Annual Review

Title: NU-TEC (Northern Uganda: Transforming the Economy Through Climate Smart Agribusiness)		
Programme Value £ (full life): £48 million		**Review Date: 25/07/2018**
Programme Code: 204012	**Start Date: 03/11/2014**	**End Date: 31/03/2022**

Summary of Programme Performance

Year	2015	2016	2017	2018				
Programme Score	**B**	**A**	**A**	**A**				
Risk Rating	**High**	**Major**	**Major**	**Moderate**				

DevTracker Link to Business Case:	http://iati.dfid.gov.uk/iati_documents/5079902.odt
DevTracker Link to Log frame:	http://iati.dfid.gov.uk/iati_documents/5653199.xls

A. Summary and Overview

Description of programme

DFID Uganda is providing £48 million over 7.5 years (2014/15-2021/22) for NU-TEC. The project aims to support the North's transition from an isolated, conflict-affected and economically lagging region, with high vulnerability to climate change impacts, into a dynamic wealth creating economy, supplying more and greater value products to Uganda and the surrounding region, and with greater resilience to a changing climate. Support is targeted at agribusinesses, rather than farmers directly, although smallholder households are the ultimate beneficiaries of better agricultural input supply, and greater demand for their produce.

The expected impacts are:

- 197,500 households (300,000 adults and 600,000 children) with improved incomes (cash income from agriculture increased by 15%);
- 331,150 direct beneficiaries (1.76m when including indirect beneficiaries) with improved resilience to climate change, of whom at least 35% are women.

The outcome is that over the life of the programme, agribusinesses associated with NU-TEC will generate an additional £81m of sales, because of the programme's interventions. This will primarily be sales and trading of farmers' produce, or purchases of goods and services by farmers.

The NU-TEC programme consists of three main components:

- Market Development: market systems development services, and technical assistance, to private agribusiness. Palladium is delivering this five-year £14 million contract, to end in May 2020.
- Special Credit Fund: delivery of medium term credit to agribusiness through a Ugandan financial institution. £10 million has been contracted to a Mercy Corps – Equity Bank consortium.
- Long Term Investment: long term equity and credit to agribusiness through AgDevCo, a not-for-project investment vehicle. £12 million has been committed to AgDevCo.

An £800,000 contract has been awarded to Oxford Policy Management for Annual Reviews, Monitoring and Evaluation. An additional £10 million is available to be allocated to areas of greatest emerging potential.

Summary supporting narrative for the overall score in this review

This is the fourth Annual Review and it covers the period April 2017 – March 2018. The review score is 'A'. The broad approach of the project and the assumptions on which it is based, are again confirmed as appropriate. The two active delivery partners have tangibly improved their working together. The Special Credit Fund's service provider consortium had been contracted shortly before the Review and having just mobilised their staff, there was no review of progress. Risks to a market system approach in weak markets dominated by political challenges, volatile market and production environments and with weak regulatory functions, remain significant but the overall risk rating of the

programme has been softened to 'Moderate' given the implementation experience accrued[1].

The Market Development component exceeded expectations this year. They now have a stable and competent staff and their understanding of local markets and agribusiness is evident. They have delivered a strong response to the West Nile refugee situation, have taken on market development for several staples and are starting to link-up their interventions along several commodity chains, also collaborating with the Investment component for this.

The Investment component did not meet its targets this year, with few potential partners failing to meet the standards required to finalise investments. The component does have a strong and credible pipeline and there is some optimism that in 2018/19 it will make investments to bring the component back on track.

Both components responded well to the recommendations of the last review. Both have accumulated a vast knowledge of agribusiness in and around Northern Uganda. The two knowledge networks started separately but have been increasingly converging since late 2017. This wealth of information, contacts and intelligence is expected to help the new Credit Facility component to start from a solid base and get up to speed much more quickly than if it had started earlier. In the review period the initial approach of the Market Development component to identify value chains with high potential has gradually shifted to more work on cross cutting markets that can improve productivity for multiple commodities (e.g. mechanisation, improved seeds, fertilisers, pest control, post-harvest handling). This has been also instrumental to create new opportunities for AgDevCo investment pipeline.

The context for the Special Credit Fund has changed markedly since it was conceived and now with limited time remaining in the programme's life, this represents a risk to the component and a risk for the programme's overall ambition. There is good opportunity to mitigate these risks in the inception phase, which they are about to initiate, leveraging the experience accumulated by the other two components.

Monitoring and Evaluation systems are generally working well at component-level, but the establishment of baselines has not been completed and more consideration is needed as to how systemic change and higher-level impact will be measured; monitoring and learning within delivery components should be resourced accordingly. The amendment of the Monitoring and Evaluation provider's contract or its mandate beyond the support provided for annual reviews, or finding alternatives to this, is now significantly overdue.

Improvements to the logframe are recommended in this report.

Performance of the contractors continues on a positive trajectory. The design of the programme remains relevant in its response to developments in the political economy and to national and Northern Uganda's changing context[2]. The partners implementing the Market Development and Investment components continue to present generally credible projections for their delivery and measurement of results at output level, though there remain unanswered questions about the programme-wide evaluation of impact. There have been several valuable and supportive inputs provided by the Monitoring and Evaluation service provider to the implementing partners this year, but the evaluative activities are delayed. This is now problematic for programme development as well as for assessing value-for-money and understanding outcomes and their impacts.

The Market Development component has stabilised, and it clearly demonstrates competence. The component is now working with more than 30 partners. Several of the earlier engagements have concluded and others are maturing to the point where the team now needs to make decisions about how to facilitate the replication of the most promising interventions and the crowding-in of new businesses and investors. Trading attributable to the project is steadily increasing, though the projected sales figures need revision; reflecting a correct alignment of targets with the provider's contract end-date, and the attention to the West Nile refugee response that is now required. The success rate of interventions has improved markedly, but the potential for systemic change is not yet strongly proven.

With a balance of £6.2m left to be committed by March 2020, the Investment component is behind on delivering its original projections. However, AgDevCo has continued to build its investment pipeline, also with partners having high potential to support market transformation. The smaller than expected number of deals closed continue to demonstrate that the investment market is small and crowded and that preparing investments is demanding. High rates of drop-out and delays in the investment preparation processes have been observed. The Investment component strengthened its local agricultural advisory capacity but lost one senior member of management. The impact of this on presence, responsiveness and capacity to implement will need to be monitored.

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[1] See below for a more detailed assessment in each component. In summary, delivery risk has reduced in all three delivery components: a) Palladium team has demonstrated solid implementation performance; b) AgDevCo has strong reach to a large number of potentially investable companies and demonstrated capacity to do due diligence and to appraise impact; c) the Credit Facility contract has been finally awarded and Mercy Corps inception will use learning from Palladium and AgDevCo. Political risk has also reduced as partners have learnt a lot on ways to avoid or adapt to adverse political economy or political interference. Residual risk remains for all three in terms of ambition and potential for a transformative impact, but with all elements considered the programme is now on a moderate risk profile.

[2] For example: the influx of more than one million refugees in the past year, but also that poverty indicators for the region are beginning to align with the national averages, and, that levels of agribusiness activity are increasing, as is the development of economic infrastructure

Implementation during the review period has been moderately slower than expected with use of £6.18m against the planned £7.92m (78%). This low rate was largely due to fewer deals closed by the Investment component than predicted, but AgDevCo's current pipeline appears strong and substantial financial commitments should be made between June and October 2018. The Market Development component is on a steady path and will shortly run out of resources to make new grant engagements in addition to the established pipeline and the technical assistance planned up to the end of the contract in March 2020. Going forward, implementation is expected to improve overall given that the Special Credit Fund component contract has started in April 2018, although some risk on actual use of the allocated budget will remain until the component is fully established after its inception. DFID should now start considering allocating the £10 million the business case provisioned for the most promising instruments.

The programme responded to risks identified by last review around environmental and social safeguards with the development of screening and mitigation tools. Political risk remains a challenge, though the partners have improved their capacity to foresee and respond to it. The late start of the Credit Fund and the volatility of AgDevCo's pipeline are residual risks that need regular monitoring. The Review's assessment is that the overall risk rating of the programme should be adjusted down from 'Major' to 'Moderate'.

