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DEPARTMENT OF STATE
AGENCY FOR INTERNATIONAL DEVELOPMENT
Washington 25, D.C.

50

PROPOSAL AND RECOMMENDATIONS

For the Review of the

DEVELOPMENT LOAN COMMITTEE

UGANDA - UGANDA DEVELOPMENT CORPORATION

AID-DLC/P-82

DEPARTMENT OF STATE
AGENCY FOR INTERNATIONAL DEVELOPMENT
Washington 25, D.C.

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AID-DLC/P-82
Revised July 20, 1962

MEMORANDUM FOR THE DEVELOPMENT LOAN COMMITTEE

SUBJECT: UGANDA - Uganda Development Corporation

Attached are revised pages to be inserted in the loan proposal for this project.

The recommendations for authorization of a loan in an amount not to exceed $2,000,000 to the Uganda Development Corporation, Ltd. (UDC) to assist in financing the foreign exchange costs of agricultural, industrial and other projects in categories approved by A.I.D. were discussed by the Development Loan Staff Committee on July 13, 1962, and are scheduled for discussion by the Development Loan Committee at its meeting on July 27, 1962.

Walton C. Groce
Secretary
Development Loan Committee

Attachments:
- Summary & Recommendations, Revised
- Section I, p. 6 Revised
- Section II, p. 11 Revised
- Section III and IV, pages 13, 14 Revised
- Annex II, pages 1 and 2 Revised
- Annex III, pages 1 and 2 Revised

Previously Distributed:
- Summary & Recommendations
- Sections I - IV
- Annexes I - IV

[redacted]

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AID-DLC/P-82
June 22, 1962

DEVELOPMENT FINANCING PAPER
(Uganda - Uganda Development Corporation)

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UGANDA DEVELOPMENT CORPORATION

SUMMARY AND RECOMMENDATIONS

1. BORROWER: Uganda Development Corporation Limited, Kampala, Uganda - Public Corporation

2. AMOUNT OF LOAN: $2,000,000

3. PURPOSE: To assist in providing the foreign exchange required for medium and long term sub-loans to enterprises in Uganda for agreed categories of agricultural, industrial and other projects contributing to the development of Uganda.

4. PROJECT DESCRIPTION: The proceeds of the loan would be used by UDC sub-borrowers to meet the U. S. dollar cost of materials, equipment and services for agricultural, industrial and other investments.

5. VIEWS OF COUNTRY TEAM: The Country Team strongly recommends approval of this loan.

6. EXIMBANK CLEARANCE: Indicated not interested June 18, 1962.

7. STATUTORY CRITERIA: The statutory criteria relevant to this loan have been met. See Annex II for details.

8. ISSUES: None

9. RECOMMENDATIONS: Authorization of a loan utilizing the "Two-Step Procedure" to the Uganda Development Corporation for an amount not to exceed $2,000,000.

   A. Terms: UDC repayment to U. S. in dollars in 15 years including a three year grace period and 4% interest per annum. The interest will be divided with the U. S. receiving 3/4 of 1% credit fee in dollars and GOU receiving 3 1/4% charge in the currency of Uganda.

   B. UDC Option with Consent of GOU: UDC repayment to GOU in currency of Uganda in 15 years including a three year grace period with 4% interest per annum in currency of Uganda, and GOU repayment to U.S. in dollars in 40 years including a 10 year grace period and 3/4 of 1% credit fee in dollars.

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Revised July 20, 1962

C. The loan will be used to finance U. S. Procurement only.

D. Any sub-loans or series of related sub-loans of $100,000 or more with respect to any project financed by UDC will require prior A.I.D. approval.

E. The Loan to UDC will be guaranteed by the Government of Uganda.

Project Committee:
Loan Officer: Frank R. LaMacchia
Counsel: Don Wallace, Jr.
Desk Officer: Martin Lowenkopf

Drafting Officer:
FLAMacchia: het

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AID-DLC/P-82
June 22, 1962

DEVELOPMENT FINANCING PAPER
UGANDA DEVELOPMENT CORPORATION

SECTION I - PLACE OF PROJECT IN THE PROGRAM.

A. Description of Sector Goal and its Relation to Other Sector Goals

The activities of the Uganda Development Corporation (UDC) are important to three economic sector goals described in the Field Proposed Program. These are manufacturing, agricultural development, and organizing and training for development.

In the manufacturing sector, the goal is to increase substantially manufacturing output in Uganda during the period of the draft five year plan referred to in Annex I, Page 11, primarily in the field of processing local materials.

The basic goal in the agricultural development sector is to increase agricultural efficiency through diversifying and improving production and marketing of cash crops assisted by greatly expanded use of agricultural credit. It is also to provide for increased livestock production. While increased manufacturing output is important, major opportunities for early economic development of Uganda still lie in agriculture.

Organizing and training for development is a vital goal in an emerging country since to a considerable extent, sound implementation of Uganda's development plans and programs will depend upon the organization, procedures, and the competence of staff.

B. Relation of Project to Sector Goal and Other Sector Projects.

1. Industry

The initiative and energy of the UDC has been and is expected to continue to be the chief instrument for pressing industrial investment in Uganda. An A.I.D. loan to UDC (the only project cited in the manufacturing sector of the Field Proposed Program) would enable the corporation to expand its activities in this area. Major capital investments anticipated for the next two years for industrial expansion

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and new plants to be financed by UDC are estimated at $5.9 million.

In addition , UDC plans to invest about $1.6 million in such projects as hotels, office buildings, and bus transport.

2. Agriculture

To date the UDC has concentrated its activities in the industrial area but is developing several plans in agriculture Among these is an irrigation project and a tea growing scheme, both to be handled on a loan basis. Capital investments anticipated in this sector over the next two years are estimated at $3.9 million.

3. Organizing and Training for Development.

UDC has accumulated a decade of experience in development planning and implementation and has and should continue to provide good training ground for executives, administrators and technical staff at the policy and operational levels.

From the above, it may be concluded that the requirements of FAA Sec. 201 (b) (4), providing that the U. S. assisted activity be consistent with other development activities will be satisfied.

C. Project's Contribution to the Country's Economic Development

The UDC's investment activities, assisted by an A.I.D. loan, gives reasonable promise of contributing to the development of Uganda's economic resources and of leading to an increase in the productive capacity of agriculture and industry. As explained in greater detail in Section II, Paragraph C. below, these activities will help generate further employment and much more productive use of the land, and will foster substantially the process of capital formation. By contributing in such a manner to Uganda's economic development, the project will meet the requirements of FAA Sec. 201 (b) (3).

SECTION II - DESCRIPTION OF THE PROJECT.

A. Borrower

1. Name and Description

The borrower is the Uganda Development Corporation Limited, a public corporation. Its authorized capital stock is £8 million

($23.5 million); its issued stock is £6.4 million ($17.9 million) all of which is owned by the Government of Uganda, a United Kingdom protectorate in East Africa scheduled for independence in October 1962. UDC was established by ordinance in June 1952 in order to facilitate the industrial and economic development of Uganda. To this end it promotes and assists in the financing, management and establishment of new enterprises, projects for the improvement of existing enterprises, conducts research into the industrial and mineral potentialities of the country, and has acquired existing enterprises. It makes loans and guaranties, invests in equities, may raise money by issuing debentures, may borrow and lend for the purpose of day to day operations and may generally perform any act which may enhance the value of UDC's services in promoting the commercial, industrial, mining, or agricultural development of the country. UDC is required to obtain the Government's specific authorization for the purposes of increasing its own capital or for establishing, acquiring, an interest in, or increasing its investment in any undertaking. This authorization is also required in the case of loans made by UDC. In addition, the Governor in council may give direction to the UDC in relation to matters concerning the public interest. The only appeal from such direction is to the Legislative Council.

Shortly after its inception UDC acquired the government's interest in a cement plant at Tororo and The Lake Victoria Hotel which UDC currently operates as subsidiaries and the Uganda Fish Marketing Corporation which is now an associated company. Since then UDC has moved into many fields to become the largest single industrial organization in Uganda. It is the only producer of cement, textiles, and enameled metalware; through other subsidiaries it controls a number of tea estates, a cattle ranch, a chain of modern hotels, and National Park lodges and several leasehold properties; and it participates as a minority shareholder in certain associated companies controlled by foreign firms including mining and fertilizer enterprises, food processing companies, building-material firms and banking. (See chart of UDC's investments in Annex IV).

About 75% of UDC's investment resources are in textiles, cement, and other building materials, mining and agriculture. Although not all UDC's enterprises have shown a profit, UDC has had an overall profit every year since it was established - an impressive record for a development institution. No dividends have yet been paid; profits have largely been ploughed back into expansion.

UDC policy has been oriented toward the creation of new enterprises rather than expansion of existing ones. Over three fourths of its total investments are in equities. UDC has also made loans to and purchased debentures in new ventures. Whenever ventures in which it has invested subsequently require additional capital UDC typically supplies this capital in the form of loans. UDC may be expected to use part of the A.I.D. loan for sub-loans to subsidiaries and associated companies.

2. Ownership, Control, and Management

As indicated earlier, UDC is wholly-owned by the Uganda Government which exercises its responsibilities through the Minister of Commerce and Industry. The Governor in Council (i.e., the Governor of Uganda acting in conjunction with the Council of Ministers) appoints the directors of the Board, including the chairman. The latter and the deputy chairman, who is elected by the Board, are the only full time directors, the remainder being chosen on the basis of their ability and experience in business or administration. The chairman of the Board represents UDC on the boards of associated companies and is also chairman of all the subsidiary companies, the largest of which are managed by specialized expatriate staff. The chairman also holds the position of General Manager and is responsible for the day to day operation of UDC. Financial, executive and secretarial divisions at the head office in Kampala are responsible for general administration, and a development division, together with the technical department at Tororo, studies and makes recommendations for investments in new projects, other than agricultural. Agricultural projects are the responsibility of Agricultural Enterprises Ltd., a wholly-owned subsidiary. Most of the subsidiary and associated companies have their own autonomous management structure. Those which have no such management structure are directed through the Executive Division.

