REVITALISING AGRICULTURE IN NORTHERN UGANDA

Case study of AgDevCo’s impact on agribusiness and smallholder farmers at the Gulu Agricultural Development Company

April 2018
ABOUT AGDEVCO – IMPACT INVESTOR
At AgDevCo we are contributing to the transformation of agriculture in Africa from subsistence farming to a modern, commercial sector. We do this by investing debt and equity and providing hands-on support to establish and develop commercial-scale agribusinesses.

Typically, we invest between $1 million and $5 million of debt and equity in early-stage enterprises, targeting primary food production and agro-processing companies where we believe we can make the most impact. Alongside financial support, we provide hands-on guidance to management teams. We work on the ground from the outset, collaborating with our investees to grow their businesses.

AgDevCo’s Smallholder Development Unit (SDU) works with rural agricultural enterprises to develop equitable outgrower schemes that boost productivity and incomes for smallholder farmers. The SDU is a five-year initiative, supported by the Mastercard Foundation, which works in seven African countries: Zambia, Mozambique, Malawi, Tanzania, Uganda, Ghana, and Senegal.

ABOUT THIS CASE STUDY
This case study tells the story of a cotton processing trading company (GADC in northern Uganda) through the eyes of the farmers it supports, the people it employs and the AgDevCo staff who have worked closely with the company to provide it with investment and technical support.

The case study was developed by LTS International as part of an assignment to develop a baseline and impact assessment framework for GADC in early 2018. Data was collected primarily through interviews and focus groups with farmers in Pader District, with GADC staff, and with other stakeholders.

SUMMARY
With support from AgDevCo and the Smallholder Development Unit, the Gulu Agricultural Development Company (GADC) has started the process of agricultural transformation in Northern Uganda. It is empowering returning subsistence farmers and developing their agricultural, financial and business skills while supporting women’s agency and independence. It is connecting fields to markets and producers to exporters. And it is introducing modern technology, adapted to achieve maximum impact in the region. There may be a long road to harvest, but GADC is creating an excellent environment for northern Ugandan farmers to flourish.

ACKNOWLEDGEMENTS
AgDevCo and the author would like to acknowledge and thank the sponsors of this work, the Mastercard Foundation and DFID, for their support and financing.

Photography is by Jumba Martin, and design and layout is by Frances Harrod.
In the 1960s, northern Uganda had a thriving agricultural sector, and was one of sub-Saharan Africa’s largest cotton producers. However, since that time, it has been troubled by conflict. The activities of the Lord’s Resistance Army created a civil war that at its peak in 2005 left 1.8 million northern Ugandans living in camps, without access to their farmlands. Many families lost their homes, animals, farm tools and savings in the conflict. Young people also lost the chance to learn farming skills as they grew up away from the land.

Since 2008, farmers like Nighty Akwero (opposite) have moved back to the land. The region is rebuilding, and smallholder farmers are at the heart of this regeneration. The fertile land, favourable climate and resilient farmers mean that there are now remarkable opportunities in northern Uganda for agricultural growth. Pioneering companies like the Gulu Agricultural Development Company (GADC), with support from AgDevCo and other investors, have created new opportunities for farmers and communities.

Farmers face barriers to making the most of the opportunities that arise. For example, there are issues of trust in companies buying their produce (sometimes they are cheated by traders using faulty weighing scales) and financial management (they are not always used to budgeting or saving the money they get from crop sales for investing in next year’s seeds). Women face particular challenges – having heavy workloads on the family farm but also often choosing to farm their own plots to retain control of some crop income to buy food and pay for domestic expenses. These challenges are recognised by GADC in the way that they are working with farmers.

Nighty Akero and her husband Andrew Oyoo, cotton farmers in northern Uganda.
WHAT’S GOOD FOR FARMERS IS GOOD FOR BUSINESS: A PIONEERING COMPANY

The Gulu Agricultural Development Company (GADC) is an agricultural processor and trader in northern Uganda. Starting with a single cotton ginning factory in 2009, GADC has expanded its coverage to three ginneries and 14 districts. GADC buys maize, cotton, sunflower, chillies, sorghum and sesame directly from smallholder farmers at competitive prices. GADC then processes crops and sells them on to national and international markets.

A major challenge for GADC has been re-building the farming sector, which required reaching many thousands of farmers spread across a vast area with poor infrastructure. Many of those farmers were unfamiliar with the crops that GADC wanted to buy, and had very low productivity or could not produce to required quality standards. At the same time, government services for agricultural training are very limited and farmers had only received short-term support from the NGO projects which proliferated as peace came. GADC’s founder and CEO, Bruce Robertson, had a vision for a more sustainable model that would help both farmers and the company to thrive.