Summary of recommendations for the year ahead

#1. The Market Development component should begin to invest time and resources into facilitating other agribusinesses and investors to copy and replicate the most promising business models they have worked with, at the same time allowing the least promising to drop out of the portfolio.

#2. The Special Credit Fund's inception must recognise that the financial services context in Northern Uganda has changed considerably since the programme was conceived. Ensure additionality to agribusiness finance in Northern Uganda, and, as to how the required results can be delivered in the time remaining. Interest rates need to be aligned with prevailing commercial rates. The inception should use the knowledge and the networks accumulated by the other two delivery components, increasing collaboration and synergies between components.

#3. Consider a more flexible policy for the Investment component. The minimum size of £1 million currently recommended by AgDevCo central guidelines limits opportunities reducing the component's effectiveness; there are few potential companies for this larger size of investment and they are all recipient of development subsidies of some sort. More resources need to be allocated to investment preparation and development, including with support of the Market Development team. Consider revising the relevant logframe targets if by September 2018 the difficulties experienced by AgDevCo in closing deals do not start to ease. The rationale for investments does, however, need to maintain a clear focus on creating additional benefits for farming households in Northern Uganda.

#4. Management of the monitoring and evaluation contractor should improve in order to: (i) ensure that the Monitoring and Evaluation component provides a more adequate and timely service to the programme – including with a regular presence in country at appropriate level; (ii) reach closure on the roles and responsibilities for the planning of evaluation and learning processes and tasks, in agreement with the other components; (iii) clear any administrative backlog; and (iv) decide whether to amend or end the Evaluation Reference Group. Finalise discussions as a matter of priority, by September 2018 at the latest, to ensure that the Monitoring and Evaluation component's mandate in respect of the other components is clear and appropriately resourced.

#5. Implement the improvements proposed below to logframe indicators and measurement methodologies; most importantly the measurements of systemic change and the completeness of resilience measurement.

#6. Implementing partners should develop procedures and routines to regularly and systematically sharing information about the opportunities they identify, their analyses and due diligence of agribusinesses, and the performance of those they support. Some of this information will be commercially sensitive and safeguards will be required. Partners should report and highlight joint undertakings.

#7. A continuation of Market Development programme for the West Nile refugees and host communities should revise the crop priorities and interventions to more directly respond to local market needs and preferences and to provide the best returns to farmers' investments. More broadly ongoing learning should be consolidated with external project partners and used to inform intervention plans and advocacy / influencing through DFID.

#8. Continue to incentivise the delivery components to collaborate, and in particular in: (i) applying a banker's perspective to business models under the Market Development component;(iii) sharing market knowledge and business connections and (iii) building the customer/investee pipeline for the financial components.

#9. Decisions about the allocation of the £10 million provided for in the business case and to be allocated to the most promising instruments, needs to be made before the close of 2018. The analysis to inform this decision and the development of options need to be underway by September 2018.

B: DETAILED OUTPUT SCORING

Market Development

Output Title	Businesses operating in agricultural markets are supported to change practice and increase investment (through Market Development component), in a way that especially benefits women		
Output number per LF	1	**Output Score**	**A+**
Impact weighting (%):	35%	Impact weighting % revised since last AR?	No

Indicator(s)	**Milestone(s) for this review**	**Progress**
1.1 Value of gendered investment plans developed in collaboration with supported businesses (000s)	£2,428 by March 2018	AR 2018: £8,450
1.2 Number of Palladium supported businesses agreeing high quality, gendered business plans	20 by March 2018	AR 2018: 32

Provide supporting narrative for the score

The AR's assessment is to assign an "A+" to this Output because targets for both indicators have been exceeded by wide margins. The high score reflects a strong portfolio of interventions based on business models that are generally robust, feasible and gendered[3]. It also considers that the Market Development component has adjusted and adapted to the refugee crisis in West Nile, as requested by DFID, re-allocating resources to a difficult context that was not foreseeable in the original design.[4]

- This year the Market Development component increased their activities to support 32 interventions, mostly focussed on cross cutting markets that can improve productivity across multiple commodities. The largest of these work streams is on developing and supporting business models for village-level aggregation of crop produce. Other examples are; improving seed production and supply; developing the network and capabilities of input dealers and traders; promoting sales of hermetic bags to reduce post-harvest losses; promoting mechanisation and sustainable use of fertilisers and pest controls.
- In response to the last Review's recommendations, initiatives were taken to work with staple crops. A connected series of initiatives working with the cassava and rice value chains were established and the Review anticipates that because these crops can either be sold or retained for local consumption, these will strengthen household resilience and food insecurity.
- It is too early to have full confidence that the business models piloted will be more broadly taken up as they thus far operate on a small scale compared to the programme's overall impact targets and most have only been operational for a few agricultural seasons. While the quality of business plans is generally strong, there is room to improve the quality of the financial modelling, notably to better account for asset depreciation, interest rates and issues around accessing finance, and, factoring in risk.

Considerable effort was made in the design and implementation of a market systems development pilot for the West Nile refugees and their hosting communities – at DFID's request. This review undertook a direct inspection of a sample of these interventions in rice productivity, the village agent model, and mechanisation. Results at output and outcome level were shown to be robust. The design and implementation of the ReHope refugee response pilot in a difficult context not foreseen earlier is therefore commendable.

The target for indicator 1.2 was reduced from 29 to 20 after last year's review, in an attempt to focus on larger companies. But with 32 intervention/collaboration agreements signed, even the previously higher target was surpassed by March 2018. This high number of interventions is in part a result of the ReHope pilot in West Nile, where the absence of large actors means that meeting outcome targets requires supporting a larger number of small businesses, with higher levels of technical assistance required for the same amount of investment[5].

Lessons identified this year, and recommendations for the year ahead linked to this output

- The review recommends that the targets for indicator 1.2 in 2019 should not be increased despite the 2018 target having been far surpassed. While the programme seeks out additional opportunities and business models, it

[3] A gendered intervention is one that responds to the diagnosis made of the different gender roles and different access to and control over resources which lead to structural gender inequalities. The interventions look to address inequalities.

[4] Despite this very strong assessment, the component does not score an A++ because of the not yet fully emerging and attributable systemic change in the target markets that the approach is meant to trigger in the long term.

[5] The resulting less favorable value for money is fully justified by the opportunity to help a more rapid transition of refugees towards economic self-reliance

should also invest more time and resources into facilitating other agribusinesses and investors to adopt the most promising business models, while allowing the least promising to drop out of the portfolio.

- The programme team should work on increasing the rigour of partners' financial forecasts, especially to include depreciation, sufficient profitability for scaling-up and crowding-in, and, the availability and costs of finance.

Special Credit Fund

Output Title	High-quality financial products and services are introduced to businesses serving agricultural markets in northern Uganda in a way that especially benefits women		
Output number per LF	2	**Output Score**	**B**
Impact weighting (%):	25%	Impact weighting % revised since last AR?	No

Indicator(s)	**Milestone(s) for this review**	**Progress**
2.1 Value of new financial products and services extended by implementing partner, attributed to project support (disaggregated by type of service, and source of capital (DFID vs non-DFID capital))	To be determined	AR 2018: The contract has only recently been formalised and is entering its inception phase. Implementation has not yet begun.
2.2 Proportion of annual gendered workplan / capacity building plan for the FI completed	To be determined	AR 2018: The contract has only recently been formalised and is entering its inception phase. Implementation has not yet begun.
2.1 Value of new financial products and services extended by implementing partner, attributed to project support (disaggregated by type of service, and source of capital (DFID vs non-DFID capital))	To be determined	AR 2018: The contract has only recently been formalised and is entering its inception phase. Implementation has not yet begun.

Briefly describe the output and provide supporting narrative for the score

This output is scored as 'B' due to the significant delay in the contracting of the Special Credit Fund. The contract has now been signed, so a 'C' is not appropriate. The impact indicator 2 target expected that there would be 10,000 beneficiaries of the Special Credit Fund this year (3,000 women), and that has not happened.

