive Net Present Value and Internal Rate higher than 25 percent for farms that have been practicing Good Agronomical Practices which led to higher yields.

In addition, the cost of land bought has a negative effect on the Return on Investment of each Farm. The higher the cost of land, the lower the returns. Below is the maximum cost to be incurred on land in order to generate a return on investment.

Table 4.2 Cost of Land at which Net Present Value is Zero

	Traditional	Improved	Recommended
Cost of Land Per Acre (UGX)	318,519	298,901	1,500,654

5 RECOMMENDATIONS

It is recommended that the coffee farm practices the Recommended Good Agronomical Practices in order to have higher yields of coffee produce and obtain higher returns. If the cost of land exceeds UGX 0.9 Million, the farm should lease land instead of purchasing it.

6 APPENDIX

1.1 GENERAL ASSUMPTIONS

1. It is assumed that the farm is operating on land size that has the capacity of 450 trees, however 97 percent of these survive to bear fruit.
2. The farm is assumed to have no debt i.e. Debt to Capital Ratio of 0 percent.
3. It is assumed the farmer does not pay income taxes.
4. The Inflation Rate is assumed to be five (5 percent) percent as forecast by the Bank of Uganda

1.2 REVENUE ASSUMPTIONS

1. The prices of the coffee beans are assumed to differ according to the farming methods employed on the farm as shown below.

Table 6.1 Price of a Kilo of Robusta Kiboko

Price per kilo (UGX)	Traditional	Improved	Recommended
Robusta Kiboko	1800	1913	2045

   The price is assumed to grow by the inflation rate.

2. Yields were obtained from 'The Economic Viability of Coffee Farming' by Tony Mugoya. The amount of coffee beans sold in a year will depend on the farming methods employed by the farmer as well as the age of the tree. It is assumed that there will be no coffee yield in the first two years of its life. Consequently, the coffee tree yield in the main season starts out as 25% of the optimal yield and will increase by 200% year on year.
   The fly crop is estimated as 25 percent of yield in the main season. In the seventh year, the coffee tree will undergo the stumping process whereby the tree will be cut at the stem from which a new tree will grow, and the coffee production cycle is repeated.
   - A key assumption made to adjust Fair Average Quality (FAQ) yields reported by Tony Mugoya to dry coffee cherry is the conversion ratio of 40percent from dry cherry to Fair Average Quality. This conversion ratio is dependent on the quality of cherries and is typically 70percent for processors, however farmers typically see 40-60percent conversion.

1.3 COST OF SALES ASSUMPTIONS

1. In order to produce the desired yield from the coffee tree, crop maintenance and post-harvest costs will be incurred. As reported in 'The Economic Viability of Coffee Farming' by Tony Mugoya, the farmer will incur the following costs.

Table 6.2: Coffee Farm Costs

	Traditional	Improved	Recommended
Production costs	**47,250**	**588,468**	**1,257,422**
▪ Harvest and Post-Harvest costs	47,250	174,343	271,256
▪ Crop Maintenance	0	414,125	986,166

The production costs are expected to rise by the rate of inflation.

1.4 CAPITAL EXPENDITURE

1. The farm would require land with the capacity of 450 coffee trees which is assumed to be one (1) acre of land. The cost of land is estimated to cost UGX 1 Million Shillings.
2. The farm would require the establishment of a coffee garden. The cost of establishing a coffee garden is assumed to be UGX 2.8 Million per hectare as reported by UCDA[2]. This would translate to 1.13 Million per acre.
3. The farm would require clonal cuttings to grow the coffee trees. An acre of land has the capacity of 450 coffee trees. A clonal cutting costs UGX 1000 each as reported by UCDA which would total to UGX 450,000.

Table 6.3: Coffee Farm's Investment Requirements

Investment Requirements (UGX)	
Land	1,000,000
Clonal Cuttings	450,000
Establishing a Coffee Garden	1,130,000

[2] UCDA Fact Sheet: ugandacoffee.go.ug/fact-sheet

Total	2,580,000

4. The costs of crop maintenance incurred in the two years when the tree is young and unable to produce any coffee beans are treated as Capital Expenditures . The first two years' crop maintenance costs are shown below.