The Chairman of the Board of UDC., J. T. Simpson, a man of ability, experience, and integrity, has been in office since the formation of the corporation. As often occurs in organizations dependent on a strong central figure, other senior staff, largely expatriates although having considerable experience, have not developed to a comparable degree. UDC recognizes the problem and is making an honest effort to strengthen the staff; it is also making an effort

broaden its representation to include Africans. UDC has two African directors on its Board of a total of eight and has undertaken a program of training African staff for senior positions and by 1961 five Ugandans with university degrees or technical qualifications were already employed at UDC's headquarters where they were gaining valuable administrative experience. The importance of this program is underscored by recent political developments, specifically the election of the chairman of the UDC Board to the national legislature of the new self-governing Uganda Government and his selection as the Minister of Economic Affairs while retaining his position as UDC chairman. It is understood that the responsibilities of the Government of Uganda relating to UDC will be exercised through this new Ministry rather than through the Ministry, Commerce and Industry as in the past. Therefore, the UDC chairman may be expected to continue to play an active role in the affairs of UDC but not nearly so direct a role in the day to day management of the corporation. The latter will be the responsibility of the Deputy Chairman.

Although the change in Mr. Simpson's role may cause some initial problems for UDC's management, the net effect should be salutary since subordinate senior staff will be given greater scope for the exercise of initiative and judgment.

B. Background of Project

1. History

A preliminary application addressed to the Development Loan Fund was received on May 10, 1961. This application was a 100% all-risk DLF guaranty of a loan of £2,000,000 ($5,600,000) to be raised from private sources in the United States or elsewhere. The funds to be borrowed were intended to be used by UDC: 1) to purchase further equity capital in existing subsidiary companies for expansion and in newly formed subsidiary and associated companies and 2) to provide loan capital to subsidiaries and associates and for the promotion of small industries.

Subsequently when it became evident that such a guaranty could not be made and that private financing would not be available in the absence of such a guaranty, the UDC requested a direct DLF loan.

Further consideration of the loan application developed a number of modifications in the original request. Whereas the loan was originally intended to be used by UDC to finance equity investment as well as loans, UDC has agreed to confine A.I.D. funds to sub-lending activity. The original request for the loan was for funds to cover a gap in capital requirements for the first five years. However, in view of the fact that Uganda is about to achieve its independence and new relationships may evolve between UDC and the new Uganda Government, the effects of which it is not now possible to foresee, A.I.D. staff thought that a loan covering requirements for about a one year period would be more practical. UDC agreed to a smaller initial loan with the understanding that further amounts could later be considered in the light of actual experience.

On the question of U.S financing of foreign exchange costs, it was agreed that all such costs would involve strictly U.S. procurement. A.I.D. staff also considered financing a portion of the local costs of sub-loans but rejected the idea since UDC's own resources should be adequate to cover such costs including any reasonable dividend it may wish to declare.

The question of A.I.D. approval of sub-loans was also discussed. UDC was informed that A.I.D. loan agreements with development institutions normally require A.I.D. approval for sub-loans above a certain amount which typically range from $50,000 to $250,000. In UDC's case, it was agreed to consider an amount closer to the upper figure in part because of the size of loans contemplated but also because of our feeling that UDC is competent to make relatively large loans without prior approval; UDC has since requested that it be permitted to make loans of up to $200,000 without A.I.D. approval. On consideration, it was decided to limit this amount to $100,000 in order to encourage smaller loans for industrial projects.

There was also some consideration given to the categories of industries and types of activities for which U. S. funds could be used. UDC was informed that A.I.D. would not wish to consider financing distilleries. It was also stated that sub-loans for enterprises producing goods in substantial U. S. or world surplus, such as cotton and cotton textiles, might create problems. In addition, we would be

reluctant to consider housing projects. As a condition precedent to financing, UDC will be required to submit a representative list of projects and categories of activities for A.I.D. approval.

2. Opinions and Recommendations of Country Team.

The Consulate General and U.S. A.I.D. strongly support a loan to UDC. They state that the UDC will be an important agent in carrying on and supporting Uganda's economic development plans, that present management is conservative, imaginative and knowledgeable and that the UDC may well be the safest and worthiest haven for an A.I.D. loan in this part of Africa.

3. Action by Eximbank

On May 17, 1961, Eximbank stated that it would not be willing to consider the proposal because it was not clear that the funds requested are required for import purposes. On May 24, 1962, the Bank's views were again requested in view of new developments and changes in the original request. The Bank's response on June 18, 1962 was that it was still not interested.

C. Economic Analysis

UDC has demonstrated its ability to make solid contributions to Uganda's economic development by employing public savings for the creation of revenue producing industries. It has also helped to mobilize private resources, has generated local employment, has begun the long range task of creating a technically skilled class of African industrial workers and is now embarking on the equally long-range and difficult process of stimulating the growth of an African entrepreneurial class through a small loan program.

From the inception of the corporation in 1952 to December 31, 1961, UDC has invested about $30 million in its operations as described in Section II, Paragraph A above. Of its total investment, $13 million represented profits ploughed back. The foreign firms associated with UDC have invested at least an additional $20 million. The UDC group, including its subsidiaries and associated companies, has over 10,000 employees, more than 7% of the total number of employees

in all private industry in Uganda. UDC employees received salaries and wages in 1961 amounting to approximately $4.5 million, over 10% of the total cash wage bill in private industry. It is a major consumer of power in Uganda and is currently paying the Uganda Electricity Board over $840,000 annually for electricity supplies. It is also an important customer of the East Africa Railways; UDC railway freight payments amounted in 1960 to just over $1 million.

The corporation is a ready made instrumentality through which long range development plans based on sound judgments relating to priorities and emphasis may be advanced. At present it is the only means available for significantly fostering the growth of secondary industries in Uganda. In addition, with its emphasis on agricultural projects which will contribute directly to the revenue producing capability of the economy, it is a valuable supplement to the government's basic efforts in this field since the latter involve primarily those activities which have more indirect and less immediate effects on income, such as agricultural extension and education designed to effect changes in traditional farming and grazing practices and research in new crops and crop and livestock diseases.

Over the next five years, UDC is planning new investments totalling about $20 million in agriculture and industry and in hotels and office buildings. By investing in the development of new crops, in order to lessen the economy's dependence on coffee and cotton, or in the expansion of output of existing profitable crops such as tea, sugar and pyrethrum (insecticides) which are produced in Uganda at present in only minor quantities, UDC will contribute to the important goals of diversification and expansion of exports. By embarking on new economic and competitive manufacturing ventures the UDC will help expand the local production and consumption of goods at present imported from overseas which will tend to release foreign exchange earnings for the import of essential capital goods which at the present stage of its development Uganda could not economically produce for itself.

By investing in hotels and other tourist facilities, UDC will stimulate tourism which could develop into an important earner of foreign exchange in Uganda.

To the extent UDC helps to build up an entrepreneurial class it will find a growing local market for its securities and those

of its subsidiary and associated companies. In such circumstances it should gradually be in a better position to divest itself of its holdings to private investors - which is, apart from its development goals, a principal aim of the corporation. For the purpose of making a start in this direction, UDC has established a holding company, Uganda Crane Industries, Ltd., with the object of enabling the general public to participate in selected ventures of UDC.

Another important factor that should not be ignored is the essentially commercial orientation of UDC which, although as a public development institution is prepared to take unusual business risks, is nevertheless interested primarily in economically viable projects. Profits are a necessary feature of its emphasis on growth. Recognizing the important role that private, especially external, capital must play in Africa if development is to proceed at a reasonable rate, UDC has entered into joint ventures with foreign firms including several U.S. companies, and continues to seek similar partnership arrangements. To the degree that UDC's operations are successful and it becomes associated with more popular broadly-based programs, such as assistance to small farmers and businessmen, it may be expected to increase even more in stature and strengthen favorable public attitude toward private enterprise whether local or foreign. In an area where profits and foreign investments tend to be increasingly associated - particularly among some of the intellectuals - with "capitalist exploitation", the UDC may prove to be a strong offsetting influence.

To sum up, from the evidence cited above, it may be concluded that UDC is capable of conducting an effective development lending operation and that the activity to be financed is economically sound. Through the judicious selection of projects it can continue to be a strong force for economic growth and the promotion of private enterprise in Uganda. The requirements of FAA Section 201 b (2) are accordingly satisfied.

D. Financial Analysis

1. Total Financing Requirements

The UDC originally requested a loan in the amount of L2,000,000 ($5,600,000) to cover anticipated capital requirement over

the next five years which it could not meet from its own resources. UDC understands that at this time we will only consider a loan covering such requirements for approximately one year.

For the years 1962 and 1963, UDC has estimated its capital investment at $9,218,000 to be financed as follows:

	$000
Profits	3,220
Depreciation Accruals above Replacement	2,674
GAP	3,324
TOTAL REQUIREMENTS	9,218

Thus UDC's net capital requirements for 1962 and 1963 are estimated at $3,324,000.

Among the projects UDC plans to invest in, it has suggested the following representative projects for possible sub-loan financing through an A.I.D. loan:

	Estimated cost of Project	Requirements 1962	Requirements 1963
	$000	$000	$000
Uganda Meat Packers	1,260	140	560
Mubuku Irrigation Scheme	2,800	280	420
Motor Car Batteries	148	70	-
Uganda Food Products	42	28	-
Buganda Planters (sugar)	700	168	280
Tea Development	5,782	829	846
Others	630	420	210
	11,362	1,935	2,316

UDC has estimated its total participation (including the A.I.D. loan) in the above projects at $8,358,000, the balance to be provided by other participants. With the exception of the tea development project, the amount of UDC's participation in each project will equal the requirements cited above for 1962 and 1963. UDC's participation in tea development will equal the total cost of the project.