Lessons identified this year, and recommendations for the year ahead linked to this output

- The credit facility is still needed[6].Since the initial design of the component the financial sector activity in Northern Uganda has increased substantially, mainly because of various instruments supported by development partners[7]. The objective of the component remains to open up a commercial lending operation and – at systemic level – to crowd in others to create a sustainable market; however the Special Credit Fund needs to reassess this market in order to ensure it can make finance available to agribusinesses in Northern Uganda with products and pricing that are otherwise either not available or accessible. The contracted supplier (Mercy Corps) will have to focus on tailored credit solutions and building the banking partner's (Equity Bank) capacities; market-distorting interest rate subsidies should be avoided. The inception phase will have to demonstrate that this is feasible in the current context and that the lending operation is designed accordingly.
- Further design changes to the Special Credit Fund might be required also in consideration that there are only four years of project life remaining[8]. The Inception should take the shorter lifespan of the projects into account when developing its strategy. There is a risk that it might take several months after the inception to get the component properly into place and running.
- The Special Credit Fund component should reduce the consequences of the delayed start by using as much as possible the knowledge and the networks accumulated by the other two delivery components, increasing further the collaboration and synergies between components.
- The logframe output targets for this component are to be determined during the inception phase. Outcome targets may also need revision because of the shortened implementation timeframe for this component. DFID requires logframe revisions to happen less than six months before the next annual review, hence in this case they will need to be agreed before the end of the inception period[9].

[6] All indications, within NU-TEC and from others in the sector, confirm that access to credit is still the biggest single hurdle for smallholder farmers and small/medium enterprises to expand commercial production as well as trade and processing of agriculture commodities. Banks still don't have dedicated networks and tailored lending products in northern Uganda.

[7] These, in most cases, are difficult to use unless the recipients are part of a development programme and they act as alternatives to commercial loans thanks to a (generally unsustainable) subsidy or grant elements.

[8] The contract awarded to the Mercy Corps / Equity Bank consortium started in April 2018 and is foreseen to end in March 2022

[9] Ending in September 2018

Investment

Output Title	Business development support and investment provided to businesses serving agricultural markets in Northern Uganda		
Output number per LF	3	**Output Score**	**B**
Impact weighting (%):	30%	Impact weighting % revised since last AR?	No

Indicator(s)	**Milestone(s) for this review**	**Progress**
3.1 Value of AgDevCo investments made in agribusinesses serving northern Uganda (000s)	£6,923 by March 2018	AR 2018: £2,259
3.2 Proportion of gendered business plans for all potential investees implemented according to schedule	75% by March 2018	AR 2018: 100%

Provide supporting narrative for the score

The progress for output indicator 3.1 fell well short of the target; four significant potential investments totalling $5.5 million which received Clearance in Principle[10] in 2016-17 did not materialise[11]. If they had, the target would have been surpassed. Reporting by, and interviews with, the Investment component team assured that the decisions not to make these three investments before March 2018 were prudent.

Output Indicator 3.2 is scored at 100%. Capacity building plans were carried out for three Clearance in Principle investees and implemented to schedule. The Investment component carries out gender assessments of investee companies as part of the formal investment appraisal process. Capacity building includes tackling gender equity issues in a practical manner for the investee, for example; implementing non-discriminatory recruitment procedures and remuneration throughout the organisation, for governance, staff and workers; providing clean and safe changing and sanitary facilities for nursing mothers; or, building supply networks with farmers practicing "Good Agricultural Practice. This is carried out on the basis of the assessment's findings. The combination of Business Development Services [12] and gender capacity building warrants the term 'gendered capacity building plans'.

The investment portfolio and pipeline generally reflect strong business prospects among few investee companies, although in markets where very few investable companies may compare AgDevCo commercial – though 'patient' – investment conditions with subsidised or grant support from other development partners programmes. The logical linkage between business growth and farm-level impact in Northern Uganda is robust in most cases but could be stronger in others. For example, one planned investment in the pork industry is forecast to lead to greater demand in animal feeds inputs including soy and maize. However, the pork farm will be sourcing its feed from a third-party who will buy inputs in a competitive market, with no formal assurance that those will be produced by smallholders, or in Northern Uganda[13]. While AgDevCo investments that make business sense can be transformative for Uganda in general, the possible limited impact on smallholders in Northern Uganda justifies case by case discussion on the relevance within NU-TEC programme[14].

Lessons identified this year, and recommendations for the year ahead linked to this output

- With two delayed investments expected to close soon and two new potential investments at an advanced stage, the pipeline for 2018-2019 looks encouraging, but past experience indicates that there could be significant delays and/or attrition between Clearance in Principle and investment closure. The annual target for 2018-19 is £2.54m

[10] The AgDevCo investment preparation processes start with an investor approaching AgDevCo with a request, which is reviewed. Then, an initial vetting of the investee is undertaken and a basic business case is prepared and presented to the Executive Committee whose Clearance in Principle is the approval for AgDevCo staff and the investee to proceed with their detailed preparations of the investment, its structuring and due diligence.

[11] Two fell away during the due diligence process; one is on hold until their parent company completes negotiations with a listed company; and the fourth has been delayed but it is still a live deal in pipeline"

[12] Business Development Services in the AgDevCo context are the strengthening of the investee's capacities to grow and manage their business. This typically involves: strengthening financial and management systems and governance; assessing and rectifying environmental, occupational and health safety issues; and, specific management and workplace training and coaching.

[13] The purchase of maize (about 1,260MT per year) by the third-party feed supplier will be based on the most competitive prices but production from North Uganda continues to increase because it is the area with most potential to expand production and therefore a good portion is likely to come from the north. Also, and most importantly the purchase of soya which is 20% of the total feed requirement (est. 420 MT per year // 600 farmers per year) will come from the north as that is the only region in Uganda that grows soya. In due course AgDevCo will seek to work with the feed supplier(s) to strengthen its sourcing of maize in northern Uganda.

[14] To note that NU-TEC direct funding of AgDevCo investment targeting benefits for farmers in North Uganda does not limit AgDevCo to use other parts of its global endowment for investments in Uganda.

which is already earmarked for investment[15]. It is recommended that DFID considers a revision of the logframe targets in discussion with AgDevCo if, by September 2018, no new deals currently in pipeline will have been closed, and in line with an up-to-date appraisal of the deal flow prospects. In doing so, the quality of investments and their linkages with farmer-level impact in Northern Uganda should not be compromised in the interest of speeding up the disbursement of funds.

- It has become apparent that there are few agribusinesses or investors in Northern Uganda who need and could qualify for investment of over £1 million, which is the lower threshold that AgDevCo considers acceptable globally to remain financially sustainable and to have an impact proportionate with the cost of appraisal, due diligence and monitoring. This may reduce AgDevCo's investment opportunities, and also the opportunities to collaborate with the Market Development component to develop the agribusinesses they are working with, most of whom are small and under-capitalised. It is recommended that DFID considers with AgDevCo a higher level of flexibility for NU-TEC investments, with regard to (i) the minimum investment threshold[16] and (ii) the grant spending on business development services, monitoring and evaluation and other project preparation costs as a proportion of the investment value.

- It is not clear how broadly and comprehensively the Investment component team is able to explore the market's investment opportunities along and across any given value chain; if all of the components shared their long-list of prospects and experiences with the respective networks of market players, the benefits of collaborative effort would likely become more apparent. Collaboration among the three delivery components should continue to be encouraged to, and in particular in: (i) applying a banker's or investor's perspective to business models under the Market Development component; (ii) sharing market knowledge and business connections and (iii) building the customer/investee pipeline for the financial components.

- The Investment component team in Uganda lost one of its two leading staff in late 2017. This may have reduced capacity to engage at higher level. By July 2018 DFID management team should review AgDevCo staffing capacity in country and its capacity to mobilise additional expertise, with a view to ensuring they are sufficiently resourced for marketing and business development. Reinstating a second senior manager resident in country should be considered.

