

# Rapid Market Assessment – Uganda

BEAN SECTOR

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## Acronyms

ACDP	Agricultural Cluster Development Programme
ACE	Area Co-Operative Enterprise
CASA	Commercial Agriculture for Smallholders and Agribusiness
DFID	UK Department for International Development
DLG	District Local Government
EPRC	Economic Policy Research Centre
MAAIF	Ministry of Agriculture, Animal Industry and Fisheries
MTIC	Ministry of Trade, Industry and Co-Operatives
PHH	Post-Harvest Handling
PO	Producer Organization
PROFIRA	Project for Financial Inclusion in Rural Areas
RMA	Rapid Market Assessment
SACCO	Savings and Credit Co-Operative
SME	Small and Medium Enterprises
SOP	Standard Operating Procedure
UDB	Uganda Development Bank
VSLA	Village Savings and Loans Association

## Executive summary

This report is a summary of the findings of the Rapid Market Assessment (RMA) commissioned by Commercial Agriculture for the Smallholders and Agribusiness (CASA) Project. The purpose of the assessment was to establish the impact of the COVID-19 pandemic on the bean sector in Uganda. The RMA looked at the impact of the pandemic on the production of beans by the smallholder farmers in South Western Uganda and its effect on the aggregators and processors of the beans. Additionally, the RMA investigated the influence of COVID-19 on the policy and regulatory environment in both the short and the long run. Basing on the results of the assessment, this report offers suggestions on how the value chain can be supported to continue operating despite the ongoing challenges posed by the pandemic and the impact of the measures laid down by government to manage the spread of the virus.

Due to the partial lockdown instituted by the government, the RMA relied heavily on a review of the literature and telephone interviews with a cross-section of stakeholders that included smallholder farmers, producer organizations (POs), bean traders, district local governments (DLGs), commercial banks, Savings and Credit Co-Operative Organizations (SACCOs) and Ministries (the Ministry of Trade, Industry and Co-Operatives [MTIC] and Ministry of Agriculture, Animal Industry and Fisheries [MAAIF]). The report shows that the bean value chain is being affected to a considerable extent by the COVID-19 pandemic as it is heavily dependent on smallholder farmers whose degree of resilience to shocks is very low. This epidemic is therefore compounding already existing vulnerabilities and also presenting new ones. Although the virus did not have far-reaching consequences for the first planting season of 2020, the real impact of the pandemic started to reveal itself with the onset of the harvest season.

The sector is grappling with an acute lack of working capital, as the conventional sources have a diminished appetite for risk. Not only have they experienced a marked reduction in the volume of deposits, but they are also unable to collect repayment moneys on the loans that were taken out. There has also been a significant attrition of labour, further complicating the weeding and the preparations for harvesting. The Area Co-Operative Enterprises (ACEs) and other POs that were interviewed reported an increase in the cost of labour, as there are fewer people available for hiring as well as other challenges associated with curfew and the lack of personal protection equipment. There is constrained access to post-harvest equipment as the supply chain has been disrupted globally. This is making it difficult for the value chain to adhere to the quality standards required by the market, as well as increasing post-harvest losses at the smallholder level. There has been an unprecedented entry of speculators into the market, fuelled by the government purchases of beans for relief distribution. This is affecting prices and poses a high risk of side-selling, as farmers want ready cash as opposed to aggregation with the ACEs and other POs.

To respond to the above challenges, this report recommends that CASA and associated partners must immediately address the issue of access to working capital. The use of guarantees or grants should be explored in the short term so that the value chain can be financed. In the long run, CASA should focus most strategically on supporting ACEs, POs and related traders to become more attractive to commercial banks and larger SACCOs. Additionally, stronger relationships with nonbanking financial institutions that offer trade finance should be explored and built with aggregators and processors.

Access to the right information about COVID-19 and the necessary personal protection equipment should be a priority. CASA and partners should explore opportunities for working with local health workers to undertake sensitization among the bean growing and bean trading community to avert fear, stigma and polarization. This will ensure safety during this harvesting period and will help address the scarcity of labour that is currently afflicting the value chain.

CASA also needs to support the growing interest of some key players who are interested in adopting technology in their operations. Various aggregators and processors would like to move many of their activities (e.g. extension; payments and financing; monitoring) to the phone. This is a mechanism for building resilience, efficiency and adopting lean management techniques that are synonymous with periods such as the COVID-19 lockdown.

To support access to quality inputs for Season Two of 2020, there is a need to work with the ACEs and POs that have own input shops to stock up and work out a distribution mechanism that will allow smallholder farmers to get what they need before the onset of the rains. The gaps existing in the supply chain of inputs due to this global pandemic is making availability difficult; the ACEs and POs have little or no working capital to stock up and there are reports of an increase in the prevalence of counterfeits during this period.

The DLGs should be supported to undertake studies within their bean growing communities to come to grips with the full extent of the impact of COVID-19 on the bean value chain. This assessment discovered that little or no support has been extended to the value chain by the DLGs because of a lack of concrete evidence; as such, advocacy activities at both public and civil society organization level are weak. These studies will help the DLGs to appropriate resources from the 2020/21 budget towards supporting the bean value chain.

## 1.0 Introduction

This is a report of a study commissioned to assess the impact of the global pandemic caused by Coronavirus (COVID-19) on the bean growing and bean trading community in Uganda. The study concentrated on the impact of the virus on the livelihoods of smallholder farmers and on their ability to participate in the bean market system under the circumstances of the partial lockdown instituted by the Government of Uganda. Further, the study analyses the extent to which COVID-19 is influencing the actions of bean aggregators, processors and other forms of traders in the country insofar as they are able to relate with the smallholder farmers and other key players within the value chain and the entire market system. This report also provides insight into how the policy environment is responding to this “new normal” to provide an enabling environment for further development of the bean value chain in Uganda. Finally, the report provides a menu of possible solutions that can be adopted to support the chain to adapt to the challenges posed by this virus, while supporting the building of resilience against any future occurrences.