[redacted]

Given the vigor, imagination and successful investment experience of UDC, it would appear that a loan in the amount of $2,000,000 would represent an amount which UDC could reasonably expect to relend in the next year to fifteen months.

2. Borrower's Financial Status and Financial Participation

UDC's issued equity capital amounts to £6,400,000 ($17,920,000), (64,000 shares of £100 each) held entirely by the Uganda Government. Its authorized capital is £8 million (80,000 shares of £100 each). It has no outstanding long term debt. Net assets as of December 31, 1961 amounted to £8.4 million ($23.5 million); capital and revenue reserves (surplus) as of that date amounted to £2.0 million ($5.6 million).

UDC has financed its capital expansion by ploughing back profits. The corporation's financial statements show a healthy current position and the ability to meet current obligations promptly. Although UDC has made profits consistently and has ploughed these back into new investment, they fall far short of the investment needs.

It should be noted that UDC has paid no dividends to its sole shareholder the government. The IBRD mission recommended that it begin to pay modest dividends as a contribution to the government's general development program, but only if UDC will still have sufficient funds remaining to be able to continue on sound grounds and be able to carry out any economic investment schemes available to it. It is the UDC's present intention to supplement its tax payment to the government, which have averaged $224,000 in the past four years, by an annual dividend which would bring total taxes and dividends up to about $280,000 per annum. This represents an amount well within the capacity of the corporation.

3. Other Free World Financing

From 1959 to the present UDC sought capital on various occasions from private and public sources in the United Kingdom and Western Europe but thus far without success.

We understand that discussions are currently being held with the U. K. Colonial Development Corporation regarding its possible participation with UDC in a jointly financed holding company. Such participation may require changes in U. K. legislation relating to the authority of the CDC to finance projects in formerly dependent British territories

[redacted]

which may further delay negotiations with UDC. Nevertheless, since it is possible that negotiations will result in CDC participation during the next year or so, under conditions which may involve changes in the structure of UDC, it is believed prudent to limit U.S. assistance to a maximum of $2,000,000 at this time. Moreover, any larger amount might tend to reduce CDC's incentive to assist UDC. In any event, we plan to reserve the right in the loan agreement to approve any CDC participation with the UDC.

The U.K. Government is expected to confine its assistance to Uganda by financing part of Uganda's general development program through loans and Colonial Development and Welfare Grants.

It, therefore, appears that alternative sources of financing from other free world sources are currently not available. Thus the requirements of FAA Section 201 (b) (1) are satisfied.

4. Financial Plan

The UDC contemplates making sub-loans ranging from four to fifteen years for industrial and other non-agricultural projects and up to twenty-five years for agricultural projects. The project committee recommends an A.I.D. loan with a maturity of 15 years. This would be consistent with our past practice with regard to loans to development banks - no loans to such institutions have been for longer period - and would tend to direct sub-lending activity to projects with an early revenue earning potential.

In examining the interest rates UDC has charged in the past on its loans, there appears to be no fixed pattern. UDC has charged interest ranging from 4% to 7% per year, with most loans bearing interest at over 6%. In the future, UDC can be expected to expand its lending in such activities as the promotion of small African business and agricultural enterprises which is likely to increase the number of loans made at relatively low rates of interest.

UDC states that it anticipates that its relending rates would range between 3½% and 6%, with most loans at the lower rate for long term sub-loans. In view of the uncertainty as to the precise interest rate UDC will charge in any particular venture and the varied nature of activities in which UDC is bound to become involved, the UDC chairman has requested that A.I.D. explore the possibility of imposing two different interest rates, 3% for agricultural projects and 5% for industrial. Alternatively, UDC suggests that we fix an average rate. The latter would appear preferable since each project, regardless

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of the area of activity, must be examined on its own merits in order to determine the terms of any sub-loan. Accordingly, it is suggested that a 4% rate on the A.I.D. loan would be reasonable.

It is recommended that A.I.D. lend UDC $2 million for a term of fifteen years, at 4% interest; debt servicing would be at the rate of about $225,000 annually. This amount is approximately 7% of anticipated net annual profits and accruals from depreciation for the next five years. The prospects for repayment are accordingly quite good and satisfy the requirement of FAA Section 201(c).

It is also recommended that the "Two-Step Procedure" be used so that the necessity for repayment in dollars will not create a foreign exchange burden on Uganda's economy. By this procedure UDC would repay the loan in U. S. dollars within fifteen years including a grace period of three years. UDC would pay a three quarters of one percent (3/4%) credit fee to the U. S. in dollars. Also, UDC would pay to GOU in the currency of Uganda a charge of three and one quarter percent (3¼%) per annum on the disbursed balance of the loan.

UDC would have the option with GOU's agreement, to fulfill its dollar obligations by paying to GOU, the equivalent in currency of Uganda of the dollar payment due the U.S. GOU would then assume the obligation to repay the loan, less any principal payments already made by GOU, in U.S. dollars within forty years from date of the first disbursement under the loan, including a ten year grace period and a credit fee of three quarters of one percent (3/4%) on the assumed portion of the loan obligation computed from date of assumption by GOU.

In the light of this discussion and of the discussions relating to economic analysis (Section II, Paragraph C) and management (Section II, Paragraph A), the requirement of FAA Section 611 is satisfied.

SECTION III - EFFECT UPON THE U. S. ECONOMY

A. Competition with U. S. Enterprise

UDC's investments will be largely in enterprises producing goods and services for the Uganda and East African markets. Items produced for export will include principally tea, which the United States does not produce. Far from adversely affecting the U. S. economy, a loan to UDC will tend to generate a direct demand for U. S. equipment and materials to the extent that funds disbursed through sub-loans are tied to U.S. procurement.

B. Source/Origin of Procurement

Lending of A.I.D. funds to sub-borrowers will be to finance U. S. procurement only.

SECTION IV - SPECIAL TERMS AND CONDITIONS

A. U.S. A.I.D. funds may not be used for residential housing projects.

B. U.S.A.I.D. funds may not be used for the production of potable spirits.

C. Any sub-loans or series of related sub-loans for any one project utilizing $100,000 or more of A.I.D. funds will require A.I.D. approval.

D. Government Guaranty

A guaranty of repayment would be required from the Uganda Government. Provision will be made in the loan agreement that this guaranty will be assumed by an independent Uganda Government.

AID-DLC/P-82
June 22, 1962

ANNEX I - PROGRAM FRAMEWORK
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ANNEX I - PROGRAM FRAMEWORK

Section I - Framework for AID Strategy

A. U.S. Interests in Uganda

1. Nature of Importance

Basically, the interest of the United States in Uganda is strategic, not economic. Uganda lies near the center of Africa. She is bounded by countries and areas characterized by relative instability and uncertainties ranging from Ruanda, beset by tribal strife and the Eastern Provinces of a Congo dominated by strong centrifugal forces and a Southern Sudan disturbed by rivalry between Christians and Moslems to Kenya where an uneasy accommodation has been reached by rival political and tribal factions. It is in the U.S. interest to assist in the development of an economically strong and moderate state in Uganda which could act as a stabilizing influence on the adjoining areas. Uganda's chances of remaining a viable entity under conditions of economic growth and political stability within a framework of democratic institutions are quite good and should be nurtured.

2. Threats to U.S. Interests

While Uganda appears relatively stable and peaceful, potential disruptive factors do exist which could spoil an otherwide bright future. Failure to develop the country's resources properly and at a reasonable rate of speed could encourage pressures to adopt a more authoritarian type of society which appears to be the trend elsewhere in Africa. Internal tribal disputes, tribalism, and religious discord - always present not far below the surface - could be in some measure contained if the energies of the people are marshalled into more constructive pursuits.

3. Role and Influence of U.S. Aid

Although U.S. economic interests in Uganda are at present minimal - trade with the U.S. is low and U.S. private investment is insignificant - demonstration of U.S. interest in the country in a concrete fashion through economic assistance should generate both directly and indirectly an increased demand for U.S. exports through its effects on growth and income. An expansion of U.S. markets in Uganda should encourage greater

U.S. private investment interest. The level of U.S. assistance contemplated over the next five years in support of Uganda's own substantial growth efforts is of the order of $4 million to $5 million annually. Our assistance in broadly-based programs of great popular appeal, such as secondary education and agricultural credit should have a considerable political impact. Such assistance, supplemented by judiciously considered programs of information and cultural exchange should help bring about closer association between the leaders of our two countries. We are hopeful that the general result will be to enhance our ability to influence Uganda's development along democratic lines in continuing association with the West.

4. Application of Development Criteria

U.S. economic aid for Uganda is proposed solely on the basis of the new development criteria.

B. The Country's Development

1. Economic Situation and Trends

a. The Current Status - Uganda is in a transitional stage of economic development. For its low per capita income (about $63 annually) it has a relatively well developed infrastructure. Subsistence economic activity, mainly farming with some forestry, hunting, and fishing contribute about 25% of the Gross Domestic Product. Cash income is derived largely from the two export crops of coffee and cotton which together accounted in 1960 for 77% of exports and in 1959 (the latest year for which figures are available) for 26% of Gross Domestic Product in the monetary sector, 18% of total GDP and 39% of total African cash income.

Owing largely to the importance of coffee in the total economy, Uganda has suffered the most of the British East African territories from the worsening in the terms of trade. The terms of trade have deteriorated by 81% since 1954, which was a boom year. As a result of this deterioration, the G.D.P. of Uganda, in constant terms, only grew by an annual rate of 2.5% between 1954 and 1960, despite the average increase of 5.9% in quantity of production. The territory is faced with a further decline in coffee prices in the near future. It is possible that proposed expansion in cotton will do little more than compensate for the fall off in coffee income.