Monitoring and Evaluation

Output Title	High quality M&E systems in place		
Output number per LF	4	**Output Score**	**B**
Impact weighting (%):	10%	Impact weighting % revised since last AR?	No

Indicator(s)	**Milestone(s) for this review**	**Progress**
4.1 % of annual workplan completed as planned, or of equivalent value to that planned	85%	AR 2018: cannot be scored as no workplan was formalised
4.2 Evaluation evidence quality and use, as scored 1-5 by evaluation reference group. (1 = very limited value, 5 = high quality data and high use)	2	AR 2018: 0 No basis for evaluation by the AR as the ERG has not met to discuss this.

Provide supporting narrative for the score

- The Monitoring and Evaluation service provider Oxford Policy Management delivered several learning products inputs including: an analysis of baseline impact indicators; a pilot exercise to test a methodology using "sentinel sites" to measure the programme's impact on smallholders; a review of the impact evaluation framework for the Investment component's investment in GADC; a revision of the Monitoring Handbook; and, a pilot analysis to test the Theory of Change of a NU-TEC Market Development intervention.
- The component support to NU-TEC fourth annual review was successfully undertaken, assessing independently and following up on progress on the ground, including the facilitation of partners' learnings and recommendations to DFID Uganda's programme oversight and management.

[15] At the time of editing this report in June 2018, one new investment has been approved and £1.1m expected to be committed in July.

[16] Evidence from AgDevCo central programme suggests that risk appetite and size of the investment are interlinked (with the same due diligence rules applying). Smaller investments or, rather, investment in smaller ventures tend to be riskier as they more rarely grow enough to become sustainable and to achieve developmental impact. And they absorb a vastly disproportionate preparation effort that risks diverting AgDevCo staff/board attention from more effective and impactful investments.

- However, this year the annual Monitoring and Evaluation workplan was not developed and the Evaluation Reference Group did not meet to evaluate evidence quality and use. This must be followed up by the programme team during the next quarter.
- During the second part of 2017 the discussion between DFID and Oxford Policy management on whether to amend the contract stalled. An increase of 50% of the contract value was proposed to allow the full implementation of the recommendations of the component inception report, butthe amendment was administratively not feasible in a short timeframe, and its value for money proposition was not convincing. The implementing team was not able to timely propose an alternative plan without requiring a contract amendment. These delays are proving detrimental to the component ability to effectively support the others for their monitoring and learning.
- The absence of a manager or expert in country for the component remained a challenge that has prevented or slowed significantly the resolution of issues – including the proposed contract amendment or a change of workplan within the existing contractual provisions. Similarly, since late 2017, it has not been possible to plan and effectively use the component as a learning support function for the delivery teams on the ground, as the agreement of respective responsibilities and plans between the monitoring team and the other components and with DFID needs to happen in country, where the programme coordination and steering is located.
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Lessons identified this year, and recommendations for the year ahead linked to this output

- The discussion with Oxford Policy Management on the objectives and workplan of the component within the current contract provisions should be finalised as a matter of urgency, to ensure that the Monitoring and Evaluation component's mandate in relation the others is clear and appropriately resourced.. The consideration of a possible contract amendment to allow the implementation in full or in part of the inception report recommendations should follow once the delivery of the component is back on track.
- DFID should require Oxford Policy Management to make available a presence in country, at least on a quarterly basis starting from next quarter, to improve communications with the other components and with DFID team in order to ensuring that the Monitoring and Evaluation component provides a more adequate service to the programme and to reach closure on relevant plans. This will also include the finalisation and approval of outstanding reports and relevant invoicing.
- It is recommended that a decision is made urgently on whether to relaunch, amend or end the mandate and organisation of the Evaluation Reference Group. Consideration should be given to the possibility to assign learning review functions to NU-TEC advisory committee.
- It is recommended to reduce the impact weighting of this component to 5% in the logframe revision that will follow this annual review.

C: THEORY OF CHANGE AND PROGRESS TOWARDS OUTCOMES

Summarise the programme's theory of change and any major changes in the past year

NU-TEC's theory of change follows the general logic of a market systems development programme: positive impact for smallholder farmers and their dependants is achieved by lifting the constraints that hold these farmers back from gainful participation in their agricultural market systems. No changes were made to the programme's overall theory of change in the past year.

The logic of direct programme impact, briefly, runs as follows:

- A range of programme interventions lift the binding constraints and strengthen the capacities of businesses in the target market systems[17], for example: building the capacity of smaller agricultural input dealers; and, convening a supply of seed and fertiliser to them that, is genuine, properly packaged and labelled and that can be affordable to famers.
- Businesses adopt new practices that drive growth and performance, for example, by identifying a local market for fragrant rice, and a local variety that satisfies that preference but which is also more productive and better suited to local growing conditions and stress.
- This greater growth and performance translates into better access to markets, inputs or services for the smallholder farmers in the target market systems, for example, groups of smallholder farmers organise themselves to be able to buy seed and fertiliser and they also bulk together their individual production for

[17] An example of this can be illustrated by the Market Development component's work with rice, where: market analysis for the crop and its potential indicated where constraints to the supply chain exist; the production and sales of quality seed is being secured; a mechanization business model is established; several traders or large aggregators are supported to improve their storage, milling and farmer-network; the traders or aggregators deliver practical extension and advice to the farmers, motivated by the opportunity to improve crop productivity and to earn the farmers' loyalty. A minimum price for the crop may be agreed. The aggregators or traders buy the crop, though there is a lot of side selling. Farmers receive their payment as mobile money. The aggregator/trader sells part or all of the crop at a favorable time and mills the remainder which she/he sells on the local market, but wants also to package and sell in the larger centers or to fulfill larger institutional contracts.

cleaning, drying, storage and then sale as a uniform lot, and is of a volume that attracts buyers. They attract a premium for this grain.

- Smallholder farmers, through better markets/inputs/services, increase their resilience and incomes. Their farming improves and good seed and fertiliser is used, ensuring hardier and more productive crops, including a number that are diet staples and the use of good agricultural practice also sustains soil productivity. Having a local aggregator, means that farmers can sell their crops fairly, where they would otherwise be unable to and these farming households now also have the opportunity to buy and use hermetically sealed bags to store a portion of their crop for their own consumption, or for selling later when prices are more favourable.
- Household members benefit indirectly from this increased income. There are fewer food insecure months, schooling, health and other necessities are more easily paid for. Increasing the amount of land cultivated or the addition of poultry or livestock also become opportunities for these families. So far, 152,000 families have benefitted from NU-TEC in this manner.

In addition, sustained and indirect benefits accrue when the abovementioned process leads to crowding-in in several ways:

- Supported businesses continue to grow in size and begin investing in new business activities or expand their field of operations. They continue to do this after the programme support ends. They work with a larger number of farmers;
- Competitor businesses replicate successful business models, creating broader farmer impact; for example, others see the success of the business the programme supported, and copy it. Price competition increases, and prices paid to farmers increases.
- Non-competing organisations respond to the market system changes by providing new complementary functions.

A theory-of-change testing exercise was undertaken for "expanding the Village Agent[18] model". The Village Agent model is central to the Market Development component and is used in several of the markets supported. The exercise found that the formulation of the theory of change can be improved in several ways, including removing activities that the Market Development component is not directly pursuing and including pathways to systemic change. The Market Development component has modified the results chain of the Village Agent intervention as well as some other interventions, in particular to articulate pathways to systemic change.

Describe where the programme is on track to contribute to the expected outcomes and impact, and where it is off track and so what action is planned as a result in the year ahead

The Market Development component is comfortably on track to contribute as planned to outcome and impact targets. While impact indicator 1 (income) results are currently slightly below the target, impact indicator 2 (resilience) results are well above target. This discrepancy is primarily due to farmers having planted seeds and adopted new practices that produced better crops, but they hadn't harvested and sold at the time of reporting. Combined with a strong portfolio of interventions, some of which show good signs of growth and also of being copied, the indications are encouraging for impact targets being met or surpassed in 2019.