“As fast as NGOs arrived, they left. By 2009, there was a vacuum in northern Uganda that only investment could fill... When I first invested in Gulu, the factory had been looted, there were bullet holes everywhere, and the farmers had lost their cotton growing skills.”

Bruce Robertson, GADC CEO

“Returns from farmer training are good, but they are long term.”

Bruce Robertson, GADC CEO

From its early days, GADC realised that investing in farmers’ productivity would be essential to ensuring that its own business could flourish. The company therefore employed a network of local buying agents. These agents come from the local community and are often cotton farmers themselves. They are provided with cash up front and are paid on commission when cotton is delivered. GADC also managed to access donor funding to establish a farmer training network.

Despite this progress, when the company began its partnership with AgDevCo in 2016, they were still challenged by:

- A lack of working capital for GADC to buy produce and insufficient collateral to secure commercial investment of the scale required.
- Insufficient seeds and pesticides supplied to the area by the Government’s Cotton Development Organisation. This organisation is funded by levies on cotton sales, meaning that until GADC could demonstrate improvements in productivity, few inputs were available.
- A reliance on cash payments to buying agents and farmers, with associated security risks and few opportunities for farmers to access banking services for savings, insurance or loans.
- Low productivity amongst farmers, driven by a reliance on manual labour, a lack of business skills, and farmers’ inability to access credit to invest in tools such as sprayers, ox ploughs, rippers or weeders.
- A lack of long-term funds to pay for expansion and strengthening of the farmer training network, especially to provide more training on financial literacy and business planning.

Jennifer Akena, GADC buying agent: Purchasing cotton and building a livelihood.

Cotton baled and ready to be shipped from the ginnery in Kitgum.
TRANSFORMING AGRIBUSINESS: AGDEVCO’S ROLE

To help face the challenges, AgDevCo has provided $2.5 million annual working capital to enable GADC to expand the volume of cotton that it buys and the number of smallholder farmers that it can buy from. A further $1.5 million is contributed by LAFCo, a specialised African agribusiness working capital facility, which was set up by AgDevCo in partnership with the German development bank, KfW. An additional $4.5 million is invested annually by other investors.

This working capital facility has allowed GADC’s trading business to grow, and it has also incentivised the company’s enhanced investment in its extension services and buying network.

In addition, a $510,000 grant has been provided through AgDevCo’s Smallholder Development Unit (SDU) in partnership with the Mastercard Foundation. This grant is combined with a GADC contribution of $415,000, and is being used to implement a pilot scheme which includes providing financial literacy training, new electronic farmer payment systems and equipment loans to smallholder farmers.

The scheme is run from the Kitgum ginnery and reaches around 15,000 farmers in East Acholi. It is envisaged that this will ultimately be financially sustainable. Loan interest, increased sales and reduced cash losses should cover its ongoing costs and farmers able to repay small equipment loans will progress to access larger loans from banks.

As a GADC staff member explained “GADC’s loan programme bridges the gap between farmers and banks by making it easier for them to save their money and to borrow for farm equipment. We keep records on farmers and their repayments that they can use as evidence to help borrow from microfinance institutions in future.”

“Ivan Ssenyonjo, AgDevCo Uganda

The SDU grant is being used to implement a pilot scheme which includes providing financial literacy training, new electronic farmer payment systems and equipment loans to smallholder farmers.
HOW AGDEVCO WORKS WITH GADC

1. FINANCE
   AgDevCo provides an annual $2.5 million loan to help GADC buy more cotton and make its ginneries profitable.
   AgDevCo’s SDU provides a $510,000 grant to strengthen its relationship with farmers, improve financial literacy and buy equipment to improve farming.

2. ENGAGE
   Advice on financial and operating systems to improve internal controls
   Ongoing dialogue about opportunities to enhance the business and its impact on farmers

3. SUPPORT
   AgDevCo funded the development of an integrated pest management field handbook to reduce environmental risks.
   AgDevCo provides support on health and safety in the company’s factory.
   SDU supports farmer data management

4. INNOVATE
   With SDU funds, GADC introduced:
   - Insured loans to smallholder farmers for the purchase of tillage equipment
   - Electronic payments
   - A new platform for managing farmer data
   - SMS information service for farmers

AgDevCo’s support to GADC enables the company to grow, to expand the reach of its farmer training and buying networks and to offer new services to farmers in the following areas:

AGRONOMY
   GADC provides training on good agricultural practices from lead farmers and via SMS and phone.
   GADC lobbies for improved seeds and offers training on safe pest management approaches.