### 1.1 CASA Project overview

The UK Department for International Development’s (DFID) approach to economic development and agriculture relies on an increasingly commercial approach to its agricultural programming by:

- boosting agribusiness investment, financing agricultural infrastructure and supporting smallholder farmer access to markets
- helping farmers and their families to have opportunities and jobs outside of their farms and supporting small and medium enterprises (SMEs) in rural areas
- supporting subsistence farmers without other economic opportunities to avoid hunger, malnutrition and extreme poverty
- encouraging commercial approaches that reduce the cost of nutritious diets

In support of this approach, DFID has launched the five-year, flagship CASA Project, which seeks to change how investors, donors and governments view and invest in agribusinesses that work with smallholder supply chains. In doing so, CASA will increase economic opportunities for smallholders by:

- a) demonstrating the commercial viability of SME agribusinesses with significant smallholder supply chains and attracting more investment into these businesses
- b) deepening the smallholder impact of existing investments made by Development finance Institutions (DFIs; CDC), and impact investors
- c) enabling poor smallholder farmers to engage with and trade in commercial markets
- d) researching and communicating the case for successful engagement with smallholder-linked agribusiness

CASA has three components, two of which (Components A and C) are managed by NIRAS-LTS in partnership with Swisscontact and CABI. CASA’s Component B is separately implemented by Technoserve and focuses on technical assistance and investment promotion for larger agri-enterprises on the global development stage.

Component A will demonstrate high-impact interventions in the three target countries (Malawi, Uganda and Nepal), leading to (a) mobilization of investments for partner agribusinesses (which can include commercially-minded farmer associations and co-operatives) and/or expanded outreach to smallholders; and (b) improved access to markets for smallholders. The ultimate target group for CASA is the “missing middle” of “stepping-up” smallholders – i.e. those that wish to engage in commercial agriculture but are largely not engaged to date (including 40% living on less than US\$ 2/day and 50% women). The initial CASA target sectors in Nepal are dairy and vegetables.

Component C is a learning and knowledge-sharing component that will *inter alia* leverage knowledge gains from Component A interventions and other research to inform donors and investors about the merits of investing in agribusiness SMEs with significant outreach to smallholders. CASA's sector focus in Uganda is on beans and sesame. Specific indicative interventions are under development to improve smallholder commercialization in both value chains.

## 1.2 Context of the RMA

The increasing spread of Coronavirus across countries has prompted many governments to introduce unprecedented measures to contain the epidemic. These measures have led to many businesses being shut down temporarily, widespread restrictions on travel and mobility, financial market turmoil, an erosion of confidence and heightened uncertainty. These restrictions have also resulted in the disruption of supply chains, production and sales, which in turn is expected to significantly affect the profits of businesses, potentially triggering a global recession.

The Government of Uganda has taken actions to control the spread of the pandemic, including the closure of the country's borders and all education institutions, restricting public gatherings, suspending refugee reception services, instituting guidelines on social distancing, public health facilities and public transport, and a nationwide lockdown. Only critical services such as pharmacies, food markets and supermarkets remain open. Without a doubt, this countrywide lockdown has reduced the supply of beans and bean products, and by extension the crisis continues to inflict a heavy toll on markets.

There are ongoing efforts from various players to avert immediate hardships faced by farmers and agribusinesses and to find solutions to the longer-term implications these disruptions will cause. There is a need to directly support or advocate for farmers and agribusinesses to receive economic support of any form to ensure agricultural production, related activities and trade in agricultural products and services are only minimally disrupted and also that the risk of food insecurity post-COVID-19 is averted well in advance. This will help minimize the effect on the incomes of vulnerable smallholders and hence livelihoods at household level.

Given this context, CASA is looking to develop response interventions to support farmers and SMEs involved in beans. As a first step, CASA intends to conduct an RMA to get first-hand information on the realities on the ground. This information will help CASA develop response strategies and activities to help the farmers that depend on beans sales for their income. The RMA will also inform strategies to support POs/co-operatives and agribusinesses that are struggling for survival and looking to re-establish themselves.

This report examines the effect of the risk presented by COVID-19 pandemic on Uganda's agribusinesses in the bean value chain using a rapid survey. In particular, the report:

- examines the effects of the COVID-19 pandemic on various indicators of agribusinesses performance in the beans sector
- assesses future expectations of the businesses in the event that the pandemic and containment measures persist
- advises on how SHFs can be engaged effectively to reduce the food gap likely to emerge in the coming year
- provides possible policy options to revive businesses in Uganda in the post-COVID-19 era

## 1.3 Purpose of the RMA

Prior to the outbreak of COVID-19, the global financial situation was promising, with various businesses expanding and investing more. A report by the Organisation for Economic Co-operation and Development on 2 March 2020 showed that the global economic situation was stabilizing before the outbreak of COVID-19. This economic stability in turn encouraged business investment, which has been partly financed through borrowing. The Bank of Uganda,

in its State of the Economy Report released in September 2019, indicated an increase in private sector credit due to the improved state of the economy.

As a first step, CASA commissioned an RMA to get first-hand information on the realities on the ground. This information would help CASA develop response strategies and activities to help the farmers that depend on beans sales for their income. The RMA would also inform strategies to support POs and agribusinesses that are struggling for survival and looking to re-establish themselves.

CASA's RMA has four components:

- a) *a production level analysis*: to understand the impact and implications among smallholder bean farmers
- b) *an aggregation level analysis*: to appraise the impact on operations among bean agribusinesses and/or wholesalers/retailers
- c) *a processor level analysis*: to understand the impact among beans processors
- d) *a regulatory and competitive environment analysis*: to understand how the regulatory and business environment may shift and how these policy shifts may affect businesses in the short and long term

This document is a consolidated report of the all four components of the CASA RMA.



## **2.0 Methodology and data**

### **2.1 Research design and approach**

Given the restrictions on movement in Uganda at the time of this study, the assessment relied heavily on a review of documents and reports as well as on in-depth interviews with a cross-section of stakeholders. A list of these stakeholders is indicated in the appendices. The survey included agribusinesses, smallholder farmers, financial institutions and policy/decision actors at national and local government levels. The interviewees were selected from a list provided by CASA, while others were selected through referral or snowballing techniques as well as from listings accessed from key industry players such as the Uganda Co-Operative Alliance and the Uganda Grain Council.

A total of nineteen (19) interviews were carried out during the survey with five (5) aggregators, four (4) financial institutions, two (2) DLGs, two (2) exporters, two (2) local seed businesses, two (2) research institutions and two (2) government ministries. The data was collected using a structured questionnaire developed in collaboration. The questionnaire focused mainly on how COVID-19 is influencing the production, supply and processing of beans; its impact on the prices, operations, revenues and access to key raw materials; and the disruptions associated with restrictions on the availability of labour, access to financial services and the relationship with buyers or off-takers. The questionnaire also looked at the response of the policy environment to the challenges and opportunities (if any) presented by the pandemic.