The small manufacturing industry is based on the local market. Apart from copper produced by a UDC associated company, the production and export of minerals are negligible. Although owing to good

soils and plentiful rainfall there is appreciable scope in the long run for cash agricultural production, the present base is extremely low for cash crops other than coffee and cotton. There is, therefore, apparently no element at present in the economy which, if fostered, could trigger off a period of high economic expansion associated with "self-generating growth." At the best a modest increase of some 1½% in annual per capita income can be expected if a well planned development program, following the IBRD's recommendations, is carried out. Even given this expansion, a budgetary deficit may be anticipated though Uganda is fortunate in still having significant government reserves with which to meet this. Should the performance fall short of the IBRD recommendations, the increase in production may well be sufficient only to compensate for the fall in the value of coffee exports and for the increase in population. In this case, economic torpor, which has characterized the country for the last four years, may be projected into the next decade and the budgetary difficulties will become more intense.

Education. Uganda devoted an unusually large proportion of the increased revenues from her export crops in the early fifties to the expansion of educational facilities, particularly in primary schools. As a result, in 1959/60, 19% of total government expenditures were devoted to education, compared to 5.9% in 1951.

Although the expansion of educational facilities has been phenomenal, there are wide divergencies between the different regions and between the relative numbers of boys and girls in school. Uganda also has not as yet the number of secondary school and university graduates needed for the government of an independent territory. Unless the major tax reform mentioned on page 15 below is instituted little increase in revenue can be expected. If there is no such tax reform, the territory will find it difficult to sustain the IBRD recommended expansion in the junior secondary school population from 16,000 to 41,000, and in senior secondary school population from 3,400 to 10,000 by 1964.

Skills. Of the population of about 3.7 million over the age of 16, only 240,000 are employed outside peasant agriculture or domestic service. Of these 225,000 are Africans, 10,000 are Asians and 5,000 Europeans. No less than 102,000 of the total employed population are employed in the public services.

No detailed manpower survey is yet available for Uganda but as is indicated by the small number of secondary school

graduates, particularly prior to the past two or three years, Uganda lacks trained administrative personnel for commerce and government. Despite the efforts to Africanize the Civil Service, the dependence of the territory on expatriate personnel is still very great. It will be several years before a sufficient number of Africans are available to take over significant numbers of these positions. Should there be an exodus of expatriate personnel upon independence, the economic development of the territory (which is dependent largely upon government and semi-government enterprise) may well be hindered.

Transportation, Uganda has a relatively well developed system of communications. The initial stimulus to the economy was given by the construction of a single line railway at the beginning of the century from the port of Mombasa in Kenya to the eastern border of Uganda. This rail line, which now stretches to western Uganda is 1,000 miles long. There are three branch lines: Tororo to Soroti (100 miles), Mbalamati to Namasagali (19 miles), Kampala to Port Bell (6 miles). Steamer services are available on the lakes and the River Nile, and a local airway system connects the more important towns in Uganda and those in the other East African territories.

There were 11,197 miles of road in Uganda in 1959 of which 2017 were Class I, i.e., bitumen and gravel. The balance consisted of 600 miles of Class II roads and 6300 miles of rural roads maintained by local authorities. The road mileage compares with 82,000 sq. miles of land area, a favorable showing in a continent extremely poor in roads.

Power, The territory has at present ample supplies of electricity from the Owen Falls Hydro Electric Power Scheme. Investment of £6 million is expected over the next five years and will be financed partly through U.K. Exchequer loans and partly through a loan from the IBRD. In the past five years production of electricity has grown from 6.9 million KW's to 30.2 million annually. About 44% of the power is exported to Kenya, the balance consumed in Uganda.

Financial and Distribution Institutions. Uganda has fairly well developed banking services. The territory shares a common currency with Kenya, Tanganyika, Zanzibar, and Aden. The currency is freely-convertible into sterling and the territoral

government possesses no powers of money creation. Overseas commercial banks operate in the territory though little use is made of these by Africans. The Uganda Credit and Savings Bank and the Government's existing African Loans Fund, however, make loans to Africans for agriculture and trade, and the Uganda post office savings bank operates banking facilities. In December, 1960 the total amount deposited in the Savings Bank was $4.6 million, deposits having been drawn down from $7.0 million in 1955.

B. Trends in the Economy

1. Gross Domestic Product

Even with the most optimistic forecasts, very little increase in the G.D.P. which was $425 million in 1960 can be expected over the next few years. The African population increase is estimated at 2.5% per annum. The annual increase in G.D.P. must, therefore, be above this figure if there is to be a rise in per capita G.D.P. A probable fall in per capita income for 1959-1962 is indicated.

The projection of annual increase in G.D.P. of 4% to 1965 and 5% in 1965-67 presumes a vigorous government development policy based on the recommendations of the IBRD Report. Essentially the Report recommends concentration upon agricultural production with particular emphasis on increasing the output of cotton and of encouraging the offtake of marketable livestock and other schemes for the diversification of production. Investment in industry to the economic maximum through the medium of the Uganda Development Corporation is endorsed as is further exploration of the mineral resources of the territory.

A total increase in cotton production of 25% is projected over the five years 1961/62 and 1966/67. The largest increase is projected for the year 1962/63 when it is hoped that the total output of 400,000 bales, which has been the Agriculture Department's aim for the last few years, will be obtained. Although a 4% annual increase is projected for coffee production the fall in coffee prices will more than absorb the increase. An annual rise of 9% is projected for tea and 4% for sugar, but the value of output of these commodities will still be quite small compared with coffee and cotton.

The contribution of manufacturing industry to total GDP is small, reflecting not only the very low level of per capita income but also the substitution of homemade and imported goods for indigenous factory products. At the same time, because of the costs of transport the local industry cannot compete outside of the local market. Nevertheless, there is considerable room for expansion and the growth of manufacturing industry will probably be above the annual growth in G.D.P. The projected growth rate of 5% in the output of textiles is assumed representative of the growth of manufacturing as a whole. The contribution of manufacturing industry to total G.D.P. will grow a little over the next five years, though owing to the small base from which that sector starts, development will continue to depend on agricultural output.

Gross capital promotion is estimated at about 11% of G.D.P. annually. It is expected to rise from $47.6 million in 1960 to an average of $50.9 million in 1963-67. This projection assumes that the IBRD estimate of capital expenditure needed is in fact carried out in the recommended development program. Private investment is expected to increase from 36% of total investment in 1960 to 40% in 1963/67.

Balance of Payments

Owing to the customs union with Kenya and Tanganyika very little information is available on Uganda's Balance of Payments. It is known, however, that unlike most developing countries, Uganda has a favorable balance on current account. The commodity trade balance, including inter-territorial trade, is about $43 million. Because goods are computed at Mombasa prices $14 million should be deducted from this figure to allow for transport to and from Uganda. All the other items listed in the current account as services will also be negative, though it is difficult to assess their value. The total negative balance of services for Uganda with the outside world is officially believed to lie within the limits of $15 million and $30 million. As Uganda has a net negative balance with Kenya as well, the larger estimate is used for the projection here. Thus the overall balance on current account, including the positive balance in trade and the negative balance in services is now estimated at about $14 million per annum. But with increased imports to support the development program, and only slight improvement in the total value of exports in the very near future, this trade balance

is expected to fall away to zero by the end of 1963.

Because there is little information on the movements of private capital it is difficult to compute the overall balance on capital account. There is no doubt that in the last several years there has been a heavy outflow of private capital. This outflow, largely from the Indian community, reflects the lack of investment opportunities within the country, but primarily the uneasiness as to the political future of Indians in Uganda. If G.D.P. rises, as expected, and if efforts are made to foster local manufacturing, investment opportunities will also rise. At the same time the government is likely to attempt to check outflow through direct administrative sanctions (though at present such a control will be difficult to enforce). For both these reasons a decline in the outflow of private investment is anticipated. Because of the recent loss of capital, however, Uganda's foreign exchange reserves, despite the positive balance in trade, have rapidly been dissipated. The private capital flight may stop but another factor contributing to the drawdown of these reserves can only grow worse. That is the widening gap between Government Revenue and Expenditures. Much of government expenditures on development was previously financed from budget surpluses and balances built up through cotton and coffee price assistance funds during the price boom for primary products in the early fifties. These salutary conditions no longer exist, and what remains in these reserves cannot finance the intensive development program planned for the next several years. Since foreign economic assistance, both grants and loans, is expected to be large, however, the present level of reserves can probably be maintained.

Government Finance

Customs, excise and export taxes are the main source of government revenue, accounting for 65% of total receipts of £51.2 million in FY 1960. The other principal sources are the income and other personal taxes which together contribute 23% of total revenue.

Uganda's actual revenues in FY 1961 and estimated revenues in FY 1962 are lower than those collected in FY 1960. This is occurring despite additional taxation in both years including new customs duties imposed in FY 1962 which will yield an estimated $2.2 million.

Furthermore, the fall in revenue has taken place even though a small increase in G.D.P. is anticipated over the period. The decline is largely attributable to lower coffee prices and therefore an automatic fall in the yield from export taxes on coffee from $4.5 million in FY 1960 to an estimated $0.6 million in FY 1962.

Uganda is restricted in the power to impose additional tariffs by the operations of the East African customs union. It is planned that a U.K. mission will shortly examine the tax structure in Uganda. The forecast for FY 1963 and FY 1964, however, shows probable revenue at the same level as in 1959-60 should no additional taxation be imposed. Nearly all the income from export duties now comes from cotton. The probable poor yields from the 1961-62 season cotton crop resulting from adverse weather conditions will lead to a sharp set back in FY 1963 receipts. Government efforts to increase production, however, should lead to higher exports in 1963 and, given fairly favorable market conditions, to an increase in yields from export duties.