MARKETING
   With more working capital, GADC employs more buying agents and buys cotton from more farmers.
   GADC’s contribution to the cotton development fund brings more inputs to farmers in northern Uganda.

FINANCIAL SERVICES
   The SDU grant provides:
   - Training on financial literacy
   - Support to establish and train village savings and loans groups
   - Equipment loans and complementary insurance
   - Piloting an electronic payment system.

NEW BUSINESS
   The SDU grant provides equipment loans enabling farmers to set up as ox-ploughing, ripping or weeding businesses.
   SDU training allows farmers (including women and men) to learn vital business skills and use these to invest off-farm.
THE IMPACT: AGDEVCO’S VISION

AGDEVCO’S VISION

BUILDING SUCCESSFUL AGRIBUSINESSES

CREATING ECONOMIC BENEFITS

ENRICHING LIVES

A THRIVING, COMMERCIAL AFRICAN AGRICULTURE SECTOR THAT BENEFITS PEOPLE, ECONOMIES AND THE ENVIRONMENT.

GOAL 1
ENRICHING LIVES

> Better living standards, food security and community benefits
> Job creation, increased employment levels and incomes
> Wider engagement with smallholder farmers

GOAL 2
BUILDING SUCCESSFUL AGRIBUSINESSES

> Improved yields, agronomic practices and produce quality
> Innovation in crops, land use, irrigation and mechanisation
> Stronger supply chain relationships and greater marketing opportunities.

GOAL 3
CREATING ECONOMIC BENEFITS

> More efficient markets and successful new businesses, which inspire others
> Sharing of best practices to improve environmental performance and gender equality
> Increased economic and investment activity in sectors relating to agriculture
The money invested by AgDevCo ultimately ends up in their hands of farmers as they sell their chillies, cotton, sorghum and sesame to GADC. This has increased incomes and given farmers a market they can trust. Many farmers praise the accurate scales used by GADC buying agents and their ability to rapidly match the prices offered by other buyers.

Loans offered by GADC, with SDU support, have been used to buy seeds for sorghum production, motorcycles for transport, farming equipment such as ploughs or planters, and post-harvest equipment including storage and drying facilities. These loans are being repaid over several months to one year and some farmers are now keen to access larger loans in order to make bigger investments.

A 2018 household survey1 showed that many new farmers are starting to produce cotton in East Acholi, with money from cotton sales helping farmers accumulate assets. The survey showed that farmers working with GADC had accumulated assets worth $55 more than those who hadn’t worked with the company between 2014 and 2017. Farmers also welcomed the opportunity to diversify across several crops in order to manage the risks of bad weather or lower prices. Both women and men farmers have benefitted, with financial management training also encouraging couples to make joint decisions on their investments. 13% of married women reported that their role in household decision-making had increased since they had started working with GADC, and many farmers welcomed the training in conflict resolution they had received.

Nighty Akwero and Alex Opwonya recount their own stories of achievements made through very different investments, tailored to the different needs of women and men.

### CHANGING PRACTICES

<table>
<thead>
<tr>
<th>INSTITUTION</th>
<th>2014</th>
<th>2017</th>
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<tbody>
<tr>
<td>% of households growing cotton</td>
<td>44%</td>
<td>65%</td>
</tr>
<tr>
<td>% of households using all of GADC’s promoted agricultural techniques</td>
<td>20%</td>
<td>30%</td>
</tr>
<tr>
<td>Average cotton harvest per household</td>
<td>267kg</td>
<td>638kg</td>
</tr>
</tbody>
</table>

Source: Survey of 133 farmers in East Acholi

1 Impact Assessment in the Gulu Agricultural Development Company. Framework, Baseline and Midline Report (2018), LTS for AgDevCo

### NIGHTY AKWERO (TOP): COTTON HAS HELPED ME INVEST IN THE FUTURE

Nighty received lots of training from GADC on new farming techniques such as spacing, weeding, pest management and using oxen for cultivating her land. The training is particularly accessible because it comes via a lead farmer who lives in her village. She especially values the training on financial planning and budgeting, which has impacts on her life beyond the farm. She has now started to use the village savings and loan association to save money and to access loans to help buy what she needs for her farming activities. “In March, I get my farm ready for food crops like millet and ground nuts. In July I prepare to plant cash crops like cotton and sesame. I like to sell these crops to GADC because I know they pay cash and have reliable weighing scales. I have already made sure that I have enough beans to last our family to the next harvest and I make sure I balance my needs for cash with keeping enough food for us all to eat. It’s also important for me to pay school fees: my oldest son has just finished O-levels and I want him to carry on to finish A-levels next.”