The questionnaire was shared with respondents that had access to email and internet and were returned with responses that were clarified through telephone interviews. Other respondents were interviewed solely on phone because of challenges associated with the inability to use the usual communication methodologies, especially email. There were a handful of face-to-face interviews, mainly with respondents within Kampala. Due to the partial lockdown, it was difficult for some respondents to provide numeric data, as they were unable to reach their offices.

### **2.2 Survey limitations**

- The sample of respondents was too small to draw general conclusions about the bean sector in Uganda
- The timeframe of the study was very limited so some of the key players that would have been part of the assessment were left out
- Some of the responses could not be validated as self-reporting mechanisms were used and some respondents could not reach their offices to confirm certain facts

### 3.0 Results and discussion

According to a report published by the Economic Policy Research Centre (EPRC), the agricultural sector experienced up to a 76% decline in productivity due to the COVID-19 pandemic. The report also indicates that the western and northern parts of the country experienced the highest decline, mainly because of their inability to adhere to the Standard Operation Procedures (SOPs) instituted by government and other related challenges. Given that the agricultural sector employs almost 70% of the population, the impact of COVID-19 on the entire agricultural market system in terms of government and private sector investment, the plight of smallholder farmers, aggregation and processing, as well as the overall policy environment, should not be underestimated. It is for this reason that the impact of this virus and its related impact on the bean sector in Uganda should be studied and understood well so that the necessary short-term and long-term interventions can be instituted.

The results of this RMA are organized along the following four key focus areas:

- a) *a production level analysis*: to understand the impact and implications among the bean smallholder farmers
- b) *an aggregation level analysis*: to appraise the impact on operations among sesame agribusinesses and other support services sectors
- c) *a processor level analysis*: to understand the impact among beans processors
- d) *a regulatory and competitive environment analysis*: to understand how the regulatory and business environment may shift and how these policy shifts may affect business in the short and long term

#### 3.1 The impact on bean production

The bean value chain in Uganda consists of input suppliers, producers, village assemblers or middlemen (sometimes called agents), traders, processors and consumers. The producers, mainly smallholder farmers, sell approximately 69% of the beans to village collectors and brokers and 5% to institutional buyers like schools and the World Food Programme. The remaining 26% is retained for home consumption and seed. Village collectors then sell all their beans to traders, which include big traders in major trading towns. Thereafter, the big traders transport the beans to mass markets and also fulfil contracts from institutional buyers.

In the major bean growing areas, production is carried out either on an individual basis or through the dynamics of the farmer groups or POs. There is little or no mechanization in most areas as farmers still use the traditional methods that rotate around the use of the hand hoe. While in the past the family provided all the farm labour, the increased bean demand is continuously leading to use of hired labour in some areas, such as Isingiro, Ntungamo, Kabale, Mubende and Kiboga. According to the interviews with the farmers, women do most of the weeding and harvesting while men are involved in land preparation, fertilizers and pesticide application and marketing.

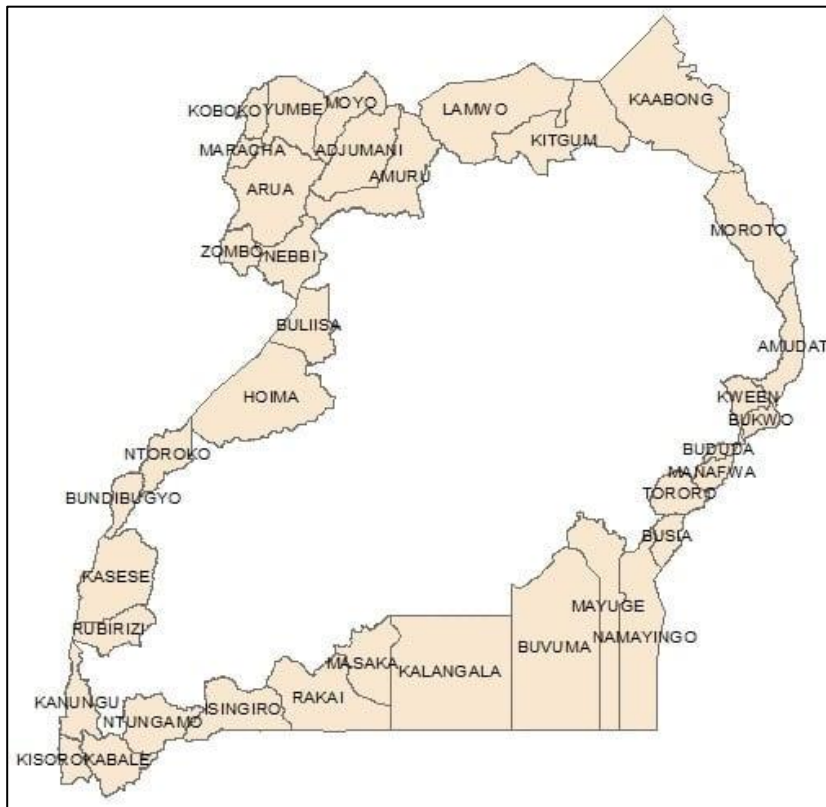
Most of the smallholder farmers are also members of some form of group. The groups are mainly used as lower-level aggregation and marketing centres and are a key source of market and agronomy information. Development agencies, local governments and civil society players use these groups and their related structures to reach the farmers. They are membership-based and form the basis upon which larger aggregators, such as ACEs and co-operatives, build their bean supply network.

Because of the above and a host of other characteristics, the bean sector is facing challenges associated with the outbreak of COVID-19. These challenges and impacts are elaborated below.

### 3.1.1 Scarcity of labour

Most of the usual labour that is available for hire has either retreated back to ancestral homes, remains available but unwilling to provide services because of fear and tension or has become more expensive because of limited supply. This is even more pronounced in the border districts of Uganda where labour is not free to move across borders, as was the case before the COVID-19 outbreak (this is the case in Isingiro, Ntungamo and Kabale, all of which are intervention districts for CASA). See Figure 1.

**Figure 1: Map of Uganda showing border districts that are under restricted mobility due to COVID-19**



Additionally, the curfew imposed by government also means that the available labour can only work for a limited number of hours. Farmers now have to rely on family labour, which is inadequate, especially at this time of harvest. This is expected to slow down the speed of the harvest and may also contribute to an increase in harvest and post-harvest losses.