The rise in current expenditures from $46.2 million in FY 1960 to $53.2 million in FY 1962 is largely attributable to increased salaries to the Civil Service. This has been partly offset by economies of $1.7 million in the costs of government. A further increase in current government expenditures can be anticipated in FY 1963 ($65.6 million) and FY 1964 ($61.9 million). This partly reflects the annual increase in recurrent costs of the previous year's development dependiture, but will also include an anticipated $4 million in expenditures in 1963 on independence celebrations and membership fees to the international organizations.

Deficits of $6 million, $3.9 million, $12 million and $1.5 million are anticipated for the respective years 1961 through 1964. These deficits may be met as far as possible through increased taxation, although no tax reform is projected. Owing to the difficulties in collection of income tax this taxation is likely to be indirect. A widening of the incidence of export taxes would be an obvious method. Two factors militate against a big increase in taxation. Firstly, the incidence of tax is already fairly high: central government taxes alone account for 15% of total monetary G.D.P. When allowance has been made for local taxation, about

17% of total gross monetary domestic product is taken in taxation. Secondly, the richest part of the territory and the strongest tax base, Buganda, has strong separatist sentiments. A sharp increase in taxation may therefore be politically undesirable. Capital expenditures by the Central Government are expected to rise from $14.8 million in FY 1960 to an annual average of $19 million in the five year period beginning in 1962. In addition, other agencies including the Uganda Electricity Board, Uganda Development Corporation, and the Railways are expected to spend an annual average of $10 million in the same period. Total expenditures for the five year period projected at $145.4 million and total capital finance currently available, arranged, or expected is $91.8 million. The gap is roughly $55 million. There can, of course, be no contribution from the recurrent budget. However, there were appreciable accumulations of reserves totaling an estimated $45 million on October 1, 1961, in the cotton and coffee Price Assistance Funds. The IBRD has recommended that part of the reserves, about $14 million, be used to help finance the plan.

Prices

Although as discussed above Uganda has suffered from the deterioration in the prices of exports, the imperfect price indicators that exist suggest that the level of domestic prices has been relatively stable. The index of prices for European residents in Kampala has risen by approximately 19% between December 1955 and December 1960. The index of retail prices paid by Africans in Kampala, however, fluctuated below the 1957 figure in 1960, though prices appear to have risen slightly again in 1961. Inflation is not therefore hampering the development activities of the territory.

Debt

Uganda has thus far accumulated relatively little national debt. The total National Debt at June 30, 1959 stood at $36 million, but of this $35.5 million had been relent to the Uganda Electricity Board. Towards the redemption of this debt there was a fund on that date of $4 million.

2. Social and Political Situation and Trends

That Uganda has as good a chance as it does of developing into a stable unit is due in large part to favorable political factors. There is at the moment no predominant political leader accepted throughout all parts of the country. Three political components of approximately equal strength are vying for power: 1) the Democratic Party, whose main strength derives from its Catholic support; 2) the Uganda People's Congress, a Uganda nationalist party with considerable support outside of Buganda; 3) the Kabaka Yekka, an amorphous movement rather than a party, supported by the great majority of people within Buganda whose only claim to unity is common support of the traditional Institutions surrounding the Kabakaship. There is little likelihood of any permanent amalgamation or alliance among these groups, although both parties will be seeking the support of Kabaka Yekka in order to gain the strength needed to rule the entire country. In short, no individual or single group is now, or seems likely in the foreseeable future, to be strong enough to dominate Uganda and do away with opposition. Hence, there seems to be little chance that Uganda will move toward totalitarianism.

The special position of Buganda, a comparatively rich, staunchly anti-communist, tradition-respecting monarchy comprising about one quarter of Uganda's total area and one third of her population; the existence of a relatively large, well-to-do African land-owning class; the rapidly increasing interest and participation by all people in political campaigns and elections; the strong influence of the Catholic Church in one of the two main political parties and the strength of Christianity throughout the country as a whole; a comparatively advanced education system; availability of food, and absence of discontent in all but a few areas----these are all factors providing good insurance against the spread of disorder and the rise of conditions under which extremism could flourish.

Inevitably, the growth of new ideas and normal political ferment will bring about changes in the social and political structure of Uganda. The very forces mentioned in preceding

paragraphs that make for stability may militate against speedy modernization of her institutions. However, slow and steady progress for Uganda may be a better answer in the long run than quick change for change's sake. Improvement in educational facilities and standards, increase in agricultural productivity, and training of administrators, economists and technicians should enable Uganda to hold her own after she achieves independence in October 1962.

A carefully planned, compact and flexible U.S. aid program assisting Uganda in these important areas will enable her to move with sureness in the proper direction and in the best "leverage" that the United States can apply at this time.

3. Development Goals

Uganda is preparing a comprehensive five-year development plan based largely on the IBRD Mission report completed in 1961. The plan is expected to be finished in 1962, and reportedly will adopt most of the report's recommendations.

While precise details of the program are not yet available, the following main principles are being adhered to in the plan's development:

a. The major emphasis will be on increasing production in the direct wealth-producing activities. While every effort will be made to increase earnings from manufacturing, mining and the tourist trade, the greatest effort will be made in the area of agricultural development. Investment in agriculture is expected to bring greater returns in terms of expanded national output and income than comparable investments in any other sector of the economy. The proposed rise in national income is of primary importance because, largely due to the rising cost of social service, government expenditures have outrun revenues. Further major increases in social services must await a corresponding growth in national income and government revenue.

b. While at present holding the line on most social services expenditures, Uganda hopes to educate more primary school students and provide more health benefits, without significantly increasing costs, by making certain modifications in procedures and administration. Uganda will make a special effort to produce the high-level trained people which it particularly lacks.

c. Capital expenditures on administrative overhead (government building, residences for officials, etc.) will be kept to the minimum necessary level.

d. As a guiding principle of the plan, the government will continue to encourage the orderly evolution, already well under way of the traditional subsistence way of life into a modern monetary economy.

e. In general, government policies will be directed consistently toward the following.

1) Organizing and financing the development effort in a more efficient manner.

2) Encouraging greater private investment and more economic use of resources.

3) Setting prices for all public utility services at a level high enough to ensure that each at least pays its own way.

4. Self-Help

a. Since the business recession of late 1958, investment as a percentage of gross domestic product has remained at the fairly low level of 11%. Fixed investment in industry is generally UDC-financed, and few starts in large scale light industry have been attempted by independent entrepreneurs. But due to higher transport costs from Mombasa, and the absence of European capital resources and know-how, industrial investment has never assumed the key developmental role it has played in Kenya.

The yearly net addition to savings accounts in both Commercial and Post Office Savings Banks show a gradual improvement preceding the recession of late 1958 and the continuous flight of private domestic capital funds from Uganda since then. To a much greater extent than in Kenya, where many more international companies are producing, the amount of private investment is limited to the amount of domestic savings available. The drawdown in savings balances, therefore, is partly responsible for the prevailing tightness of credit and depressed manufacturing activity.

Domestic revenue up to 1960 has paid for the entire regular government budget, and been able to provide for part of the development expenditures. The continued deterioration of coffee prices and resultant shortfalls in export duty collections coupled with gathering momentum predicted in both regular and developmental expenditures, will alter this balance considerably. The 1960 data signal the trend, but the estimated deficits for 1961 to 1963 may exaggerate the difficulty after 1963 because they do not take account of revenue increments which may result after 1963 if the tax structure is reformed during the five year plan.

Uganda's foreign trade balance continues to run a surplus although the margin is steadily falling as world coffee prices continue their downward march. The government is encouraging the shifting of Buganda farmers from coffee to cotton to try to stabilize export per-unit revenue. New crops such as tea and sugar are also being promoted. Although the value of exports has shrunk in the past three years volume has risen at a substantial rate. A predicted shift from coffee production, plus a hoped-for halt of coffee price declines, allow us to anticipate some improvements in the future.

The IBRD recommended five-year plan will restore a measure of vitality to the economy and should stimulate a turnaround in the trend of gross fixed investment, both by public and private agency. Consumption will also expand, particularly as the money economy is extended.

Finally, the cost of living index should begin only a very moderate movement upwards and this due mostly to the effects of an expected moderate increase in wage rates. If the East African Currency Board is abandoned after independence, and an independent central bank established, an expansionary monetary policy could be adopted, but these developments do not appear very likely in the near future.

b. Uganda is institutionally able to help itself and is now beginning to adopt a number of self-help measures. The administration of law is objective and fair. The police force is well trained and reliable. A general election by secret ballot was held in 1961 and another was held in April, 1962. The principle of "one man, one vote" has been embodied in the constitution. To date there has been no tampering with fundamental political rights to speech and assembly.

The system of land ownership varies from tribe to tribe although the prevailing characteristic is one of small but independent African producers. In Buganda, the most important agricultural province, the existence of substantial freehold land has encouraged the growth of small farmers who are not only self sufficient in foods but almost always engaged to some degree in cash cropping. Good agricultural land is available in some areas to any African who can pay for it, and loan funds are available to help him both acquire and develop land. The Uganda Government is planning to encourage cooperatives and provide agricultural extension services and training.

Social services are provided to the Africans to an extent considerably beyond their ability to pay for them, i.e., they are subsidized from central government revenues. For an underdeveloped country health services are relatively good, although coverage is still far from complete. In recent years almost 20% of total government expenditure has been devoted to education. This remarkable attention to educational needs has provided Uganda with quite a good primary school system. Some improvement in curricula, particularly at the high school level, seems necessary. The curriculum could place more emphasis on practical subjects, with fairly quick impact on the economy.