She recognises the value of the training and her own hard work, and has made significant achievements: “I am proud that I managed to buy cows which reproduced so we can build up our herd. Last year, I sold cotton worth $540 to GADC and I used this together with money from making papyrus mats to buy a plot of land in Pader Town, where I plan to build a house and open a shop”.

### ALEX OPWONYA (BOTTOM): OXEN FOR HIRE – HOW MICROLOANS CREATED A NEW BUSINESS

Alex received an equipment loan from GADC, which he used to buy an ox-drawn ripper and weeder. He also received training on how to use the equipment, as well as on other modern farming practices, including how to grow chillies. He was given training on budgeting and business management. He also received training in conflict resolution which he reports has helped him plan together with his wife.

His tilling services are in high demand and he has many customers. He is also able to easily recover payments from people, using the village savings and loans association or the electronic payment cards issued by GADC.

“Since I bought a ripper, I am able to promote conservation farming, which does not disturb the soil and helps it to retain moisture for better yields. The ox weeder then reduces the time needed for managing weeds which is very important to help the crop grow strong. I have also helped others for free, such as my brothers’ children and a widow who lives in my village.”

“I am able to employ community members to assist my business, such as a guard to watch over my ox plough when it is hired out. I am eager to spread the benefits of the new farming techniques, and I have encouraged others to seek training. In the future, I am hoping to access another loan and expand my business further. Last year I sold $980 worth of chillies and I have bought bricks, timber and iron to build my house, as well as paying school fees for my children. I never dreamed that I would be able to farm like this and I am going to stick to my goals to achieve even more in future.”
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GOAL 2: BUILDING SUCCESSFUL AGRIBUSINESSES

MORE COTTON, MORE GROWTH
Cotton harvests, one of the staple cash crops in the region, have more than doubled since 2014 in some of the districts where GADC works, due to improved farming practices and better access to cotton seed.

The availability of working capital from AgDevCo and the complementary investments of the SDU have helped GADC to work with farmers and the Cotton Development Organisation to dramatically increase productivity in the region. The highest volume of cotton now comes from the Kitgum ginnery in East Acholi, where the SDU project has also been working. GADC staff credit the SDU project with transforming farmers’ business skills, willingness to invest in their farms and rapid improvements in productivity.

MORE COTTON, MORE JOBS
For every tonne of cotton sold, GADC is creating jobs and building livelihoods. The company hires over 190 buying agents, rents over 840 stores and employs at least 100 truck drivers every year. Buying agents like Jennifer Akena are paid 100 Ugandan shillings for every kilogram of cotton they sell, and truck drivers like Abdul Owande get paid fairly for their time.

SUSTAINABLY REACHING FARMERS ACROSS NORTHERN UGANDA
Support from AgDevCo has enabled GADC to continuously increase the number of farmers in its network and to ensure that the company can continue to fund these services from the revenues it raises on its trading business long into the future. In 2017, GADC estimated that it bought cotton from at least 25,900 farmers, and it registered more than 75,000 farmers as attending training sessions throughout the year.

A CASH-FREE SYSTEM AND BETTER DATA
GADC has used the SDU grant to pilot the use of electronic point of sale (PoS) machines. These card-based machines require a bank card, much like a debit card, and are able to take payments, sell airtime for mobile phones, transfer funds between bank accounts, and withdraw cash. GADC has also promoted the use of mobile banking such as MoKash which farmers can use to make and receive payments. These platforms can be used to transfer funds and reduce the risk of theft experienced by buying agents when they carry large volumes of cash.

Interacting more closely with farmers through the village savings and loans associations and the equipment loan processes has helped GADC to understand its farmers better and to better tailor its products to them. There are already plans to expand the equipment loan scheme to cover other products such as solar irrigation systems and mobile phones.

JENNIFER AKENA: BUYING COTTON AND BUILDING A LIVELIHOOD
As a buying agent, Jennifer receives money from GADC to buy crops directly from smallholder farmers. She is also provided with transport to aid her business.