The use of group labour farming arrangements has been severely constrained. The SOPs instituted by government on social distancing, sanitizing and the use of personal protection equipment are highly necessary to keep the population healthy. However, this limits the number of people available in group farming activities such as land preparation, weeding and harvesting. This is a key disruption, as bean farmers use this method to support themselves throughout the production cycle. Their inability to use this method means there will be a reduction in production and that harvest/post-harvest losses will increase.

### 3.1.2 Post-harvest handling (PHH) equipment

There has been disruption in the supply chain of this equipment, especially the tarpaulins, moisture meters and gunny bags. This makes it difficult for farmers to purchase these items well in advance before the harvest season picks up pace. Further, the outbreak of COVID-19 means farmers will be unable to rely on shared usage or communal drying in some areas as this may lead to the spread of the virus. There is also the fact that the farmers lack the financial resources to pay for the equipment, even if it were available. The implication of this is

the likelihood of increased post-harvest losses and the reduced quality of beans. It will also slow and complicate the process of aggregation by the ACEs and other traders.

### **3.1.3 Inability to access credit**

The bean value chain is strongly prone to financial shocks, as most actors have little or no savings and have limited options for accessing financing. Many rely on informal financing but this is known to be expensive and sometimes either unavailable or inadequate. The SACCOs and village savings and loans associations (VSLAs) that are the main sources of funding for the farmers are facing a liquidity challenge, as borrowers have been unable to service their loans over the last three months. Many borrowers have not been earning during the partial lockdown, mainly because the other value chains that generate income to support bean farming have also been hit. In Ntungamo and Isingiro, the banana value chain has suffered greatly and this has denied farmers the much-needed income that they often rely on to finance the harvesting of beans. Consequently, the farmers are unable to hire labour (which is now scarce and more expensive), purchase post-harvest implements or even transport their beans to the aggregation centres.

### **3.1.4 Reports of counterfeit inputs infiltrating some areas**

Unscrupulous traders are taking advantage of the disruption in the supply chains of essential agricultural inputs and the absence of regulatory enforcement to sell substandard products or even outright counterfeits. This has especially been observed in the sale of post-harvest equipment and related pest/rodent control drugs. Because of the fact that farmers are facing liquidity constraints, these cheap items may seem attractive, but they are ineffective. By falling victim to this fraud, farmers are likely to be plunged even deeper into financial and other harvest/post-harvest challenges.

### **3.1.5 Access to inputs for 2020 Season B**

Without a full return to normalcy, access to improved inputs for the second season of 2020 will be a challenge. Not only do the farmers have low purchasing power at the moment, but the ACEs and other such arrangements are facing challenges in running farmer-owned input shops as they have no money to buy new stock. Some of the ACEs and other POs have supplied farmers with inputs on credit for the current season, but have not been able to collect either the cash equivalent or the beans in lieu. Given these limitations, farmers are indicating that they are now more inclined to using home-saved seed, as their focus is mainly going to be on saving as much cash as possible for the uncertain future. They also want to keep a large proportion of what they have produced as food as they want their families to be food-secure. Limited mobility and other logistical challenges may mean that extension services will also be disrupted.

### **3.1.6 Loss of micro-markets**

Some big farmers reported a loss of markets for their beans. The closure of schools and related institutions has disrupted that trade, as some farmers sell directly to those schools or supply in lieu of school fee obligations. Some farmers reported that restriction on movement has made it difficult for the travellers and visiting relatives who usually buy the beans to purchase anything. In some cases this is affecting household incomes.

### **3.1.7 Current coping mechanisms employed by the smallholder farmers**

The smallholder farmers have limited options for coping with the vagaries of COVID-19. However, some of the mechanisms adopted by some farmers include the following.

- Farmers are deciding to save more of their produce for household consumption than in the past. This is because of uncertainty about the future

- There is increased usage of phones, both on an individual household and shared use basis. This is because the phone is now key in networking at producer level and is used as a tool for keeping abreast of current trends in the spread of the virus and the trade of beans, as well as for keeping in touch with groups and aggregators or traders
- There are efforts to collect money and support the extension workers and suppliers of quality inputs to travel deeper in the villages. Extension officers are providing advice to small groups of farmers that are able to space themselves out

## **3.2 Impact on agribusinesses – aggregators and processors**

The arrival of the COVID-19 pandemic has set in motion a global economic decline. This decline has been felt most by the MSMEs across various geographies and value chains. According to some reports, the global GDP is expected to decline by 2% per month as the pandemic continues to spread across the world, which is slightly below the global benchmark for developing countries. Experts in global trade have warned that exports will decline between 13% and 30% depending on the severity of the pandemic and the capacity of each country to respond effectively.

As a result, many agribusinesses in Uganda are unable to pay for operational costs, sustain salaries or wages for workers, or meet utility bills and rent or extra costs for field operations (meeting not more than five farmers at a time), among other consequences. The demand for financial credit is high but recovery is difficult. There has been an escalating demand for loans (monetary and agro-inputs) and a radical reduction in savings at all levels. Those who have accessed loan facilities are incapable of repaying the loans, making it extremely difficult for loan portfolio recoveries. There has also been a reduction in turnover due to a sharp reduction in the volumes produced, heightened by low demand for the products or fewer distributions due to transport difficulties, the closure of some potential markets (such as schools or hotels), less engagement in production by the target farmers and a sudden downturn in the orders that have already been placed. Additionally, accessing some essential services from responsible authorities for certification and clearance (such as MAAIF and the Uganda National Bureau of Standards) is problematic and has affected some partners.

Below is a summary of the key impacts highlighted by the RMA that COVID-19 has visited upon these very critical players in the bean value chain in Uganda.

### **3.2.1 Working capital**

The aggregators and similar traders in the sector are facing challenges accessing working capital from their regular sources. The lenders (mainly SACCOs and a few banks) are not certain of the financial climate over the next six months and beyond. The appetite to lend is low. The beginning of the harvest season comes with a huge cash demand as aggregators have to organize logistics for lifting beans from the satellite collection centres and make some immediate cash payments as well. The aggregators need to have some cash to support the farmers to invest further in harvesting, as the latter are struggling to pay for labour that has become more expensive. They also have many other pressing financial needs. Without doing so, the farmers will sell to other opportunistic buyers who are paying cash, even if their price is lower than that set by the aggregator. Further, aggregators need cash to organize labour for drying produce, purchasing and distributing inputs and making arrangements to ensure that operations run smoothly under the current government guidelines.