The Special Credit fund has not yet started delivering results, due to delays in contracting the component. Had the contract been let according to the original timeline, the component would have already led to £1 million in increased sales and reached 10,000 direct beneficiaries. With the component now entering its inception phase, these targets will need to be revised and/or the options for delivery reconsidered. This will be feasible in the next three months, as the inception phase ends and decisions are taken on the operational strategy.

The Investment component is not on track to contribute as planned to outcome and impact targets because of a consistently high failure rates and delays in investees successfully progressing from their Clearance in Principle to actually receiving their investments. The pipeline for the year ahead looks encouraging, but the time-lag between investment and outcome and impact-level results has been so far longer than initially expected, implying that the 2019's logframe targets may also not be met. It is recommended to look again at AgDevCo investment progress by September 2018 and make a call at that point on what is the right ambition for this year and next.

The conversion of output results to outcome and impact results will also depend on whether the assumptions of the programme's theory of change holds true. The following assumptions need to be closely monitored and tested:

- That the supported enterprises are bankable. Good market identification and strong business modelling and planning tests this.

[18] In the Market Development component context, generically, "village agents" are small local enterprises, traders, larger buyers' agents or cooperative undertakings who are supported to: help farmers' to organize their production, provide extension services (e.g. on good agronomic practices, post-harvest practices for quality assurance, and financial literacy), perhaps also helping link farmers to banks for crop production. Village agents will often sell inputs to the farmers and may also offer tractor services, or drying, cleaning and storage facilities. The village agents' motivation is the opportunity to grow and make more profitable their own trade and business, by supporting farmers to grow more and better crops, which they can then buy and trade.

- That Government behaviour will not distort and disrupt markets more than expected. Market responses to public policy and investment changes can take some time to be revealed as business behaviour and performance and so being well informed of Government's intent and service delivery is important. DFID Uganda's dialogue with the Government and other development partners should inform this assumption.
- That Impact Indicator 2 accurately captures real increased resilience at farmer level. A broader appreciation of what constitutes resilience is relevant and should more clearly include food and nutrition security and having a diversity of options (e.g. household or faming assets, savings, different crops, application of good agricultural practices) with which to cope with shock and recover from that.

A review of the programme's assumptions should be made in conjunction with the undertaking to assign the unallocated £10 million

Introducing in each component a break down by intervention or partnership of outcome- or impact-level projections. would facilitate the assessment of where the programme is on- and off-track to contribute to expected outcomes and impact. The Market Development component does have some intervention-level projections in its annual workplan, but this does not include yet impact-level projections for all interventions.

Major changes to the logframe this year

Two changes were made to the logframe following the 2017 annual review's recommendations:

- The 2018 target for Output Indicator 1.2 - *Number of Palladium supported businesses agreeing high quality, gendered business plans* - was reduced from 29 to 20.
- Outcome Indicator 4 – *Proportion of business models established / investments supported by NU-TEC, which have a systemic effect* - was added.

The 2017 Annual Review also observed, and it was agreed, that the impact indicator 3 multiplier used to calculate the number of direct beneficiaries' household members constituting indirect beneficiaries needed to be changed from 5 to 4.3 but this remains to be reflected in the logframe.

Planned changes to the logframe as a result of this review

As recommended by the 2017 Annual review, the impact indicator milestone for indirect beneficiaries should be revised to 4.3 x impact indicator 2 milestones

The annual review further recommends that DFID Uganda team has discussions with all implementing organisations around the following potential logframe adjustments and that the Monitoring and Evaluation component supports these:

- With AgDevCo, considering a revision of Output Indicator 3.1 targets given the attrition rate and delays witnessed between Clearance in Principle and investment closure in the Investment component
- Including indicators that capture quantified systemic change[19] and establishing a consistent definition and measurement methodology for Outcome Indicator 4 to capture systemic effect across components
- Establishing clear assessment criteria on Impact Indicator 4 (see further notes in section G)
- Clarifying the criteria behind Impact Indicator 2 to ensure that the indicator is fully fit to gauge increase in resilience
- With Mercy Corps and Equity Bank, ensuring that the definition of indicators relating to the Special Credit Fund captures additionality and strongly incentivise this component to deliver financial products and services that other financial institutions are not able to provide in Northern Uganda
- Aligning the logframe targets with contract end dates of each component, especially to ensure that output targets do not reach beyond contract end dates.
- Reducing the target for Outcome Indicator 1 - change in sales of AgDevCo and Palladium supported businesses attributed to project interventions – to reflect the NU-TEC Market Development component's earmarked investment in ReHope interventions, which the conversion rate of investment to change in sales is lower than elsewhere.

Any agreed adjustments to the logframe will need to be agreed and approved by DFID by October 2018.

D: VALUE FOR MONEY

VfM compared to the proposition in the Business Case, based on the past year

[19] e.g. number of businesses replicating/scaling-up NU-TEC business models; number of beneficiaries from these replicated/scaled-up business models

As anticipated in the original business case, it is still too early to assess the value of any transformative effect on the programme on the agriculture markets in Northern Uganda; and the programme is exhibiting the typical value for money of a market development programme at early stage. However, the 2017 revision of the logframe implies an improved ratio of results to costs compared to the original logframe, with some increases in impact level results (benefits to farmer households).

All Service Provider contracts have been formalised, with the following results:

- Palladium's contract execution is largely in line with projections, though they have demonstrated cost savings on several travel related reimbursable. The majority of funds this component has available to support interventions through grants is now committed and this will curtail the development of new interventions in the near future unless they receive further budgetary allocations.
- The Investment component's lower than planned spend matches slower than expected progress in securing investments, meaning that value-for-money is challenged by fixed costs for the organisation and lower interest revenue streams. The investment pipeline is still considered strong enough to justify spend just now; a review of targets, hence the component value for money proposition is recommended by September 2018.
- The Special Credit Fund contract only started in April 2018. The original value for money proposition of this component will be revised at the end of the inception period, reflect the reduced time for implementation and of the changed context.
- The overall amount of resources available to the programme monitoring and learning is insufficient, especially to properly gauge the attribution of market developments and scale up of new market opportunities. A discussion with Oxford Policy Management is ongoing to re-determine the objectives of the component within the existing contract parameters. A contract amendment might be considered later in the year in order to reflect increased complexity than originally anticipated. In any case, additional resources for primary monitoring on the ground will need to be allocated to the delivery components.

Assessment of whether the programme continues to represent value for money: The returns to project costs from benefits accruing, are beginning to emerge. For example, as outcomes:

- At the close of this reporting year, £2.3 million of additional sales or turnover had accrued to firms supported by the MD and Investment components;
- £390,000 of additional profits had been generated by firms the Investment component has invested in;
- 10,360 cotton farmers earned an additional $473,560 of income because of the trade finance the Investment component provided to GADC.

Impact figures are also increasing, but the VfM implications of that are not yet fully apparent or measurable.

All in all, expectations are being met, though with somewhat variable performance across the components of the programme and their undertakings. The trajectories are following those expected for a market development project. The strengthening of analysis, strategies and investment pipelines is an ongoing process, and the milestones produced to date offer adequate VfM in most cases. The assessment of VfM will remain uncertain and probably underestimated, until the long-term success of high-risk, high-reward interventions becomes clearer.

For the two main active components, there is now a better understanding of what outputs, outcomes and impacts can be expected, and these are presented in the programme-wide theory of change and in the recommended revisions of the logframe's indicators and targets. The targets in the Logframe are gross estimates that are then discounted by the general success factors for similar M4P programmes and this gives a measure of assurance about their accuracy. The programme monitoring handbook guides results measurement and for each indicator there is a reference sheet that describes the indicator, how it is measured, by who and when. The Annual Review team examined the various calculations and models that generate the projected results and are satisfied with those. The projected results and impacts appear reasonable and realistic, but the Market Development component needs to be able to more clearly identify how it will bring about the systemic change that makes the case for its transaction costs, for example, how the quality declared rice seed production model can be expanded, with more input dealers and farmers buying the seed, but without losing the integrity of what is basically a farmer-to-farmer model, and while also remaining profitable.

VFM metrics: Currently the most significant VfM metrics refer to the value of outcomes and impact results for the cost of the project.