There is another area where official policy fails to institute reform conducive to self-help in the development process. The average African seeking higher education prefers the purely academic training course and is reluctant to pursue training for technical, clerical, commercial, or industrial duties. There is greater prestige attached to traditional European studies. However, it is vitally important to the viability of the country as an independent nation that more Africans be adequately prepared in commercial and technical activities. The importance of Africanization is thoroughly appreciated, but it behooves the authorities to encourage to a much greater degree than at present, and with whatever incentives are required, the training and use of Africans in these activities. The government will, in fact, expand teacher training and vocational training facilities.

In Uganda, established and accepted patterns of social justice, individual opportunity and economic freedom approximate the traditional British model. The African people are not, by and large, saddled with laws or systems which they must break and throw off before they can move forward socially and economically. In some areas indigenous tribal customs relating to communal ownership of land, the extended family and ownership of large numbers of poor cattle for the sake of numbers are deterrents to economic progress, but these customs are breaking down in the normal course of events.

From the above it may be seen that Uganda is engaged in such self-help measures as formulating a long-range development plan, reforming its educational system, reforming its agriculture, improving public health facilities, and strengthening its free political institutions.

c. Taxation Reform. Based on the IBRD's recommendation that there is an urgent need for a basic overhaul of Uganda's entire taxation structure, the Government of Uganda has requested the United Nations Technical Assistance Board to provide a tax mission which will advise the Government on a new tax structure to be adopted as soon as possible

As one step in the proper direction, the Government recently effected one of the specific tax recommendations of the IBRD Survey in eliminating the exemption of Africans from the income tax. With the additional revenues which may be expected to accrue to the central government from any reform in taxation, Uganda will be able to accelerate its development program to a considerable degree.

SECTION II - U.S. A.I.D. Strategy

A. External Resource Requirements

1. Assurances of Non-U.S. Resources. Projections of non-U.S. assistance during the 5 year plan are based on the latest and most accurate estimates of the Ministry of Economic Affairs. Included in these projections are the contributions expected from the U.K., the IBRD-IDA, and other international organizations. As the largest contributor to Uganda's capital needs, the U.K. is expected to supply about $30.4 million in grants and loans over the five-year period. This is in addition to British assistance on the recurrent account which is estimated at nearly $24.7 million on the basis of existing commitments. If the U.K. makes the loans needed to cover Uganda's share of expatriate compensation and advanced commuted pensions, an additional contribution of $12.5 million to recurrent expenditures could be included. Thus, the total U.K. contribution is likely to reach around $67.6 million for the 5-year period.

Uganda may well receive some assistance in financing her development program from other Commonwealth governments probably Australia, Canada and New Zealand, under the Special Commonwealth African Assistance Plan. This assistance, however, will certainly be small and is not included in any of Uganda's projections due to the uncertainty of the nature and amounts of help.

International sources of finance include an already approved IBRD loan to the Uganda Electricity Board for $4.76 million and a $560,000 grant by the U.N. Special Fund for an aerial geophysical survey of Uganda. In addition, Uganda has applied to the Special Fund for a $1,000,000 grant to meet certain recurrent expenditures of the Kampala Technical Institute. Other grant contributions from international organizations such as UNRAD, UNESCO, and UNICEF are expected to total $1.96 million.

Uganda hopes to obtain from the International Development Association (IDA) a loan of $12.6 million to fund the basic economic overheads of the country's integrated road program for the period FY 1964-1966. Any IBRD assistance beyond the loan to the Uganda Electricity Board seems unlikely in view of Uganda's inability to meet the Bank's higher loan charges.

The grants and loans specified above will not be sufficient to finance the Government's entire expenditure budget over the coming five year period. Although independence may occasion some modification of current plans, present UK intentions are to fully support the recurrent budget. A large gap remains to be filled in the Development Budget however. The difference between anticipated development expenditures and already arranged or expected foreign resources is over $50 million. The fact that the Uganda authorities will for the most part program around the IBRD recommendations lends stature to the appropriateness of the five year plan to the country's immediate needs. On this basis there is reasonable assurance that the finance required under the Plan will eventually be available.

2. U. S. Resources. The gap between resources and requirements for which the Government of Uganda had earlier requested U.S. assistance in meeting is approximately $20 million. Our mission's proposals for initial lending toward filling this gap are loans totalling $4 million beginning in FY 1963. (The proposed loan to the Uganda Development Corporation, while it would contribute directly to the total plans objectives, would not contribute toward the gap for which the Central Government is responsible). AID/East Africa does not propose at this stage to program beyond the initial contribution toward a long-term contribution of $20 million until considerably more is known about Uganda's needs and its own resources, and until discussions have been held with the U.K. and other Free World sources either in DAC or bilaterally.

B. Goals to be supported.

Goals to be supported by A.I.D. fall in the following sectors: education, agriculture, economic policy and planning, and manufacturing.

C. Self Help to be Induced

As indicated the most needed reform in Uganda is that relating to the system of taxation.

D. Planning

At the request of the Government of Uganda, the International Bank for Reconstruction and Development made an economic survey of Uganda in the fall of 1960. The report was published in early 1962. If additional assistance is needed for development planning in Uganda, it should be provided by the U.N. or other international organizations. Should assistance be requested from the United States this should be provided in the form of supplementing assistance of international agencies and should be limited to providing expert professional and technical personnel on a contract basis.

The Government of Uganda, in setting up its organization and procedures to facilitate economic planning, and for coordinating the implementation of such plans, has established a seperate Ministry of Economic Affairs. This Ministry includes the Office of the Economic Advisor, who will be a professional Economic Advisor to be provided by the U.N. In view of the U.S. experience in collecting and maintaining meaningful statistics for economic review and planning, the A.I.D. program for FY 62 and 63 to comply with a recent GOU request, includes provision for a U.S. specialist whose function will be to provide technical advice and assistance in: 1)the establishment of an industrial production census unit in the Ministry of Economic Affairs; 2) the taking of an industrial production census in FY 63;and 3) the training of Africans to assist in the census and to carry on operations of the unit upon the termination of the U.S. specialist services.

E. Long-Range Commitment

The Uganda Government has a draft development plan for the five-year period 1961-62 through 1965-67 based on the IBRD survey. This plan is expected to be adopted in 1962. Although at the present time, the gap between estimated resources and the plan's requirements has been identified, potential sources of assistance (and amounts) have not yet been fully determined. Nor is it possible at this time to determine

precisely how much the U.S. should be prepared to help, but our mission's present estimate, as indicated above, is that the central government's financial requirements under the plan will still lack some $20 million, assuming maximum support of the five-year plan from other free world sources (e.g., IBRD, IDA, CDC, Exchequer Loans).

The field has proposed that the U. S. be prepared in FY 63, keeping in mind independence in October 1962, to negotiate with the Uganda Government with a view to establishing a long-range loan commitment of $20 million over the next five years.

The field believes that Uganda presents a strong case for committing U.S. funds in support of sound long-range development plans carried out in the context of reasonable and increasingly effective self-help measures.

F. Collateral Actions

The only action on which the success of A.I.D. strategy may be dependent is that involving U.S. trade policy. Uganda, being economically dependent on a few primary commodities, does not differ from most other less-developed countries in favoring the establishment of some overall commodity price stabilization scheme among the nations of the free world. Responsible Africans realize that whether or not some workable system can be established depends, to a large extent, on U.S. initiative and leadership in the various trade forums of the West. Thus, it is important to Uganda that the U.S. continue to play a leading role in finding some formula for stabilizing world market prices for primary commodities.

[redacted]

14. FAA Sec. 611(c). All contracts for construction outside the U.S. shall be made on a competitive basis, if practicable. Will be reflected in provision of the Loan Agreement.

15. FAA Sec. 618. Economic assistance to Latin America shall be furnished in accordance with the principles of the Act of Bogota. Not applicable.

16. FAA Sec. 619. Assistance to newly independent countries shall, to the maximum extent, be furnished through multilateral organizations or plans. Satisfied p. 15 and p. 17 Annex I.

17. FAA Sec. 620(a). Prohibition of assistance to the Government of Cuba. Not applicable.

18. FAA Sec. 620(b). Determination by Secretary of State, October 11, 1961. Prohibition of assistance to the government of any country unless determined not to be controlled by the international communist movement. Satisfied since Uganda was so determined by the Secretary.

19. FAA Sec. 620(c). Prohibition of assistance to the government of any country indebted for goods or services to a U. S. citizen who has exhausted available legal remedies and whose claim is not denied or contested. Uganda is not known to be in default on any such debt.

20. FAA Sec. 620(d). Prohibition of assistance for any productive enterprise unless the recipient country agrees to prevent exportation to the U. S. of more than 20% of the annual production of the enterprise during the life of the loan. Not applicable. However, as a matter of policy this will be taken into account in cases where A.I.D. reserves the right to approve sub-loans.