### **3.2.2 Post-harvest challenges**

There are two challenges here: the lack of access to post-harvest equipment and the shortage of labour on the side of the farmers, and the limited financial ability of the ACEs to relieve that situation. There are also reported breakages in the supply chain of post-harvest implements, as imports have been very difficult to organize, especially from the Far East. Given the nature of the interventions that have been instituted to fight COVID-19, without moving quickly to plug

existing and emerging gaps there will be higher levels of post-harvest losses. This situation will also compromise the quality of the beans that will be received at the processing centre and complicate the onward selling process.

### **3.2.3 The cost of labour**

This is a consequence of the reduced supply of farm labour due to complications relating to social distancing, transportation and the increase in the wage bill. The ongoing curfew means that labourers work for fewer hours than before (workers report late and leave early), some workers who live further away from the warehouse or store are not working anymore because of the distance while some have retreated deeper into the villages to sit out the epidemic. This is a big challenge as ACEs require more labour during the harvest season to handle the large volume of beans that are delivered by the farmers. Besides, the available labour has to be supplied with appropriate personal protection equipment, an extra financial undertaking.

### **3.2.4 Operational constraints**

Closely related to the challenges of labour is the difficulty with which businesses have to carry out regular operations. Businesses in the agricultural sector are labour-intensive and therefore are finding challenges associated with the implementation of the SOPs communicated and enforced by the government. Besides this, provision of personal protection equipment, provision of sanitization equipment and soap, among other needs, are increasing the operational costs of these firms, which are already struggling financially. Research carried out during this pandemic shows that many agricultural based businesses are experiencing a 50% reduction in operations. No wonder, therefore, that 70% of those businesses indicated that they would close shop in six (6) months if the current situation were to persist.

### **3.2.5 Price distortions**

The prices for beans (grains and seed) increased with the onset of COVID-19 (Table 1). The increase could be attributed to various factors, but the disruption in the supply chains has affected distribution and created scarcity in some places. Panic-buying also characterized the period just before the partial lockdown. On the side of grains, the purchase of big volumes of beans by government for relief distribution to vulnerable groups in the urban and peri-urban areas created a mad dash for the stores.

**Table 1: Expected volumes, prices and credit for farmers for 2020**

Entity	Expected volume 2020	Price before COVID-19 (per kg)	Price now (per kg)	Credit offered to farmers
<b>Green Farm Africa Limited</b>	793 MTs	5000 (seed)	6500 (seed)	200m
<b>Kigarama Commodity Marketing Co-Operative</b>	80 MT	1700 (grain)	2000 (grain)	15m
<b>Community Enterprise Development Organization</b>	350 MT	2500 (grain)	3000 (grain)	55m
<b>Nyakyera Farmers SACCO</b>	750 MT	1800–2300 (OPVs) 2500–3000 (Hybrid)	2500–3000 (OPVs) 2800–3500 (Hybrids)	
<b>Manyakabi ACE</b>	1500 MT (before COVID-19 but now scaled down to 500 MT)	1500	3000	56m

Speculators have also taken advantage of this by buying and hoarding the beans, expecting government to pay more for the subsequent purchases. The size of the sample is too small to provide a strong informed view on a general percentage increase but, in terms of money, the price of dry bean grains increased between UGX 300 and UGX 700, while the increment in the prices for bean seed was between UGX 700 and UGX 1500. This price distortion is likely to affect the prices at which the aggregators will buy from the farmers because of the unrealistic expectations. Additionally, it is very unlikely that all aggregators will be able to realize the expected volumes of beans projected at the beginning of the season. Although only one aggregator had worked out the impact of COVID-19 on the planned output (a fall of about 65%), it is very likely that the rest will be affected as well. This will affect revenues and the aggregators might not even be able to meet all their season's operational costs. There was worry among the aggregators and traders that the advance payments made to farmers and processors will hardly be recovered.

### **3.3 The influence on the bean sector policy and regulatory environment**

The bean value chain has intralinkages between the micro-level bean value chain actors (producers, collectors, processors and retailers) and interlinkages between the micro-level actors and meso-level actors such as input providers and financial service providers and macro-level actors (government agencies and development agencies). The linkages are either horizontal or vertical and the strengths/weaknesses of these linkages influences the operation of the chain. The government does not have specific policies targeting the bean subsector but there are several policies for the agricultural sector, of which beans are a priority.

The assessment has not been able to identify any significant policy shift in agriculture, broadly speaking. It was, however, evident that the government prioritized minimum disruptive restrictions in the food market at the onset of the lockdown. Apart from the presidential directives that have guided the country, the government has not passed any new legislation or regulatory pronouncements. According to MTIC, the government carried out a quick price

survey using the local government structures at the onset of the partial lockdown to determine the cause of and necessity for the skyrocketing prices for maize and beans. Based on their findings, a presidential directive was issued to identify traders who were hiking prices and cancel their licences. Other than this the ministry has noted that, by the government allowing trade in agricultural products to continue, the bean value chain has continued to function (albeit with various challenges, most of which are not different from what has been outlined above).

The following directives issued by the government (and the positive reaction to them by players in the private sector) at the onset of and during lockdown were appreciated by the respondents:

- rescheduling and extension of overdue loan repayments by financial institutions
- reduction of the base lending rate by the Bank of Uganda, supporting the reduction of financing terms for MSMEs
- extension of tax payment deadlines by the Uganda Revenue Authority
- suspending of disconnection and penalties imposed on overdue payments for utilities

However, the DLGs that were interviewed made two observations in this regard, as follows.

First, there is no proper regulatory framework for the bean trade in the country. While Uganda is operating a free economy, there should be some regulatory restrictions on the entry and participation of players in the trade of beans. The concern of the DLGs stems from the disruptions that hit their districts during harvest time due to entry of all manner of buyers, who in most cases interfere in the relationship between the farmer organizations (such as the ACEs) and the stallholder farmers. The districts are considering enacting ordinances to regulate the entry and participation of such buyers, as it also has a negative influence on quality and the further growth of the value chain. The districts want buyers to deal more with the aggregators as opposed to each buyer focusing on the farmer. While this is a good gesture towards enforcement of regulatory compliance, it will be a good idea to support these districts to benchmark their proposal with other districts that have similar ordinances. According to MAAIF, Mubende and Kiboga districts have ordinances that are helping in the regulation of standards and trade in maize and bean grains. Because of geographical and other differences, districts can be supported to undertake specific studies to address these unique challenges.

Second, the local governments want the government to prioritize PHH as a key strategic bottleneck. They contend that a lot of work has been done on production, but there are high levels of loss associated with harvesting and post-harvest. Not only is equipment still relatively expensive for the enterprising smallholder farmer, but the quality is also suspect and there are no suitable satellite aggregation centres to relieve farmers of their produce before the big buyers or the ACEs lift it. This issue is also responsible for the abnormally low prices for beans at farm gate during a bumper harvest.