She has received training from GADC on management and communication, so as to improve her relationships with local farmers. She has also had training on business and banking. Jennifer’s income has increased as her business has grown, and there have been other associated benefits. “The independence I now have by running my own operation has given me more freedom and control over important personal and family decisions. I now have sufficient income to provide for my family’s needs as they arise, and to ensure their food security. In my business, I employ around 30 local young men, who I support and cater for. I also employ several women, primarily as teachers in a nursery school that I constructed with profits from farming. I would like to see GADC offer loans substantial enough to afford my own truck to aid in harvest collection. This could potentially double my earnings and I am confident that the loan could be paid off.”

ABDUL OWANDE: COTTON TRANSPORT CREATING JOBS FOR TRUCK DRIVERS
Abdul reports that he likes working for GADC because they pay in a lump sum at the end of the month: “I can use that money to do something meaningful with my life.” He also likes that the company pays for fuel and pays him for the time he is working, including when the truck is being loaded. He notes a range of wider benefits too: “I have improved my own self-discipline because the company rules forbid any driver from drinking during the day. I have learned different routes in the region and have been able to pay school fees and afford medical care. I have saved enough to buy a truck for my brother and am also helping my mother and making sure everyone in my family has enough to eat.”

Abdul Owande: Cotton transport creating jobs for truck driver.
GOAL 3: CREATING ECONOMIC BENEFITS

With AgDevCo’s support, GADC is transforming agriculture in northern Uganda and creating a lasting model for building rural prosperity. The $2 million working capital loan performed as expected and was expanded to $2.5 million in 2018. The SDU-funded financial services have proven popular, and the GADC team are keen to expand them to other operational areas.

Volumes of cotton produced per household in East Acholi have doubled since 2014. Competition between GADC and other buyers eager to fulfill growing global orders has intensified, driving up profit for farmers. The money made from farming is driving the economy forward with profits invested in housing, infrastructure, equipment and new businesses that are feeding families, paying for school fees and healthcare. The Ugandan Cotton Development Organisation is now investing unprecedented amounts in the delivery of inputs to northern Uganda and expanding the coverage of its work in the region. Uganda’s cotton industry is growing and is increasingly competitive in global markets.

GADC is committed to the development of northern Uganda. A sustainable and profitable operation that supports a thriving smallholder sector is the end goal for GADC. By utilising the AgDevCo and SDU capital to catalyse and improve productivity, GADC has taken remarkable strides towards that final goal. In the immediate term though, its ability to support this process depends on continued support from investors like AgDevCo, which are able to provide it with the volumes of working capital it needs for growth, and grants like the SDU pilot that can help it make investments with longer-term pay-offs.

**LOOKING FORWARDS**

GADC has made some remarkable achievements over the past eight years and has utilised the support from AgDevCo and the SDU to great effect. However, they have many more plans to help build a vibrant agricultural sector in northern Uganda.

- **Expanding the use of cash-free technologies.**
  Further reducing the risk of fraud and theft for GADC and its buying agents

- **Offering follow-up to financial literacy.**
  Helping farmers make the most of their new financial services, despite poor travel and communication networks

- **Expansion of credit for GADC.**
  Higher loans for farming and processing machinery, for transport and communications, and to reduce overheads – all increasing profits towards self-sustaining operation

- **Expanding the pilot to more farmers.**
  Roll out the SDU programme to the other farmers within its coverage, and extend good business relationships

- **Keep shifting mindsets to business and gender roles.**
  Further helping farmers adapt to a commercial approach, and shifting attitudes by demonstrating the benefits of women having access to farming incomes

**JOBS CREATED**

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<tr>
<td>Seasonal workers</td>
<td>193</td>
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<tr>
<td>Buying agents contracted as independent entrepreneurs</td>
<td>194</td>
</tr>
<tr>
<td>Cotton trucking businesses contracted</td>
<td>104</td>
</tr>
<tr>
<td>Store owners benefitting from rental by cotton buyers</td>
<td>846</td>
</tr>
</tbody>
</table>

**FARMERS SUPPORTED**

25,900 farmers sold cotton to GADC, of which 10,360 can be attributed to AgDevCo’s contribution to the working capital

- **$46** Additional annual income earned by farmers thanks to the working capital facility

- **$55** Value of additional assets that GADC farmers accumulated between 2014 and 2017, compared to farmers outside GADC’s network

- **494** Village Savings and Loan Associations have been registered

- **85** farmers have received insured equipment loans from GADC

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