Table 6.4: Two Year Crop Maintenance Costs

Farming Method	Two-year Crop Maintenance Costs
Traditional	No costs incurred
Improved	848,956
Recommended	2,021,640

1.5 BALANCE SHEET ITEMS

The Balance Sheet Drivers are assumed as below.

Table 6.5 Balance Sheet Drivers

	Year 1	Year 2	Year 3	Year 4	Year 5
Trade and Other Receivable % Revenue	0%	0%	0%	0%	0%
Inventories % COGS	10%	10%	10%	10%	10%
Trade and Other Payables % Operating Expenses	0%	0%	0%	0%	0%

1.6 PROJECTED FINANCIAL STATEMENTS - TRADITIONAL AGRICULTURAL PRACTICES

6.1.1 PROFIT AND LOSS STATEMENT

Below is the Profit and Loss Statement of a coffee farm with an Equity to Capital Ratio of 100 percent.

Statement Comprehensive Income (UGX Millions)	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Revenue from Continuing Operations	**-**	**-**	**0.37**	**0.78**	**1.64**	**1.72**	**-**	**-**	**0.50**	**1.05**
Coffee Revenue	-	-	0.37	0.78	1.64	1.72	-	-	0.50	1.05
Revenue Growth				*110.0%*	*110.0%*				*0.0%*	*110.0%*
Production Costs										
Crop Maintenance Costs	-	-	-	-	-	-	-	-	-	-
Post-Harvest Costs	-	-	0.05	0.05	0.05	0.05	-	-	0.05	0.05
Total Operating Expenses	**-**	**-**	**0.05**	**0.05**	**0.05**	**0.05**	**-**	**-**	**0.05**	**0.05**
Results from Continuing Activities (EBIT)	**-**	**-**	**0.32**	**0.73**	**1.59**	**1.67**	**-**	**-**	**0.45**	**1.00**
Operating (EBIT) Margin			*86.7%*	*93.7%*	*97.0%*			*0.0%*	*90.1%*	*95.3%*
Net Financing Costs										
Profit Before Income Tax	-	-	0.32	0.73	1.59	1.67	-	-	0.45	1.00
Income Tax Expense	-	-	-	-	-	-	-	-	-	-
Profit / (Loss) for the Period	**-**	**-**	**0.32**	**0.73**	**1.59**	**1.67**	**-**	**-**	**0.45**	**1.00**
Effective Tax Rate	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*
EBITDA	-	-	0.3	0.7	1.6	1.7	-	-	0.4	1.0
EBITDA Margin	*0.0%*	*0.0%*	*86.7%*	*93.7%*	*97.0%*	*97.1%*	*0.0%*	*0.0%*	*90.1%*	*95.3%*

6.1.2 BALANCE SHEET

Below is the Balance Sheet Statement of a coffee farm with an Equity to Capital Ratio of 100 percent.