The comfortable achievement of the value of investment plans delivered by the Market Development component, improvements in the levels of partner investments in those plans, and the value of the pipeline which the Investment component believe they can deliver with the same input resources, indicate a continuing improvement in economy and efficiency. The higher than expected number of interventions implemented by the Market Development component is in part a result of the ReHope pilot in West Nile, where the absence of medium-large actors means supporting a larger number of small businesses, with higher levels of technical assistance resources required for the

same amount of investment[20]. The resulting less favorable value for money is fully justified by the opportunity to help a more rapid transition of refugees towards economic self-reliance.

Impact cost ratios have improved over the reporting period, although these remain subject to the risks presented by: AgDevCo's slower pipeline of investment; unknowns about the Special Credit Fund's ability to deliver results at the scale anticipated; and, the Market Development component needing clearer strategies for attracting new investors and businesses' adoption of or responses to the business models they have successfully developed. Effectiveness, however, lies in the scale of transformative change, currently captured by the logframe indicator measured by the share of interventions that create systemic change. The Annual Review recommends that DFID should task the delivery components to propose improved definitions and measurement of systemic change to be agreed collectively by the programme. The Monitoring and Evaluation component should also support this work.

Justification for a continuation of NU-TEC from a VfM perspective, based on its own merits and in the context of the wider portfolio: Having absorbed the costs of preparation and establishment, the NU-TEC programme is now gathering momentum in generating results at output, outcome and impact level. Targets are generally - though variably - being met across the programme. This also accurately reflects what should be expected in the economy and its operating and risk environments, and from the innovative nature of this business development model. Where elements of the programme are under-performing, the reasons for that are understood and mitigating strategies are being adopted. The Annual Review is satisfied that VfM is being delivered and that the project-life VfM projections of using the total NU-TEC programme investment to positively impact the lives of 1.66 million Ugandans, through the generation of £80 million of increased sales of agricultural goods and services in five years are realistic. Broadly speaking, risk is now better understood and managed, warranting a dropping of the risk rating from Major to Moderate.

This year, NU-TEC has demonstrated additional value to DFID's country programme by mobilising quickly as a participant in the West Nile refugee response and in doing so has established a presence and foundation of experience to inform DFID Uganda's multi-year strategic plan. The programme remains firmly aligned with Uganda's policies and strategies for economic and social development as well as with prevailing best-practice for agricultural development; Market Systems Development.

NU-TEC's design and implementation delivers DFID's 2017 Economic Development Strategy's priorities:

- boosting agri-business; financing agriculture infrastructure and promoting commercially-viable agriculture by transferring knowledge and inputs to smallholder farmers and linking them to markets
- helping farmers and their families to have opportunities and jobs outside of their farms, and supporting SMEs in rural areas
- supporting subsistence farmers, without other economic opportunities, to avoid hunger, malnutrition and extreme poverty
- encouraging commercial approaches
- integrating climate smart agriculture for resilience and measuring that
- politically smart approach to economic development
- supports governance, humanitarian and equity agendas

Several other donors are now initiating programmes that will apply market systems development approaches for agriculture and in this respect DFID has clearly established itself as a champion and leader in Uganda. A good, robust learning process at the conclusion of the ReHope refugee response pilot should also provide an evidence base and recommendations that can encourage other development partners and Government to adopt market systems development practices as they continue their humanitarian programme responses to the protracted refugee crisis.

With the programme halfway through its life, later in 2018 it will be prudent to make decisions about allocating the £10 million that was not assigned to a specific component at the outset, but which was to be allocated to the best performing instruments of the programme, three years into implementation. Further analysis will be required to inform that decision but results being shown so far and the continuing relevance of the programme in responding to priorities, firmly indicate that there is good justification for making that allocation to the existing components.

E: RISK

Overview of programme risk (noting the rating from p.1) and mitigation

Overall risk rating: Moderate.

[20] The resulting less favorable value for money is fully justified by the opportunity to help a more rapid transition of refugees towards economic self-reliance

NU-TEC was audited by DFID's Internal Audit Department in August 2016. The programme risk was rated as 'major'[21] and the assurance assessment as 'limited'[22]. The recommendations made by the IAD report have been fully implemented. The subsequent 'A' scores of the Annual Reviews, including this one, also suggest to reduce delivery risk ratings. This year's Annual Review assesses the programme risk as having eased from last year's 'Major', to 'Moderate' and expects that a strong inception period and commencement of implementation by the Special Credit Fund will further confirm this assessment.

Overview of programme risk

Overall project risk is categorised as moderate. Difficulties and uncertainties associated with applying a market-oriented approach in working with the private sector in Northern Uganda remain, but the programme's capacities have developed markedly and the implementing partners have now accrued a good amount of experience and evidence that helps offset the risks that those difficulties pose. Though perceived as slowly improving, the private sector remains generally sparse and weak and markets in Northern Uganda often do not work predictably, efficiently or fairly. The market-oriented approach is undermined by the hand out and entitlement cultures in Northern Uganda that are perpetuated by Government of Uganda's and some development partners' approaches. These risks continue to materialise in the form of business partners who struggle to get through due diligence or who lose interest because there are grant or patronage support options available to them. Both the Market Development and Investment components have improved their ability to screen out partners to whom this is likely to apply.

These risks are hard to mitigate entirely but the SRO's engagement with other donors, and the well-publicised launch of the programme this year in Gulu, are steps to continuing to profile DFID as a champion for using private sector led approaches for development. Increasing evidence-based communication from the NU-TEC experience will strengthen that. AgDevCo could perhaps do more to make its presence in the local investment market more visible, but not at the expense of compromising their professional impact investor profile.

An important area of risk is political. Government now participates in the Advisory Group, although in a somehow low-key manner, but large programmes of input subsidies (e.g. Operation Wealth Creation and direct lending from the Government's Microfinance Support Centre[23]) undermine the private sectors' appetite for engagement with NU-TEC and systemic change. The current political economy of many subsectors or value chains is the continuation of a long history of distortions and perverse incentives derailing agricultural and rural development with programmes of patronage. Some of the major development partners in the sector are in early phase of developing a coalition for change dialogue on commercial agriculture policy; the Market Development component can have a support role by documenting best practice and identifying risk areas.

The operational risk identified with the changeover of NUTEC Senior Responsible Officers in July 2017 did not materialise.

Though the Special Credit Facility contracting has now been finalised and the service providers mobilised, a substantial risk associated with the delivery of this much delayed component remains. The context is different than when conceived. At that time, there were very few financial institutions present in Northern Uganda and even less appetite for financing agribusiness. That situation has improved and though most SMEs still struggle with their financing, the challenge for the Facility (and the justification for it) will be not to go head-to-head with the existing banks and their offers, but to demonstrate innovation and additionality. The Market Development portfolio offers the Credit Facility a head-start in terms of introductions to the markets and to potential agribusiness clients, providing an insight into their specific and structural issues. A strong appraisal of the analyses and operational strategies developed by the Credit Fund during their inception phase, and which also clearly identifies operational linkages with the Market Development component, will be important and the annual review proposes that DFID should be open to receiving alternative options for delivery of the component's ambitions.

Good progress has been made in mitigating the social and environmental safeguard risks in the Market Development portfolio. Following an assessment of those, Environment, Social and Governance risk assessment and management tools were developed and are now implemented as standard practice. Issues in the partners' businesses that were identified by the assessments are now either being remedied systematically, or, the support has been modified or terminated. Improving the working environment and health and safety conditions have been prominent in the issues being remediated. The Investment component's attention to safeguards during due-diligence, investment project development and implementation is adequate though the semi-formal nature of some business partners, and the weak rule of law, creates risks, especially for lower-level processors and traders.

[21] This was "High" in the categories used when the Business Case was prepared.

[22] This is where the framework of governance, risk management and control provides limited assurance over the achievement of objectives. Risks to objectives are major (combined impact and likelihood).

[23] The MSC is a Government owned agency, primarily mandated to provide business development support and loans to MFIs and SACCOs, Their interest rates do not reflect prevailing commercial norms.