## 4.0 Opportunities amid COVID-19

A shock of this magnitude to the business community should be an opportunity to reflect on its impact in relation to what is going well, what is not going so well and what needs to be changed or improved – or introduced – to build resilience. From the interviews conducted and the literature reviewed, the following crosscutting opportunities were identified. For businesses to take stock of the current circumstances as dictated by the pandemic, they need to take a step back and assess, not just their operations, but also their relationships within the bigger business ecosystem and develop strategies to address the weaknesses they have identified. A few of these opportunities are highlighted in Figure 2.

**Figure 2: Opportunities amid the COVID-19 pandemic**



## 5.0 Recommended actions

Businesses were asked to submit their suggestions about how the problems associated with the COVID-19 restriction and post-pandemic recovery can be addressed. The prevailing sentiment is that businesses should be put back into operation as soon as possible, subject to their compliance with health norms and regulations, including disinfection arrangements and social distancing. The longer businesses stay inoperative, the greater the economic impact and the more difficult it becomes for them to resume their operations. The smaller companies, which are the backbone of any economy, are particularly concerned. Bigger companies are easy to refinance to start operations, but once small companies are out of business, they may never recover for various reasons.

In broad terms, the following strategies are recommended as suggestions that can be considered to support smallholder farmers and agribusinesses and to influence government and financial institutions to create a positive enabling environment for smallholder farmers and agribusiness operations.

### 5.1 Bean production level, with a key focus on the smallholder farmer

There should be collaboration with the local health workers and the local authorities to provide the right information and reassurance to defuse the tension and reduce the stigma and extreme fear associated with COVID-19. This should go hand-in-hand with the provision or access to protective equipment, especially face masks and sanitizers. Once people are equipped with the right information on prevention and protection, then more labour will steadily return to the fields to aid the farmers.

The short dry season between now and the beginning of the next planting season must be maximized, even when farmers are finding it difficult to undertake communal harvest and post-harvest activities. The challenges associated with the supply chain of the necessary equipment and chemicals must also be addressed. Perhaps some of the following alternatives can be considered.

- I. Farmers should be supported to access personal protection equipment, especially face masks and sanitizers, so they can continue drying communally or sharing drying equipment. This can be done in collaboration with the local leadership and health personnel (such as VHTs and the like to disseminate information quickly, defuse tension and reduce stigma). This will help the farmers to use the short dry spell to dry as many beans as they can
- II. The other option is to work with a supplier of post-harvest equipment (perhaps one that already has a relationship with the ACEs/traders or one that wants to build one) and arrange a cost-sharing arrangement so that farmers can access tarpaulins, PICS bags, moisture meters, etc. These tarpaulins and PICS bags are especially critical at this time. This can be arranged under credit terms with the ACE or traders so that farmers can receive equipment on credit. CASA can as well coordinate access to these post-harvest implements through the partners the project is working with
- III. To make aggregation quick and to collect as much market intelligence as possible, the farmer groups (these go by many different names) can be strengthened by providing them with quicker means of receiving and relaying of information and providing feedback. Currently all ACEs use basic phones to perform these functions. This pertaining situation requires that the farmer groups to have more phones than has been the case to facilitate faster access and flow of information, as well as to enhance the efficiency of the feedback loop. A cost-share or grant would suffice to aid in this. It is even more crucial at this point in time as there are reports of increased number of

“strange” buyers who are interfering with the networks that have been painstakingly built by the ACEs and prominent traders

To support farmers to overcome the challenges associated with lack of cash to finance the most immediate production needs, the aggregators that buy the bulk of this produce must be financed so they can pay a substantial amount of cash upfront for every batch of beans they collect from the farmers. This way the farmers will be financed. The VSLAs and SACCOs they depend on are in a very weak position. To make the process cheaper and quick, the ACEs should be supported and encouraged to adopt digital payment technologies (such as mobile money transactions, e-vouchers, etc.), if not in the short term then at least in the long term. Perhaps the use of mobile money as a payment solution should be enhanced in partnership with the service providers and other partners such as Bank of Uganda (using their digital financial services trainers that are now stationed in various parts of the country). The mobile wallets can be a great way to get smallholders into the digital financial market system.

The issue of access to good planting materials and other quality inputs for the second season should be tackled quickly. A good starting point is to support aggregators that have their own input shops to access stock from suppliers in major district towns, regional hubs or Kampala. Since the aggregators (most of them are ACEs) already have mechanisms for distributing inputs, the materials can move quickly to the last mile before the time for planting. This distribution should go hand-in-hand with the efforts to respond to the PHH challenges explained above. Since the aggregators are low on cash, this support could be in the form of a grant or a cost-share arrangement tied into a set of performance improvements that CASA would like to see happen in the individual entities or in the system. Distribution of the inputs can occur concurrently with the collection of the aggregated beans. This will help reduce the associated logistical burden. Collaboration with the Agricultural Cluster Development Programme (ACDP) could come in handy in this regard, as it is operating in some districts of the Southwest, such as Isingiro. The ACDP is operating a digital input distribution system. To make this work better, suppliers that have the ability to engage in joint marketing, promotion or extension activities with the aggregators should be intentionally sought.

## **5.2 MSMEs – aggregators and traders**

One quick win would be to look the financing options of non-deposit-taking financing institutions that are working within the dynamics of the missing middle. They offer short-term financing based on invoices and orders. They are not so focused on the kind of KYC that the conventional banks and SACCOs are looking at, but are more interested in the evidence of past, current and future transactions. Trade finance is offered on the strength of this and goes up to 90 days at a maximum of 2.5% interest per month. One such player in the market is FACTS Africa, who are already financing smallholder–aggregator–big buyer transactions in some crop value chains. FACTS Africa indicated that they would be interested in a discussion that would make US\$ 250,000 available for up to 10 qualifying aggregators or traders. Some of the aggregators and traders that have been spoken to are talking about stop-gap working capital requirements of between UGX 200m and UGX 300m. Since this option is based on factoring principles, has a quick turnaround and does not require hard collateral, it is something that CASA can look into and discuss with FACTS Africa.