Statement of Financial Position (UGX Millions)	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
ASSETS											
Current Assets											
Cash and Cash Equivalents		-	-	0.3	1.1	2.6	4.3	4.3	4.3	4.8	5.8
Trade and Other Receivables		-	-	-	-	-	-	-	-	-	-
Inventories		-	-	-	-	-	-	-	-	-	-
Total Current Assets		**-**	**-**	**0.3**	**1.1**	**2.6**	**4.3**	**4.3**	**4.3**	**4.8**	**5.8**
Non-Current Assets											
Property, Plant & Equipment	2.6	2.6	2.6	2.6	2.6	2.6	2.6	2.6	2.6	2.6	2.6
Long-Term Investment											
Other Non-Current Assets											
Total Non-Current Assets	**2.6**	**2.6**	**2.6**	**2.6**	**2.6**	**2.6**	**2.6**	**2.6**	**2.6**	**2.6**	**2.6**
Total Assets		2.58	2.58	2.91	3.64	5.23	6.90	6.90	6.90	7.35	8.35
EQUITY AND LIABILITIES											
Current Liabilities											
Trade and Other Payables		-	-	-	-	-	-	-	-	-	-
Total Current Liabilities		-	-	-	-	-	-	-	-	-	-
Non-Current Liabilities											
Other Non-Current Liabilities											
Total Non-Current Liabilities		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total Liabilities		-	-	-	-	-	-	-	-	-	-
Equity											
Issued Capital & Share Premium	2.6	2.6	2.6	2.6	2.6	2.6	2.6	2.6	2.6	2.6	2.6
Accumulated Earnings		-	-	0.3	1.1	2.6	4.3	4.3	4.3	4.8	5.8
Reserves											
Total Equity		**2.6**	**2.6**	**2.9**	**3.6**	**5.2**	**6.9**	**6.9**	**6.9**	**7.4**	**8.4**
Total Liabilities and Equity		2.58	2.58	2.91	3.64	5.23	6.90	6.90	6.90	7.35	8.35

6.1.3 CASH FLOW STATEMENT

Below is the Cash flow Statement of a coffee farm growing with an Equity to Capital Ratio of 100 percent.

Statement of Cash Flows (UGX Millions)	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
CASH FLOWS FROM OPERATING ACTIVITIES											
Net Profit / (Loss) After Income Tax		-	-	0.32	0.73	1.59	1.67	-	-	0.45	1.00
Adjustments for Non-Cash Charges											
Changes in Operating Assets and Liabilities											
Trade and Other Receivables		-	-	-	-	-	-	-	-	-	-
Inventories		-	-	-	-	-	-	-	-	-	-
Trade and Other Payables		-	-	-	-	-	-	-	-	-	-
Net Cash Provided by Operating Activities		**-**	**-**	**0.32**	**0.73**	**1.59**	**1.67**	**-**	**-**	**0.45**	**1.00**
CASH FLOWS FROM INVESTING ACTIVITIES											
Purchases of Property, Plant, & Equipment	(2.58)	-	-	-	-	-	-	-	-	-	-
Net Cash Used in Investing Activities	**(2.58)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
CASH FLOWS FROM FINANCING ACTIVITIEs											
New Equity Issued by Company:	2.6										
Increase (decrease) in Debt											
Dividends paid											
Net Cash Provided by Financing Activities	2.58	-	-	-	-	-	-	-	-	-	-
Change in Cash and Cash Equivalents	-	-	-	0.32	0.73	1.59	1.67	-	-	0.45	1.00
Beginning Cash		-	-	-	0.32	1.05	2.65	4.32	4.32	4.32	4.77
Ending Cash	**-**	**-**	**-**	**0.32**	**1.05**	**2.65**	**4.32**	**4.32**	**4.32**	**4.77**	**5.77**

1.7 PROJECTED FINANCIAL STATEMENTS - IMPROVED AGRICULTURAL PRACTICES

6.1.4 PROFIT AND LOSS STATEMENT

Below is the Profit and Loss Statement of the coffee farm with an Equity to Capital Ratio of 100 percent.

Statement of Comprehensive Income (UGX Millions)	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Revenue from Continuing Operations	**-**	**-**	**0.78**	**1.64**	**3.44**	**3.61**	**-**	**-**	**1.04**	**2.19**
Coffee Revenue	-	-	0.78	1.64	3.44	3.61	-	-	1.04	2.19
Revenue Growth				*110.0%*	*110.0%*				*0.0%*	*110.0%*
Production Costs										
Crop Maintenance Costs	-	-	0.46	0.48	0.50	0.53	-	-	0.61	0.64
Post-Harvest Costs	-	-	0.18	0.18	0.18	0.18	-	-	0.18	0.18
Total Operating Expenses	**-**	**-**	**0.64**	**0.66**	**0.69**	**0.71**	**-**	**-**	**0.79**	**0.83**
Results from Continuing Activities (EBIT)	**-**	**-**	**0.14**	**0.97**	**2.75**	**2.90**	**-**	**-**	**0.25**	**1.37**
Operating (EBIT) Margin			*17.9%*	*59.5%*	*80.0%*			*0.0%*	*23.9%*	*62.3%*
Net Financing Costs										
Profit Before Income Tax										
Income Tax Expense										
Profit / (Loss) for the Period	-	-	0.14	0.97	2.75	2.90	-	-	0.25	1.37
Effective Tax Rate	-	-	-	-	-	-	-	-	-	-
EBITDA	**-**	**-**	**0.14**	**0.97**	**2.75**	**2.90**	**-**	**-**	**0.25**	**1.37**
EBITDA Margin	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*