F: DELIVERY, COMMERCIAL & FINANCIAL PERFORMANCE

The table below shows the status of the NU-TEC budget, the business case estimate, the value of the contracts awarded to date, the annual and total expenditures to date, and the budget's balance. The programme implementation during the review period has been moderately slower than expected with use of £6.18m against the planned £7.92m (78%). The payments were to: Palladium (£3.91m, 81.6% of planned); AgDevCo (£2.19, 73%); and OPM (£0.035). The new contract to Mercy Corps and Equity Bank had not started spending at the time of the review. The rate of implementation going forward is expected to improve given that the Special Credit Fund component has started in April 2018, however risk of slow utilisation of funds by this component will remain for the rest of the year, as the fund is established.

NU-TEC Budget Status AR 17 (£M)								
	Budget	**Contract**	**Spend at AR 15**	**Spend at AR 16 - October 2016**	**Spend at AR 2017 (July 2017)**	**Spend at AR 18 (July 2018**	Total Spend to AR 18	**Budget Balance**
Long-term Investments and Capacity (AgDevCo)	12	12	0.455	1.195	1.98	2.19	5.82	6.18
Market Systems Development (Palladium)	15	14.4	0.055	2.42	1.06	3.91	7.445	6.955
Specialised Credit Fund	10	10	0	0	0	0.05	0.05	9.95
Monitoring, Evaluation, Review and Audit	1.025	0.8	0.074	0.187	0.03	0.035	0.326	0.474
Design and Appraisal	0.1	0.074		0.074	0	0	0.074	0.074
Additional financing	10	0	0	0	0	0	0	10
Total	**48.125**	**37.274**	**0.584**	**3.876**	**3.06**	**6.185**	**13.705**	**33.633**

Performance of partners and DFID, notably on commercial and financial issues

The key cost drivers for NU-TEC remain as reported in the previous Annual Review. For the Market Development component these are consultancy fees and the management overheads associated with managing a large team of specialists and staff. Costs in the Investment component are driven by the capital costs of investment, and the technical assistance required developing and then overseeing the delivery of those investments. This year, across all components, the spend was approximately 12% on capital investment and 88% on technical assistance[24]. Spending in all cases appears to be aligned to the needs of the programme. Under performance is largely attributable to pipeline attrition and delays in the investment component due to rigorous due diligence requirements and prudence in managing the risk environment.

Use of result-based payments: DFID and the Market Development component are trialling a results-based payment system, using a hybrid contract that pays a proportion of costs based on input costs and a proportion based on delivery of pre-determined outputs. Outputs are pre-determined at the beginning of each reporting year. To enable the required flexibility and to avoid locking the contractor into deliverables which become less relevant, outputs could, in principle, be marked as 'to be determined in month 6, for delivery in month 12'. One particular innovation that allows this to be applied to an adaptive programme is one pilot payment based on 'two out of four [pre-determined outputs]' being delivered. Given the uncertainty of the context, and the flexibility required, this allows DFID and the Market Development component to have a contract that rewards delivery while allowing the provider to shift resources to priorities. The process of assigning values to outputs is difficult however – some outputs can be undervalued and others overvalued. While no payment is made beyond what would be charged under a full input-based contract, incentives for delivery can be skewed. The experiment should be continued, with further monitoring.

Based on attributable 'change of supported businesses' sales (outcome indicator 1) the Market Development component has received last year the second of its 'outcome' based payments. Careful attention to the right level of target for the payment should be maintained as targets are negotiated at the beginning of each year.

Generally, relationships between DFID and the implementing partners are good and productive. Two contractual issues requiring attention remain outstanding:

- there was a delay in late 2017 in amending the arrangements for the monitoring and evaluation delivery in response to the component inception report and taking into account the evolution of the programme after the mobilisation and start-up phase. Discussions have recently got underway again, with support of DFID central learning and evaluation expertise. An arrangement where the service provider establishes an in-country

[24] The whole Market Development consists of technical assistance (no capital investment), whereas AgDevCo has invested less than expected while still providing some technical assistance. This proportion is expected to noticeably rebalance as soon as the Special Credit Fund component starts delivering loans and with anticipated increased AgDevCo investment

presence would help relationships with the programme and also allow the provider to improve the close-support function and dialogue that is an important part of this component's function. This must be resolved urgently.

- for the NU-TEC MD component, the approval of a contract amendment formally shifting the milestone-based payment for personnel to a 70% actual cost reimbursable: 30% milestone delivery split has been outstanding since 2016. This model is currently in use – and works well, providing the right balance of incentives for performance and flexibility - but the absence of formalisation presents commercial risk for both DFID and Palladium. It is recommended to consider finalising a contract amendment at the same time as an amendment to accommodate whatever of the £10 million additional funding for best performing NU-TEC instruments is awarded to the Market Development component.

The protracted procurement of the Special Credit Facility component's providers was concluded. The contractors have mobilised, and their inception period is ongoing at the time of the Annual Review. For this component, cost drivers will be similar to the investment component's, but with a higher proportion (40%) on technical assistance and a lower figure (60%) on capital.

Quality of financial management: The implementing partners continue to adhere to reporting expectations, providing financial statements as required. The Market Development component's report presents a cumulative spend from the project start and funds requested, while the Investment component's report provides a breakdown of expenses incurred, balance on account and funds requested. The reports are reviewed by the Programme Manager and approved by the Programme SRO before any disbursements are made.

During the reporting period, the MD component contracted local audit firm, Ernst and Young. The terms of reference, a draft final audit report together with the Management Letter, and Management Response were reviewed by DFID. The report gave an unqualified opinion to the accounts, andareas recommended for further revieware currently underway.

The audit report for the Investment component for the period is not due until June 2018.

Date of last narrative financial report	• Latest Annual Report from AgDevCo for the period ending Dec 2017 received on 10 April 2018 • Latest Palladium Annual Report for the period April 2017 to March 2018 received on 15 April 2018
Date of last audited annual statement	• Palladium Uganda Final Draft Audited Financial Statement for the period May 2016 to June 2017 received on 17 April 2018 • AgDevCo Uganda Audit Financial Report expected June 2018

G: MONITORING, EVIDENCE & LEARNING

With the programme entering year 4, it is now increasingly important to have robust outcome and impact level measurement in place, both for the purpose of effective management decision making regarding the programme portfolio and for the purpose of effective reporting. To-date, the programme's available resources for results monitoring has been insufficient to enable robust outcome and impact measurement. The sections below discuss several weaknesses and potential opportunities in strengthening monitoring, evidence and learning at the outcome and impact level.

Monitoring

Impact indicator 1.2 should be improved to more rigorously capture the full picture of resilience to climate change at farmer level. The Market Development component measures this indicator as follows: a smallholder farm is assumed to have increased climate resilience if it has either (i) improved use of inputs, practices ***or*** post-harvest handling ***or*** (ii) improved access to output markets. During the design of new interventions, the component does use a climate-smart agriculture screening tool that applies a more comprehensive understanding of resilience. However, this means that climate resilience at the impact level to an extent needs to be assumed rather than tested. The current measurement approach may miss instances where smallholders begin using commercial inputs of seed, fertiliser and chemicals[25], perhaps also accessing finance for this, compromising their traditional low-input, diversified production primarily for household security and increasing their vulnerability to weather and market shocks and indebtedness. Farmers' risk profiles change as they engage in processes of modernisation. Going forward, the programme should endeavour to capture a richer picture of its impact on smallholder resilience, through a deeper one-off evaluative exercise and/or a revision of the definitions used in Impact Indicator 1.2.

[25] In this context, note that the weak regulation of inputs in Uganda and the high rates of counterfeits serve to discourage farmers from using commercial inputs and are frequently punitive to those who do. This is well documented elsewhere.

Measuring gendered impact. The Market Development and Investment components have shown improved better adoption and implementation of gender focused interventions (as recommended in last year review), but the programme's logframe and monitoring systems should be further improved as follows:

- The control over increased incomes and other resources at the household level is shaped by complex gender dynamics[26]. The Monitoring and Evaluation component should work closely with the other components to explore options for increasing the level of rigour with which the monitoring system counts male and female beneficiaries at the impact level. A decision should then be made by September 2018 on whether any changes to the measurement approaches are needed.