21. FAAA Sec. 105. Prohibition of funds for pensions, etc., for military personnel of recipient country. Not applicable.

22. FAAA Sec. 106. Prohibition of funds for Investment Incentive Fund Program. Not applicable.

23. FAAA Sec. 601. Prohibition of funds for publicity or propaganda within the U. S. Not applicable.

24. Bretton Woods, Sec. 4(b)(3). Requirement of loan coordination with NAC. This will be complied with.

CHECK LIST OF STATUTORY CRITERIA

1. FAA Sec. 201(b). Promote the country's economic development with emphasis upon assisting long-range plans and programs designed to develop economic resources and increase productive capacities. Satisfied. (page 1 and 2)

2. FAA Sec. 201(b)(1). Take into account whether financing is obtainable from other free world sources. Satisfied. (page 12)

3. FAA Sec. 201(b)(2). Take into account the economic and technical soundness of the project. Satisfied. (page 9)

4. FAA Sec. 201(b)(3). Take into account whether project contributes to economic development. Satisfied. (page 2)

5. FAA Sec. 201(b)(4). Take into account the relationship of the project to other development projects and plans. Satisfied (page 2)

6. FAA Sec. 201(b)(5). Take into account the country's self-help measures. Satisfied (Annex 1)

7. FAA Sec. 201(b)(6). Take into account the possible effect upon the U. S. economy. Satisfied. (page 13)

8. FAA Sec. 201(c). Loans shall be made only upon a finding of reasonable prospects of repayment. Satisfied. (page 13)

9. FAA Sec. 201(d). Funds shall not be loaned or reloaned at rates of interest excessive or unreasonable to the borrower. Satisfied. (page 12)

10. FAA Sec. 204. Other criteria for loans established by DLC. Not applicable.

11. FAA Sec. 604(a). Presidential Determination of October 18, 1961 limitation of commodity procurement to U.S. and less developed countries. Satisfied. (page 13)

12. FAA Sec. 611(a)1 and (b). If project requires substantive technical or financial planning, no loan or grant shall be made until such planning has been completed. Satisfied (page 13)

13. FAA Sec. 611(a)(2). Legislative action. Not applicable.

DEPARTMENT OF STATE
AGENCY FOR INTERNATIONAL DEVELOPMENT
Washington 25, D.C.

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ANNEX III, Page 1 of 2
AID-DLC/P-82/A Draft Rev.

LOAN AUTHORIZATION

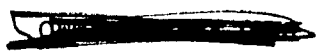
PROVIDED FROM: Development Loan Funds
Loan to Uganda Development Corporation Ltd.

Pursuant to the authority vested in the Administrator of the Agency for International Development ("A.I.D.") by the Foreign Assistance Act of 1961, as amended, and the delegations of authority issued thereunder, and after consultation with the Development Loan Committee, I hereby authorize, pursuant to Part I, Chapter 2, Title I (Development Loan Fund) of said Act, a loan to the UGANDA DEVELOPMENT CORPORATION LTD. ("UDC") of not to exceed Two Million Dollars ($2,000,000) for the making of sub-loans by UDC to assist in financing the foreign exchange costs of agricultural, industrial and other projects in categories approved by A.I.D., subject to the following terms and conditions:

1. Credit Fee Charge to Government of Uganda, and Terms of Repayment. UDC, the Government of Uganda ("GOU") and A.I.D. shall conclude an agreement whereby:

   (a) UDC shall be obligated to repay the loan in United States Dollars within fifteen (15) years from the first disbursement under the loan, including a grace period of not to exceed three (3) years. UDC shall be obligated to pay to the United States in dollars a credit fee of three quarters of one (3/4%) percent per annum on the disbursed balance of the loan. In addition, UDC shall be obligated to pay a charge to GOU in currency of Uganda of three and one quarter (3 1/4%) percent per annum on the disbursed balance of the loan.

   (b) If at any time, GOU so agrees, UDC may fulfill its dollar obligations by paying to GOU the equivalent in currency of Uganda of the dollar payment due the United States; provided that GOU will then assume the obligations to repay the loan, less any principal repayments by UDC, in U. S. Dollars within forty (40) years from the date of the first disbursement under the loan, including a ten (10) year grace period, and to pay a credit fee of three quarters of one (3/4%) percent per annum on the assumed portion of the loan obligation



computed from the date of the assumption of the obligation by GOU.

2. Currency of Repayment. Provision shall be made for repayment of the loan and payment of the credit fee to A.I.D. in United States Dollars.

3. Other Terms and Conditions:

(a) All equipment, materials and services financed by the loan shall be procured from the United States.
(b) All sub-loans or series of sub-loans by UDC of One Hundred Thousand Dollars ($100,000) or more with respect to any project shall be subject to A.I.D. approval.
(c) Subject to 1(b) hereof, GOU shall guarantee payment of credit fee and repayment of the loan by UDC.
(d) The Loan shall be subject to such other terms and conditions as the A.I.D. may deem advisable.

APPROVED: _____

_____

DATE: _____

AID-DLC/P-82
June 22, 1962

ANNEX IV - UDC FINANCIAL STATEMENTS

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UGANDA DEVELOPMENT CORPORATION LIMITED - INVESTMENT SCHEDULE

(All Figures in £1,000)

Name of Company	Short Name	Subsidiary Or Associated	Date Incorporated	Capitalization	Management	Issued Capital, Shareholders & Loan Principals	Ord. Shares	Pref. Shares	Loan	Debenture	Mortgage	Facilities for Working Capital
Uganda Development Corporation Limited	UDC	-	3 April 1952	8,000.0 Ord. Shares	Own	Uganda Protectorate Government	6,400.0					300.0 Barclays Bank D.C.O.
Agricultural Enterprises Limited	AEL	Sub. (UDC)	27 April 1955	1,000.0 Ord. Shares	Own	UDC Crane	700.0 300.0					
Ankole Tea Company Limited		Sub. (AEL)	31 Aug. 1956	300.0 Ord. Shares	Uganda Company	AEL Ankole Native Government Uganda Co. Ltd.	143.0 10.3 30.0					90.0 Barclays Overseas Development Corporation
Bunyoro Ranching Company Limited		Sub. (AEL)	31 Aug. 1956	100.0 Ord. Shares 11.0 Loan	AEL	AEL	100.0		11.0			
Kawalya-Kagwa Tea Company Limited		Sub. (AEL)	9 Nov. 1957	100.0 Ord. Shares	AEL	AEL H. Kawalya-Kagwa	45.0 4.0					
Nwenge Tea Company Limited		Sub. (AEL)	18 March 1959	100.0 Ord. Shares	AEL	AEL	60.0					
Kiko Tea Company Limited		Sub. (AEL)	16 May 1959	200.0 Ord. Shares	AEL	AEL	150.0					
Bugambe Plantation Company Limited		Sub. (AEL)	10 May 1960	100.0 Ord. Shares	AEL	AEL	20.0					
Solutea Limited		Sub. (AEL)	3 June 1960	125.0 Ord. Shares	AEL	AEL Thornhill Investments Co.	100.0 25.0					
Nyanza Textile Industries Limited		Sub. (UDC)	21 Jan. 1949	1,500.0 Ord. Shares 450.0 Loan	Calico Printers	UDC Crane	900.0 600.0		450.0			1,000.0 Barclays Bank D.C.O.
Sukulu Mines Limited		Associated	18 June 1956	700.0 "A" Ord. 100.0 "B" Ord. 230.0 5% Pref. 139.8 Debenture	UDC	UDC Monsanto Frobicher Squibb Mathieson Uganda Prot. Government	"A" Ord. 171.3 54.3 19.4	"B" Ord. 65.0	Pref. 81.9 66.2 81.9	139.8		
Universal Asbestos Manufacturing Co. (East Africa) Ltd.	UAM (E.A)	Associated	14 Oct. 1954	150.0 Ord. Shares 50.0 6% Pref. 75.0 Debenture 15.0 Mortgage 60.0 Unsecured Loan	Own	UDC UCI UAM (Watford) Tancot	Ord. Shares 50.0 50.0 50.0	Pref. Shares 16.7 16.7 16.7	Loan 15.3 15.3 15.3	75.0	13.6	50.0 Barclays Bank D.C.O.

Name of Company	Short Name	Subsidiary or Associated	Date Incorporated	Capitalization	Management	Issued Capital, Shareholders & Loan Principals	Ord. Shares	Pref. Shares	Loan	Debenture	Facilities for Working Capital
Universal Plastics Limited		Sub. (UAM)	9 Feb. 1949	10.0 Ord.	UAM	UAM	7.5				24.4 UAM
Tororo Industrial Chemicals & Fertilisers Limited		Sub. (UDC)	23 Dec. 1955	400.0 Ord.	African Explosives & Chemical Industries (S.A.) Ltd.	UDC AE & CI (SA) International Ore & Fertiliser Corpn. Ventures Ltd.	100.0 10.0 10.0 10.0				
Uganda Cement Industry Limited	UCI	Sub. (UDC)	19 Dec. 1952	1,500.0 Ord. 200.0 5% Pref.	Own	UDC Crane Bukedi African Local Govt.	799.7 700.0 0.3	20.0			100.0 Barclays Bank D.C.O.
Uganda Consolidated Properties Limited	UCP	Sub. (UDC)	21 Mar. 1953	500.0 Ord.	UDC	UDC Crane	300.0 200.0				150.0 UDC
Kulubya Property Company Limited		Sub. (UCP)	6 May 1960	50.0 Ord.	UCP	UCP Uganda Sugar Factory Ltd. S.W. Kulubya	22.0 3.0 0.3				
Uganda Crane Industries Ltd.	Crane	Sub. (UDC)	25 Nov. 1960	2,000.0 Ord.	UDC	UDC Barclays Overseas Dev. Corp.	1,990.0 10.0				
Uganda Hotels Ltd.	UHL	Sub. (UDC)	7 Sept. 1950	500.0 Ord. 300.0 Loan	Own	UDC	494.0		19.0		
National Park Lodges (Uganda) Limited		Sub. (UHL)	5 Sept. 1957	80.0 Ord. 8.0 Loan	UHL	UHL Uganda National Parks Trustees	30.0 29.0		8.0		
Uganda Metal Products & Enamelling Company Ltd.		Sub. (UDC)	4 Jan. 1956	75.0 Ord. 100.0 6% Pref. 75.0 Debenture 76.5 Loan	Own	UDC L.S. Davies D.S. Cowan C.V. Hill Others	50.0 6.2 6.9 5.7 6.2	100.0	76.5	75.0	
Kilembe Mines Ltd.		Associated	27 July 1950	6,000.0 Ord. 1,500.0 Debenture	Ventures Ltd.	Prebishers C.D.C. UDC Crane Others	3,990.0 1,140.0 369.8 200.0 0.2			463.5 695.2 215.6 16.1	
Lombard Bank (U) Ltd.		Associated	9 May 1958	500.0 Ord.	Own	Lombard Banking Ltd. UDC	102.0 98.0				

Name of Company	Short Name	Subsidiary or Associated	Date Incorporated	Capitalization	Management	Issued Capital, Shareholders & Loan Principals	Ord. Shares	Prof. Shares	Loan	Debenture	Facilities for Working Capital
Uganda Fish Marketing Corporation Limited		Associated	15 Oct. 1948	65.0 Ord. 85.0 6% Pref.	Fresh Foods	UDC Fresh Foods Others	22.0 33.0 10.0	85.0			
Uganda Grain Milling Company Limited		Associated	7 Nov. 1955	252.0 Ord. 497.5 Unnominated 85.0 Deb.	A. Baumann & Co. (U) Ltd (Unga Ltd. Tech. Supervisors)	UDC Unga Ltd. Baumann	50.0 127.5 75.0			85.0	200.0 Barclays Bank D.C.O.