6.1.5 BALANCE SHEET

Below is the Balance Sheet Statement of a coffee farm with an Equity to Capital Ratio of 100 percent.

Statement of Financial Position (UGX Millions)	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
ASSETS:											
Current Assets:											
Cash and Cash Equivalents:		(0.4)	(0.8)	(0.8)	0.2	3.0	5.9	5.4	4.8	5.0	6.3
Trade and Other Receivables:		-	-	-	-	-	-	-	-	-	-
Inventories:		-	-	0.0	0.0	0.1	0.1	-	-	0.1	0.1
Total Current Assets:		**(0.4)**	**(0.8)**	**(0.7)**	**0.3**	**3.0**	**5.9**	**5.4**	**4.8**	**5.0**	**6.4**
Non-Current Assets:											
Property, Plant & Equipment, Net:	2.6	3.0	3.4	3.4	3.4	3.4	3.4	4.0	4.6	4.6	4.6
Long-Term Investments:											
Other Non-Current Assets:											
Total Non-Current Assets:	**2.6**	**3.0**	**3.4**	**3.4**	**3.4**	**3.4**	**3.4**	**4.0**	**4.6**	**4.6**	**4.6**
Total Assets:		2.58	2.58	2.72	3.70	6.45	9.34	9.34	9.34	9.59	10.96
LIABILITIES AND EQUITY:											
Current Liabilities:											
Trade and Other Payables:		-	-	-	-	-	-	-	-	-	-
Total Current Liabilities:		-	-	-	-	-	-	-	-	-	-
Non-Current Liabilities:											
Other Non-Current Liabilities:											
Total Non-Current Liabilities:		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total Liabilities:		-	-	-	-	-	-	-	-	-	-
Equity:											
Issued Capital & Share Premium:	2.6	2.6	2.6	2.6	2.6	2.6	2.6	2.6	2.6	2.6	2.6
Accumulated Earnings:		-	-	0.1	1.1	3.9	6.8	6.8	6.8	7.0	8.4
Reserves:											
Total Equity:		**2.6**	**2.6**	**2.7**	**3.7**	**6.4**	**9.3**	**9.3**	**9.3**	**9.6**	**11.0**
Total Liabilities and Equity:		2.58	2.58	2.72	3.70	6.45	9.34	9.34	9.34	9.59	10.96

6.1.6 CASH FLOW STATEMENT

Below is the Cash flow Statement of a coffee farm growing with an Equity to Capital Ratio of 100%.