- The Monitoring and Evaluation component should work closely with the other components to develop and agree by September 2018 on a clear and robust definition underlying Impact Indicator 3 (or on the addition of a new indicator) which captures the number of women who gain a more beneficial role in the market system as a result of programme activities. Improvements in women's position in the market system can include[27]:
    - Greater job security;
    - Formalisation of role / employment;
    - Improved position in value chain;
    - Greater sustained opportunity for training and capacity development;
    - Improved working conditions;
    - Changes to women's roles within the household.

- By June 2018, the Market Development and Investment components should propose 2-3 supplementary qualitative studies to enrich the programme's understanding of gendered impact, and all components, convened by DFID should then decide which component is well-placed and resourced to carry out these studies.

Systemic change. The measurement of systemic change is currently treated as a 'Yes or No' question in the programme logframe through Outcome Indicator 4 *Proportion of business models established (Palladium) / investments (AgDevCo) supported by NU-TEC, which have a systemic effect*. The programme may be able to better capture systemic impact through quantified indicators measuring e.g. the number of competitor agribusinesses adopting similar business models demonstrated by NU-TEC partners, and the number of smallholder farmers gaining in resilience and income through these competitor agribusinesses. The DCED guide on "Assessing Systemic Change"[28] calls on Market System Development programmes to capture broader systemic impact and provides recommended indicators and measurement approaches.

The monitoring system would gain in utility if the approach to measuring systemic change was harmonised across all three implementing components. Currently, the Market Development component applies a systemic change tool following the Adopt, Adapt, Expand, Respond (AAER) framework and the Investment component uses a 4-point scoring of "transformational impact". The Investment component should not be expected to invest existing resources into using more detailed and rigorous methodologies. However, with more monitoring and learning resources, a more rigorous methodology for measuring systemic change could be consistently applied across the programme.

These considerations give rise to the following recommendations relating to the measurement of systemic change:

- By September 2018, the monitoring and learning component should work closely with the other components to develop a potential impact indicator that quantifies systemic change and, with DFID, make a decision on whether to include this indicator in the logframe and begin reporting against it.
- By September 2018, the monitoring and learning component should work closely with DFID and the other components to agree on a standard approach to measuring systemic change at outcome and impact level across the three delivery components. If it is decided that the other components should adopt the same approach as currently applied by the Market Development component, an agreement should be reached as to whether the other components are sufficiently resourced in monitoring and learning, and if not, how to address this shortage.

It should be noted that any revisions to the logframe would need to either be in place by end of September 2018 or postponed until after the 2019 Annual Review.

Evidence

Outcome indicator 2. For the next annual review, the quality of evidence presented relating to actual investments could be improved through clear line-by-line investment breakdowns by partner against the agreed investment budget. These could for instance be obtained through financial reports submitted by programme partners, then tabulating those to present to the Annual Review.

[26] https://issuu.com/adamsmithinternational/docs/asi_measuring_gendered_impact_in_ps
[27] https://www.enterprise-development.org/wp-content/uploads/DCED-WEEWG-How-to-integrate-gender-into-PSD-programmes.pdf
[28] https://www.enterprise-development.org/wp-content/uploads/Systemic_Change_DCED_Guide_August2014.pdf

Market studies. The evidence gathered during some of the market studies commissioned to third parties at the early stages of the programme is weak. This was acknowledged by the programme team, which gathered more accurate information on market and value chain dynamics in the past year, through a combination of more informal research and experience from ongoing intervention management.

Learning

Understanding agriculture markets. In the past 12-18 months the Market Development (Palladium) and the Investment (AgDevCo) teams have accumulated a vast knowledge of agriculture, agro-processing and agriculture trade business in and around Northern Uganda. AgDevCo has sighted over 125 individual companies with a clear link with the target areas and value chains. Palladium has finalised technical assistance agreements with over 30 companies. The two knowledge networks started separately and independently but they are now converging and increasingly between late 2017 and early 2018 the two teams have been sharing information, contact and intelligence. Both have been available and, in some instances, proactive to share this wealth knowledge with DFID and to get on board DFID own contacts and suggestions. This trend is expected to be continued with the start of the new Credit Facility component.

From value chains to cross cutting markets. In the same implementation period the programme learning on the business environment and the actual markets for commercial agriculture has shifted focus. The initial approach, as in many development partners and Govt programmes, was to identify individual value chains or commodities with a high potential to expand production and productivity by virtue of specialisation – for example soya, sunflower sorghum, rice. However it became clearthat most small and medium farmers – and many small traders/agro-processors – would not want to link themselves too tightly to a single commodity and prefer a strategy of diversification. In this context the Market Development component has started accumulating knowledge on cross cutting markets that can adopt similar strategies across multiple commodities; such as mechanisation, improved seeds trade, fertilisers and pest control, post-harvest handling, multiple edible oil markets, etc. This knowledge has started to transfer to the Investment component and help its pipeline, the most notable example is Palladium analysis of the grains and waste from oil seeds as feed for livestock that led AgDevCo to design a greenfield investment for pork production. This trend towards cross cutting market knowledge is expected to be confirmed with the start of the new Credit Facility component that will more systematically look at financial needs and product from small business.

Understanding gender dynamics. In the early stages of programme implementation, the Market Development component carried out gender-sensitive market studies. However, implementation has brought about the need to recognise different forms of disenfranchisement that affect men and women in the target value chains, as well as the impact of this on gender relations. For example, traditional social norms, shaped by political and economic factors, tend to dictate that men's roles focus on land clearing and security. In the absence of immediate threats to smallholders' physical assets, there is a sense that men are struggling to redefine their productive roles in a changing society, particularly in areas of North Uganda that have enjoyed stability after the long spell of internal conflict. The effects of this form of disenfranchisement include pervasive alcoholism and idling. Combined with the traditional view of men as the heads of household, these factors mean that women's active roles in income-generating agricultural production are threatened by increased domestic conflict and violence related to household income distribution. Some deeper gender dynamics that the programme team may already be aware of have not yet been formally assessed. The Market Development component should develop 1-2 qualitative pieces that capture these gender dynamics to enrich the programme's intervention design, impact measurement and broader learnings before the 2019 Annual Review.

Learnings related to market development in and around refugee settlements. As the ReHope interventions continue to gather experience and results, the programme will be well placed to gather evidence on the potential and challenges of market development strategies in and around refugee settlements. The programme could thus contribute valuable learnings to the broader ecosystem of development and humanitarian actors. The AR recommends that, by July 2018, the components work together to develop at least 1 piece for broader dissemination on the lessons learnt in applying market development approaches in the refugee-hosting areas in West Nile.

Progress on recommendations from previous reviews

Most outstanding recommendations from earlier reviews were attended to this year. These include:

- Strengthening the Market Development component team.
- Establishing the communications strategy.
- Working through the "quick wins" identified for interventions.
- Revising the Advisory Group's Terms of Reference and including Government in the group.
- Improving the use of sensitivity analysis to better understand and manage risk for the Market Development interventions.
- Including as standard, Environment, Social and Governance assessments of partners.

- Opportunities to more strongly respond to cross-commodity markets have been identified and are being worked with.
- The programme has developed and is implementing a market systems development focussed response to the West Nile refugees and their hosting communities.
- Contracting the Special Credit Fund provider.

Others remain outstanding or are work in progress, requiring continued follow-up. These include:

- Resolving how impact will be measured and by whom.
- Concluding on how systemic change will be measured.
- Reviewing and updating assumptions and targets and the risk matrix.
- Implementation to ensure that gender equity targets are met.
- Identification and implementation of Climate Smart Agriculture interventions.
- Incorporating financing and investment requirements and design more strongly into Market Development analysis and interventions.
- Revision of the Logframe to include the targets for the Special Credit Fund, when their inception phase report has identified those.
- The Monitoring and Evaluation contract to be closely monitored – and potentially amended or re-planned – to ensure performance improves, and to support a strong VFM assessment