Kirwa Wolfram Mines Limited - Investment Loan of £12.0

Small Industries Development - Shares and Loans of £20.5

UGANDA DEVELOPMENT CORPORATION LIMITED AND ITS SUBSIDIARY COMPANIES

CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31st DECEMBER, 1961

			1960
TRADING PROFIT FOR THE YEAR		£ 1,008,805	£ 949,044

after charging the following Directors' Emoluments for the Directors of Uganda Development Corporation Limited (including £10,591 (1960 £12,176) for Management)

		1960
By the Corporation	£ 11,995	£ 13,569
By Subsidiary Companies	1,735	225
Total Directors' Emoluments	£ 13,730	£ 13,794

and after crediting all income and charging all other costs and expenses except those itemized below.

Depreciation and Amortisation of Fixed Assets including £1,828 (1960 [illegible]) in respect of furniture and fittings purchased and written off less sales during the year	£ 411,754		£ [illegible]
Cost of Investigations written off	165		[illegible]
Provision for Property Maintenance	[illegible]		[illegible]
Interest on loans and overdrafts	56,780		[illegible]
Auditors' Remuneration	5,215		[illegible]
		472,914	[illegible]
PROFIT FOR THE YEAR (before Taxation)		535,891	[illegible]
Less: Taxation for the year	105,830		[illegible]
Less: Overprovision for taxation for the previous year	1,522		[illegible]
		104,308	[illegible]
PROFIT FOR THE YEAR (after Taxation)		431,583	[illegible]
Less: Proportion of Profits (less Losses) of Subsidiary Companies applicable to Outside Shareholders		738	[illegible]

	Uganda Development Corporation Limited	Subsidiary Companies		
GROUP NET PROFIT FOR 1961	£ 314,873	£ 115,972	430,845	[illegible]
Unappropriated Profit brought forward from 1960	95,069	330,917	425,986	[illegible]
	409,942	446,889	856,831	[illegible]
Less: Unappropriated Profit of a Subsidiary Company transferred against premium on shares of that Subsidiary	-	-	-	[illegible]
Plantation Development Expenditure written off	-	49,382	49,382	[illegible]
	409,942	397,507	807,449	[illegible]
Add: Revenue Reserves Utilised	-	55,000	55,000	[illegible]
	409,942	452,507	862,449	[illegible]
Less: Transfer to Capital Reserves	36,980	-	193,737	347,176
Amount written off Investment in Associated Company	-	20,000		
Transfer to Revenue Reserves	7,270	41,995		
Taxation Equalisation Reserve	-	87,492		
UNAPPROPRIATED PROFIT carried forward	£ 365,692	£ 303,020	£ 668,712	£ 425,986

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UGANDA DEVELOPMENT CORPORATION LIMITED AND ITS SUBSIDIARY COMPANIES

CONSOLIDATED BALANCE SHEET 31st DECEMBER, 1961

					1960
SHARE CAPITAL of Uganda Development Corporation Limited					
Authorised :	80,000 Shares of £100 each		£ 8,000,000		£ 8,000,000
Issued and Fully Paid:	64,000 Shares of £100 each			£ 6,400,000	£ 6,400,000
CAPITAL RESERVES				626,849	764,976
REVENUE RESERVES					
Specific and General			£ 711,887		661,577
Unappropriated Profit					
Uganda Development Corporation Limited		£ 365,692			95,069
Subsidiary Companies		303,020			330,917
			668,712		425,986
				1,380,599	1,087,563
TOTAL SHAREHOLDERS' INTEREST				£ 8,407,248	£ [illegible]
FIXED ASSETS	Cost or Valuation	Accumulated Depreciation			
Leasehold Land and Buildings	£ 3,600,902	£ [illegible]		£ [illegible]	£ [illegible]
Plant, Machinery and Equipment	3,892,865	1,[illegible]		2,[illegible]	[illegible]
Vehicles	389,343	[illegible]		[illegible]	[illegible]
Furniture and Fittings	289,343	212,658		[illegible]	[illegible]
Plantation Development	731,287	38,061		693,126	[illegible]
	£ 8,733,437	£ 2,165,130		6,568,307	[illegible]
ASSOCIATED COMPANIES					
Shares, Debentures, Notes and Loans at cost (less amount written off)		£ 1,2[illegible]			[illegible]
Current Accounts		16,[illegible]			14,669
Interest Receivable		[illegible]			241
		1,271,293			[illegible]
Less:					
Loan from Associated Company		85,000			20,000
				1,186,193	1,637,938
SMALL INDUSTRIES					
Shares and Loans at cost (less amount written off)				19,138	30,475
OTHER INVESTMENTS					
Loan at cost (secured)				9,600	12,000
CURRENT ASSETS					
Stocks and Stores			1,676,660		[illegible]
Debtors, Deposits and Prepayments (less reserve for Doubtful Debts)			292,529		287,992
Cash at Banks and in Hand			103,559		301,181
				2,072,748	1,827,666
INTANGIBLE ASSETS					
Premium on purchase of Shares in Subsidiary Company			21,840		21,840
Subsidiary Companies					
Goodwill			10,000		10,000
Formation, Development Investigation, Preproduction Expenses, Patents, Licences, Processes and Trade Mark Expenses carried forward			80,858		59,416
Mining Exploration, Research and Development Expenditure			466,598		-
				579,296	92,256
		Carried Forward		£ 10,435,282	£ 8,920,030

			1960
Brought Forward		£ 10,435,282	£ 8,[illegible]
Less:			
LIABILITIES AND PROVISIONS			
Loan (secured)			
Deferred Liabilities	£ 70,900		
Staff Superannuation Fund			
Staff Pension Fund Trustees	1,168		
Current Liabilities and Provisions			
Creditors, Provisions and Accrued Charges	624,535		
Income Tax	141,051		
Bank Overdraft (£554,579 secured)	730,819		
		1,568,474	[illegible]
		8,866,808	8,[illegible]
Less:			
INTEREST OF OUTSIDE SHAREHOLDERS			
Including dividends declared but not paid by Subsidiary Companies £1,274		459,560	[illegible]
NET ASSETS EMPLOYED AND SHAREHOLDERS' INTEREST		£ 8,407,248	£ 8,[illegible]

NOTES ON ACCOUNTS

These accounts should be read in conjunction with the notes set out on Page 10.

AUDITORS' REPORT PAGE 3.

J.T.Simpson. S.M.Kulubya. Directors.

NOTES FORMING PART OF THE

CONSOLIDATED BALANCE SHEET 31st DECEMBER, 1961

1. There are Capital and other commitments amounting to approximately £1,652,654 (1960 £1,896,960)

2. There are Contingent Liabilities in respect of Capital Investments and Guarantees amounting to approximately £625,050 (1960 £643,700)

3. RESERVES : Movements during the Year

CAPITAL RESERVES

Balance 31st December, 1960			£ 764,976
Add: UGANDA DEVELOPMENT CORPORATION LIMITED			
Transfer from Consolidated Profit & Loss for:-			
Investment Contingencies			36,980
SUKULU MINES LIMITED			
Preference Shares received in 1957 in respect of services rendered			542
			802,498
Less: UGANDA DEVELOPMENT CORPORATION LIMITED			
Expenditure on Pottery Training		£ 3,149	
Small Industries Bad Debts written off		3,312	
Expenditure on Sundry Projects		621	
Amounts written off Investments in:-			
Kilembe Mines Limited	£ 36,980		
Sukulu Mines Limited	100,000	136,980	144,072
UGANDA CONSOLIDATED PROPERTIES LIMITED			
Transfer to Accumulated Provision for Amortisation of Properties		£ 31,103	
Adjustment to the value of Properties		674	31,777
			£ 526,649

REVENUE RESERVES - Specific and General

Balance 31st December, 1960			£ 661,577
Add: Transfers from Consolidated Profit & Loss for:-			
Uganda Development Corporation Limited - Technical Development			7,270
Nyanza Textile Industries Limited - Staff Contingencies		£ 10,000	
Tax Equalisation Reserve		87,492	97,492
Uganda Cement Industry Limited :			
Scholarship & Special Training Scheme		1,999	
Investment Contingencies		14,997	
Staff Contingencies		4,999	21,995
Uganda Consolidated Properties Limited - General Reserve			10,000
			798,334
Less: Withdrawals for:-			
Uganda Development Corporation Limited:			
Scholarship Grants		£ 789	
Technical Development		20,203	
Agricultural Enterprises Limited:			
Special Development Reserve applied against Specific Expenditure		55,000	
Uganda Consolidated Properties Limited:			
Transfer to Provision for Property Maintenance		10,455	86,447
			£ 711,887

4. The charge for income tax on the profits of a subsidiary company has been relieved by the incidence of capital allowances to the extent of £26,753.