Statement of Cash Flows (UGX Millions)	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
CASH FLOWS FROM OPERATING ACTIVITIES											
Net Profit / (Loss) After Income Tax		-	-	0.14	0.97	2.75	2.90	-	-	0.25	1.37
Adjustments for Non-Cash Charges											
Changes in Operating Assets and Liabilities											
Trade and Other Receivables		-	-	-	-	-	-	-	-	-	-
Inventories		-	-	(0.05)	(0.00)	(0.00)	(0.00)	0.05	-	(0.06)	(0.00)
Trade and Other Payables		-	-	-	-	-	-	-	-	-	-
Net Cash Provided by Operating Activities		**-**	**-**	**0.09**	**0.97**	**2.75**	**2.89**	**0.05**	**-**	**0.19**	**1.36**
CASH FLOWS FROM INVESTING ACTIVITIES											
Purchases of Property, Plant, & Equipment	(2.58)	(0.41)	(0.43)	-	-	-	-	(0.55)	(0.58)	-	-
Net Cash Used in Investing Activities	**(2.58)**	**(0.41)**	**(0.43)**	**-**	**-**	**-**	**-**	**(0.55)**	**(0.58)**	**-**	**-**
CASH FLOWS FROM FINANCING ACTIVITIES											
New Equity Issued by Company	2.6										
Increase (decrease) in Debt											
Dividends paid											
Net Cash Provided by Financing Activities	2.58	-	-	-	-	-	-	-	-	-	-
Change in Cash and Cash Equivalents	-	(0.41)	(0.43)	0.09	0.97	2.75	2.89	(0.50)	(0.58)	0.19	1.36
Beginning Cash		-	(0.41)	(0.85)	(0.76)	0.22	2.96	5.86	5.35	4.77	4.96
Ending Cash	**-**	**(0.41)**	**(0.85)**	**(0.76)**	**0.22**	**2.96**	**5.86**	**5.35**	**4.77**	**4.96**	**6.32**

1.8 PROJECTED FINANCIAL STATEMENTS - RECOMMENDED AGRICULTURAL PRACTICES

6.1.7 PROFIT AND LOSS STATEMENT

Below is the Profit and Loss Statement of the coffee farm with an Equity to Capital Ratio of 100 percent.

Statement of Comprehensive Income (UGX Millions)	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Revenue from Continuing Operations	**-**	**-**	**1.54**	**3.23**	**6.78**	**7.12**	**-**	**-**	**2.06**	**4.33**
Coffee Revenue	-	-	1.54	3.23	6.78	7.12	-	-	2.06	4.33
Revenue Growth				*110.0%*	*110.0%*				*0.0%*	*110.0%*
Production Costs	-	-	1.09	1.14	1.20	1.26	-	-	1.46	1.53
Crop Maintenance Costs	-	-	0.28	0.28	0.28	0.28	-	-	0.28	0.28
Post-Harvest Costs	**-**	**-**	**1.37**	**1.43**	**1.48**	**1.54**	**-**	**-**	**1.74**	**1.81**
Total Operating Expenses	**-**	**-**	**0.17**	**1.80**	**5.30**	**5.58**	**-**	**-**	**0.32**	**2.51**
			10.8%	*55.8%*	*78.1%*			*0.0%*	*15.5%*	*58.1%*
Results from Continuing Activities (EBIT)										
Operating (EBIT) Margin										
Net Financing Costs	-	-	0.17	1.80	5.30	5.58	-	-	0.32	2.51
	-	-	-	-	-	-	-	-	-	-
Profit Before Income Tax	**-**	**-**	**0.17**	**1.80**	**5.30**	**5.58**	**-**	**-**	**0.32**	**2.51**
Income Tax Expense	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*
Profit / (Loss) for the Period										
Effective Tax Rate	-	-	0.2	1.8	5.3	5.6	-	-	0.3	2.5
	0.0%	*0.0%*	*10.8%*	*55.8%*	*78.1%*	*78.3%*	*0.0%*	*0.0%*	*15.5%*	*58.1%*
EBITDA	**-**	**-**	**1.54**	**3.23**	**6.78**	**7.12**	**-**	**-**	**2.06**	**4.33**
EBITDA Margin	-	-	1.54	3.23	6.78	7.12	-	-	2.06	4.33

6.1.8 BALANCE SHEET

Below is the Balance Sheet Statement of a coffee farm with an Equity to Capital Ratio of 100 percent.

