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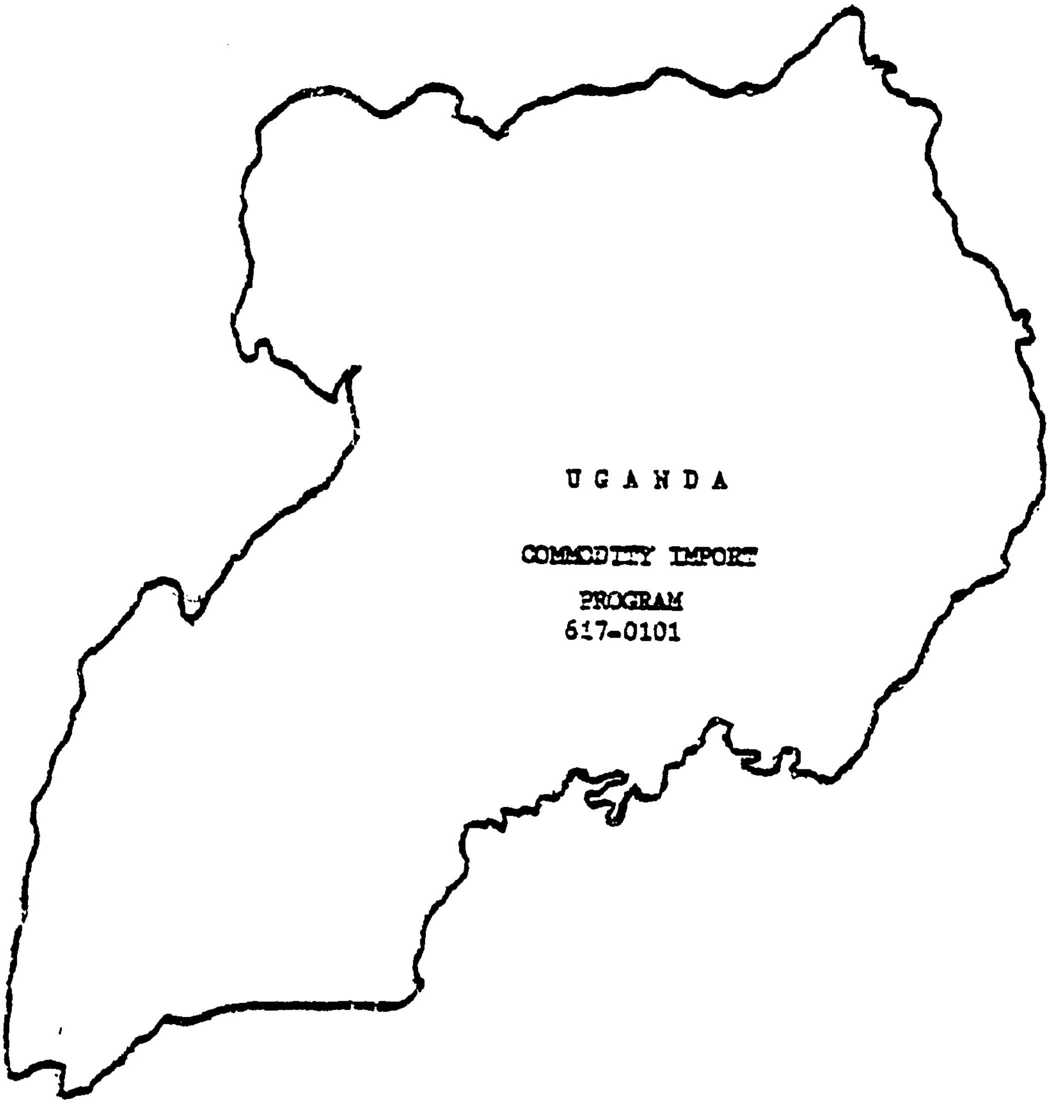

UGANDA

COMMODITY IMPORT
PROGRAM
617-0101

SEPTEMBER 1979

ACTION MEMORANDUM FOR THE ASSISTANT ADMINISTRATOR FOR AFRICA

FROM : AFR/DR, ~~John W.~~ JWKoehring Koehring

SUBJECT: FY 1979 Uganda Commodity Import Program

Problem: Your approval is required to execute a $3 million Commodity Import Program Grant from the Economic Support Fund to the Government of Uganda.

Discussion:

A. Project Description

The proposed grant will, in conjunction with the efforts of other donors, mitigate Uganda's current balance of payments problems and will generate counterpart funds to be used for development activities that will help correct the imbalance between the modern and subsistence sectors of the economy. The foreign exchange generated under this grant will be used to finance procurement of critical commodities for the rehabilitation of essential aspects of the small farm agricultural sector. Although all commodities in the AID Commodity Eligibility Listing will be eligible for financing under this grant, it is expected that the funds will be used primarily for steel inputs for two agriculture implements factories; rubber inputs for bicycle tire manufacture; farm production inputs such as seed and fertilizers; bicycles, produce sacks, and milk pails for the marketing of agricultural produce; vehicles for marketing and transport.

The proposed grant of $3 million is to be obligated in this fiscal year with future A.I.D. funding of development activities dependent upon the Government's actions in adopting fiscal and monetary measures to help correct the country's fundamental economic problems and availability of FY 80 funds. The proposed IMF Mission to Uganda in November of this year will facilitate AID assessment regarding the status of policy reforms adopted by the Government.