CASA should explore opportunities that exist at the Project for Financial Inclusion in Rural Areas (PROFIRA) and the Uganda Development Bank (UDB). PROFIRA focuses on the large portion of the rural population that has little or no access to financial services and on two rural institutions that have successfully demonstrated that sound and appropriate financial services can be provided to even the poorest members of rural communities – SACCOs and Community Savings and Credit Groups. This could be an opportunity to support financial inclusion for the smallholder farmers in the project areas.

UDB, on the other hand, is set to receive US\$ 500m from the government to support in kick-starting the economy in the post-COVID-19 period. One of the key priorities will be to support

and prepare key players within the agricultural sector to be ready for credit, both from UDB and other sources. The bank will be prioritizing value addition in agro-processing and upgrading the activities of ACEs that are progressively well-organized.

A bank guarantee against which the SACCOs can borrow can be offered – but this depends on whether CASA can actually do this as per the implementation guidelines. If it is an option that can be considered, then access to the guarantee can be tied down to a commitment by aggregators to undertake certain actions that upgrade their performance and the performance of the smallholder farmers that supply them with beans. This would be one way of buying down the risk so that financiers are willing to lend. Besides, the same guarantee can be used to reduce the cost of money in terms of interest rates and processing fees. Since financing is needed in the short term, working with the sources that the aggregators have been relying on before the COVID-19 pandemic is more likely to bear fruit than other options.

Perhaps, in the long run, CASA should focus more on supporting the ACEs to work towards becoming attractive to mainstream banking institutions. While the ACEs and lower-level bean traders rely mainly on SACCOs for their financial needs, the assessment found that those sources are inadequate, not only in terms of how much they are willing to lend but also in terms of what forms of product are available. However, the ACEs and those traders have challenges of proving a strong because case to commercial banks and other higher-level financiers. This has been documented extensively in the past and the pandemic has exposed it as a weakness even further. CASA should consider undertaking a collaborative assessment of the internal financial management capability of these businesses and perhaps support reorganization. By their own admission, the ACEs do acknowledge that managing and organizing their finances is still a challenge.

On the thorny issue of PHH under the prevailing circumstances, the actor with the best ability to undertake the drying of greater volumes of beans is the aggregator. The ACEs have infrastructure and space to hire labour and undertake large-scale drying of beans for and on behalf of their members, especially now that the members are in a compromised position with less ability to undertake group drying, have no cash to buy post-harvest equipment and are unable to hire labour. Drying is, by and large, one of the most labour-intensive operations in the production process, as smallholder farmers need to reduce the moisture content from 18%–24% to 14%, undertake the first line of sorting to remove weeds and immature pods and drying the beans thoroughly until the pods can easily open to release the beans during threshing. Post-threshing drying requires clean materials like tarpaulins and larger volumes may even require drying machines.

The aggregators can be assisted on behalf of their members to access more equipment especially tarpaulins, PICS bags and moisture meters specifically for the post-threshing drying, which requires cleaner surfaces. While this study did not set out to determine the percentage of the value of beans attributed to drying, it is well-known that moisture content and attendant smallholder hygiene practices contribute a great deal to the quality of the final product and the price it can fetch. The ACEs also need to have temporary structures to accommodate casual workers so that they can put in more work hours per day and reduce the financial burden associated with commuting. This can be a grant, a credit arrangement with a trustworthy supplier or a cost-share arrangement.

### **5.3 Bean sector policy and the regulatory environment**

The warehouse receipt system should be expedited so that it can provide some form of reprieve during similar emergencies. According to MTIC, the Uganda Warehouse Receipt System Authority is currently assessing the available warehousing infrastructure in the country and identifying facility managers. This system will help farmers in various ways, including access to finance, especially when conventional financial institutions find it very risky to lend to the agricultural sector. Advocacy and other forms of support in this regard will go a long way

towards providing a long-term solution to some of the endemic challenges bedevilling the bean sector in Uganda.

DLGs should be supported to undertake surveys to understand the full extent of the pandemic on the bean value chain within their jurisdiction. This will help them make decisions about resource allocation and other recommendations based on facts. The DLG respondents indicated that they have not been able to undertake these studies because of lack of funds, as the pandemic took root at the tail-end of the financial year. Supporting them to undertake these studies at the moment will help them reallocate resources that will be sent to the districts for the 2020/21 financial year.

There is a need to offer a fiscal stimulus package to support firms to address immediate liquidity challenges, reduce layoffs and avoid closures and bankruptcies. However, the support should be kept as simple as possible during the lockdown, and should gradually evolve during the post-lockdown phase by considering new circumstances and firms' characteristics. The support should target the most affected firms to preserve scarce fiscal resources and help ensure that firms receive an adequate level of support in line with their immediate needs, given the short-term effect of the shock. The analysis reveals that SMEs in the service sector are the most affected. This should go hand-in-hand with negotiating an understanding with the Credit Reference Bureau so that financial records within the COVID-19 lockdown are not unfairly used to deny MSMEs access to credit and other financial services.

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## Annex II: Survey tools

### A. Interview guide for aggregators, processors, traders and exporters

#### Section A: Supply of beans

- a) What are the commonest bean varieties that are supplied to you by farmers?
- b) What is your projected total bean collection for the year 2020 (you can break the total down by variety if possible)?
- c) How much of that volume have you been able to realize between January and now? At what price are you buying now compared to the period before COVID-19?
- d) How does this volume compare with the volume collected within the same period in 2019?
- e) How many farmers have contributed to this current volume so far and how is their performance compared to previous seasons?
- f) Have you had instances, between January and now, when you were unable to collect beans from farmers because of the lockdown? If yes, how many times did this happen and what was the total volume you failed to collect?
- g) Has COVID-19 affected the pricing of the produce in any way? What were the prices before and now? How do these prices compare with the same period in 2019?
- h) Did you offer any form of credit to the farmers with the expectation that they would pay up after supplying the beans? If yes, how much of this credit is still outstanding?
- i) What is the total loss that you have experienced so far? Can you estimate what the total loss will be if this situation persists until the end of June?
- j) Has the buying and selling price of the product changed since the break out of COVID-19? Provide details of the current and past market prices.
- k) What are you doing about the challenges you are facing regarding the supply of beans from the farmers?
- l) What are the three top challenges that you need to tackle immediately to support supply related activities for your business, and why?