Statement of Financial Position (UGX Millions)	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
ASSETS											
Current Assets											
Cash and Cash Equivalents		(1.0)	(2.0)	(2.0)	(0.2)	5.1	10.7	9.5	8.1	8.3	10.8
Trade and Other Receivables		-	-	-	-	-	-	-	-	-	-
Inventories		-	-	0.1	0.1	0.1	0.1	-	-	0.1	0.2
Total Current Assets		**(1.0)**	**(2.0)**	**(1.9)**	**(0.1)**	**5.2**	**10.8**	**9.5**	**8.1**	**8.4**	**10.9**
Non-Current Assets											
Property, Plant & Equipment	2.6	3.6	4.6	4.6	4.6	4.6	4.6	5.9	7.3	7.3	7.3
Long-Term Investments											
Other Non-Current Assets											
Total Non-Current Assets	**2.6**	**3.6**	**4.6**	**4.6**	**4.6**	**4.6**	**4.6**	**5.9**	**7.3**	**7.3**	**7.3**
Total Assets		2.58	2.58	2.75	4.55	9.85	15.43	15.43	15.43	15.75	18.26
EQUITY AND LIABILITIES											
Current Liabilities											
Trade and Other Payables		-	-	-	-	-	-	-	-	-	-
Total Current Liabilities		-	-	-	-	-	-	-	-	-	-
Non-Current Liabilities											
Other Non-Current Liabilities											
Total Non-Current Liabilities		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total Liabilities		-	-	-	-	-	-	-	-	-	-
Equity											
Issued Capital & Share Premium	2.6	2.6	2.6	2.6	2.6	2.6	2.6	2.6	2.6	2.6	2.6
Accumulated Earnings		-	-	0.2	2.0	7.3	12.8	12.8	12.8	13.2	15.7
Reserves											
Total Equity		**2.6**	**2.6**	**2.7**	**4.6**	**9.9**	**15.4**	**15.4**	**15.4**	**15.7**	**18.3**
Total Liabilities and Equity		2.58	2.58	2.75	4.55	9.85	15.43	15.43	15.43	15.75	18.26

6.1.9 CASH FLOW STATEMENT

Below is the Cash flow Statement of a coffee farm growing with an Equity to Capital Ratio of 100 percent.

Statement of Cash Flows (UGX Millions)	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
CASH FLOWS FROM OPERATING ACTIVITIES											
Net Profit / (Loss) After Income Tax		-	-	0.17	1.80	5.30	5.58	-	-	0.32	2.51
Adjustments for Non-Cash Charges											
Changes in Operating Assets and Liabilities											
Trade and Other Receivables		-	-	-	-	-	-	-	-	-	-
Inventories		-	-	(0.11)	(0.01)	(0.01)	(0.01)	0.13	-	(0.15)	(0.01)
Trade and Other Payables		-	-	-	-	-	-	-	-	-	-
Net Cash Provided by Operating Activities		**-**	**-**	**0.06**	**1.80**	**5.29**	**5.57**	**0.13**	**-**	**0.17**	**2.51**
CASH FLOWS FROM INVESTING ACTIVITIES											
Purchases of Property, Plant, & Equipment	(2.58)	(0.99)	(1.04)	-	-	-	-	(1.32)	(1.39)	-	-
Net Cash Used in Investing Activities	**(2.58)**	**(0.99)**	**(1.04)**	**-**	**-**	**-**	**-**	**(1.32)**	**(1.39)**	**-**	**-**
CASH FLOWS FROM FINANCING ACTIVITIES											
New Equity Issued by Company:	2.6										
Increase (decrease) in Debt											
Dividends paid											
Net Cash Provided by Financing Activities	2.58	-	-	-	-	-	-	-	-	-	-
Change in Cash and Cash Equivalents	-	(0.99)	(1.04)	0.06	1.80	5.29	5.57	(1.20)	(1.39)	0.17	2.51
Beginning Cash		-	(0.99)	(2.02)	(1.96)	(0.17)	5.13	10.70	9.50	8.12	8.29
Ending Cash	**-**	**(0.99)**	**(2.02)**	**(1.96)**	**(0.17)**	**5.13**	**10.70**	**9.50**	**8.12**	**8.29**	**10.80**