#### Section B: Demand for beans

- a) How many metric tons of beans did you sell last year? Please share the prices with me.
- b) Who are your biggest and most regular buyers? Are they still buying as they did before COVID-19?
- c) What is your projected demand for the year 2020? How much of that volume should have been met by now?
- d) What was the price at which you sold before COVID-19? At what price are you selling now?
- e) Has the buying and selling price of the product changed since the break out of COVID-19? Provide details of the current and past market prices.
- f) How much actual demand have you failed to meet to date and from how many clients?
- g) Did you receive any payments upfront from any (or some) of your off-takers? If yes, how is that arrangement working under the current circumstances?
- h) What are the key off-taker challenges that this COVID-19 lockdown is bringing upon your business?
- i) What steps are you taking to overcome these challenges? Are you in any way modifying your business model to survive and/or strengthen your business?
- j) If you were to choose three off-taker challenges to address immediately, what would they be?

### **Section C: Access to agricultural inputs**

- a) How do the farmers that you source from access improved agricultural inputs?
- b) Do you offer them any form of support to ensure they access good quality inputs in fashionable time? If yes, what kind of support do you offer and how?
- c) How has COVID-19 affected your efforts in (b) above?
- d) How are the farmers coping?
- e) Do you have specific agro-input businesses that you work with to support your farmers? If yes, how are they innovating around the issues of distribution? What about other agro-input businesses with which you do not necessarily have specific arrangements?
- f) What impact is this interruption in access to inputs having on your business now and what impact will it have in the months ahead?
- g) In what ways are you innovating around this challenge?
- h) If you were to tackle three key challenges related to access to inputs at this point in time, what would they be?

### **Section D: Impact on operations**

- a) How has COVID-19 impacted upon your regular operations in the following areas:
  - i. availability and cost of labour (technical and casual – have you had to cut salaries or even lay off some workers?)
  - ii. mobility and transportation
  - iii. turnaround time
  - iv. materials used in processing
  - v. access to BDS (particular emphasis on access to finance from SACCOs, VSLAs, MDIs and Commercial Banks, management of loan obligations)
  - vi. access to market and other forms of information
  - vii. prices and pricing
  - viii. storage and warehousing
- b) How are you innovating around the above operational challenges?
- c) If you were to select the top three operational challenges that COVID-19 has caused you, what would they be and why?
- d) What do you think needs to be done about these problems to support your enterprise in the short and long term? (sustainability)

### **Section E: Support from local government**

- a) Have you received any form of support to deal with the challenges we have talked about above during this lockdown? If yes, from whom or from which entity? Which form of support have you received?
- b) Have you specifically received any support from the local government? If yes, what form of support was it?
- c) If the local government has not supported you in this period, what would you have expected them to have done? Did you in anyway try to engage with the local government about any form of support?

### **Section F: Mitigation measures**

- a) What are the key lessons that you have learned from the lockdown so far insofar as your business is concerned?



- b) What changes are you going to institute in your business to prepare better for similar eventualities?
- c) What resources and skills will you need to implement those changes?

#### **B. Interview guide for smallholder bean farmers**

1. What varieties of beans do you grow in this area and why?
2. How do you access planting materials and other necessary agricultural inputs?
3. What is your main source of extension services? Why is this so?
4. How do you organize your bean production cycle from purchasing inputs to selling?
5. How has COVID-19 affected the activities you have described above?
6. How have you been able to deal with some of those effects as a farmer or household?
7. Have you received any support from government or other agencies in your efforts to deal with these challenges? If yes, what form of support have you received?
8. Please list the top three challenges that need to be addressed to support you and other farmers in your community to deal with the impact of COVID-19 on bean production.

#### **C. Interview guide for government officials**

1. What is the general state of the agricultural sector in this district?
2. Which government programmes is the bean value chain benefiting from, since your district is known for bean production?
3. Do you know of any major donor-funded programmes that your district is benefiting from? Do any of these programmes support the bean value chain?
4. How has the COVID-19 pandemic affected agricultural production in your district?
5. Has your district undertaken any study to understand the extent of the pandemic on the production and marketing of key crops in this district, such as beans?
6. Have you undertaken any remedial action to support the smallholder farmers, aggregators or traders of agricultural produce during this lockdown period?
7. What are the key challenges associated with COVID-19 that need to be addressed immediately if production and marketing is to continue?

#### **D. Interview guide for financial institutions**

1. What tier of financial institution is this? How long have you operated in this area?
2. Which financial products do you have in general? Which of these products are targeted at farmers and agribusinesses?
3. Do you have any specific loan or financial solution that targets the agricultural sector?
4. Has your institution intentionally carried out any study about the various value chains in this area to understand the critical financial needs and how they can be bridged by your institution?
5. What are the key terms and conditions that players in the agricultural sector have to fulfil to qualify for financial services, especially credit, from your institution?
6. Do you extend any waiver to those who do not meet the terms and conditions?
7. What is the performance of the facilities extended to players within the agricultural sector?
8. Assess the impact that the onset of COVID-19 has had on your institution and your relationship with borrowers, especially those in the agricultural sector (if any).
9. What are the key challenges that limit the extension of financial services by your institution to the farmers? What do you think should change so that you can respond better to the needs of customers in this sector?

## Annex III: List of respondents

ORGANIZATION OR INSTITUTION		DISTRICT OF OPERATION
1	Manyakabi ACE	Isingiro
2	Nyakyera Rukoni ACE	Ntungamo
3	Green Farm Africa	Kabale Kampala
4	Community Enterprise Development Organization	Rakai
6	Kigarama Commodity Marketing Co-operative	Isingiro
7	Aponye (U) Ltd	
8	MTIC, Policy and Planning Department	Kampala
9	Grain Pulse Uganda	Kampala
10	ABi Trust	Kampala
11	Centenary Bank, Agricultural Credit Department	Kampala
12	Equity Bank, Agricultural Lending Department	Kampala
13	District Agricultural Office – Isingiro	Isingiro
14	District Agricultural Office - Kabale	Kabale
15	Agatereine Rural Farmers Group	Isingiro
16	Kiziba Community Seed Bank	Sheema
17	Nyaceera Farmers SACCO	Ntungamo
18	Uganda Central Co-operative Financial Services	Mbarara
19	Private Sector Foundation of Uganda	Kampala



Commercial Agriculture for Smallholders and Agribusiness

The CASA programme makes the commercial and development case for investing in agribusinesses that source produce from smallholders. It does this by demonstrating how this can be done effectively, by bridging evidence gaps and by ensuring investors and policymakers have access to the right information and people to make inclusive agribusiness models succeed.

By showcasing successful models for businesses that source produce from smallholders and pulling together the evidence base supporting the commercial and development impact of their business models, CASA will attract more investment into the sector, boosting economic growth and raising demand for smallholder produce.

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