The commodities made available under this program will be sold at prevailing official prices, or at cost if there is no established government price. The means of distribution will be either through CARE, or a similar organization, and church groups or selected cooperative channels. The counterpart funds that are generated from the sales of commodities (less distribution costs) will be deposited in a special account(s) and used for rural development activities as jointly determined by AID and the Government of Uganda.

The major donor to Uganda in the foreseeable future is the European Community (EC). The EC has approximately $98 million available for Uganda from the Lomé I convention. This sum must be programmed by early 1980. The EC is already providing emergency assistance and is in the process of providing $24 million in short-term assistance, largely in the areas of agriculture, transport and road maintenance equipment, water supply materials, and school supplies. An additional $74 million in longer-term assistance is currently being discussed. For the future, Uganda's share of the upcoming Lomé II allocation could total as much as $200 million for the period 1980-85. UNDP/FAO and the United Kingdom have provided $2 million and £2 million respectively, and currently are investigating additional assistance. The World Bank is presently preparing a major commodity assistance program which could amount to as much as $50 million. Canada, Holland, Australia, and Germany have indicated interest and intention to assist Uganda, but no firm commitments either in program objectives or amounts have been specified.

B. Financial Summary

Project grant funding requirements are summarized in the following table:

Production Inputs (Industrial)	Approximate Value
(1) Raw material inputs for agriculture related industries (farm implements and bicycle tires)	$1.8 million
(2) Inputs for agricultural production and marketing (seeds, farm inputs, produce sacks, milk pails, bicycles)	$1 million
(3) Vehicles (for distribution and marketing)	$100,000

In addition, $100,000 is requested to provide services in program implementation, distribution, and monitoring.

C. Conditions and Covenants

No special problems in the negotiation of the Program Agreement, or in reaching agreement in the implementation plan, are foreseen. Officials from the Ministry of Finance and the Ministry of Agriculture have been active in the development of the grant and we believe that the Government of Uganda will be able to sign the Program Agreement within the short time frame which is available.

In addition to the standard conditions included in AID Program Agreements, pages 25 and 26 of the Program Assistance Approval Documents (PAAD) contain conditions and covenants that will be included in the Program Agreement.

D. Waivers Requested

1. A procurement source origin waiver from AID Geographic Code 935 (Special Free World) is requested for the purchase of motor vehicles and spare parts valued at $100,000. A detailed justification for the waiver is included in Annex 3, page 1 and 2 of the PAAD.

2. A special waiver of Regulation 1, Section 201.22, requiring formal procurement procedures for purchase of steel and agricultural inputs due to emergency situations is requested. The commodities are urgently needed in Uganda to return idle agricultural implement manufacturers to production and to provide inputs for the January 1980 planting season.

E. Special Authority

Special Authority is also requested for REDSO/EA to issue Implementation Letters and Commodity Procurement Instructions.

F. Committee Action and Congressional Apprisement

The Project Review has considered this project and has recommended approval pending the resolution of several minor issues in the implementation plan. Revisions were subsequently received and the project was reviewed again. Full approval was recommended at an ECPR chaired by the DAA/AFR on September 18, 1979. The Congressional Notification was transmitted to Congress on August 2, 1979, and the fifteen-day waiting period expired August 17, 1979 with no objections. The Christopher Working Group on Human Rights has reviewed this project and has raised no objections.

G. Environmental Analysis

In accordance with AID Regulation 16, paragraph 216-2(f) and (g), it has been determined that a negative determination is appropriate regarding the environmental impact of this grant. As the proceeds of the grant will not be used for the purpose of carrying out a specifically identifiable project or series of activities, an Environmental Assessment or Environmental Impact Statement is not required.

H. Implementation

Primary responsibility for managing AID's implementation functions under this grant will rest with REDSO/EA and the East Africa Accounting Center (EAAC) in Nairobi, Kenya, until such time as an independent resident AID staff exists in Kampala. REDSO staff will monitor the project in all aspects, including commodity specifications and procurement, distribution, and use of counterpart generations.

Recommendation: That you sign the attached IEE recommending a Negative Determination, approve the requested waivers by signing below, and sign the attached PAAD thereby authorizing the proposed project.

APPROVED: ________

DISAPPROVED: ________

DATE: 9/21/79

Attachments:
A. PAAD
B. Initial Environmental Examination

AFR/DR/EAP:MMcDaniel:mj:9/20/79

Clearances:
AFR/DR:NCohen (JWK) for
AFR/EA:HJohnson (draft)
AFR/EA:SErves (draft)
GC/AFR:JPatterson (draft)
SER/COM/ALI:SKrause (draft)
AFR/DP:JMartin (draft)
AFR/DR/SDP:FDuncan (draft)
AFR/DR/ARD:HJones (draft)
REDSO/EA:HSoos (draft)
AFR/DR/ENGR:ATummarello (draft)

INITIAL ENVIROMENTAL EXAMINATION

Project Country: Uganda

Project Title: Agriculture Sector Rehabilitation: Commodity Import Program

Funding: FY79 $3,000,000
FY80 $5,000,000

Period of Project: The terminal date for requesting disbursement authorization is 12 months from the date of the grant agreement. The terminal disbursement date is 18 months from the date of the grant agreement

IIE Prepared By: Helen Soos, Economist, REDSO/EA

Enviromental Actions Recommended: Negative Determination

Concurrence: Alexander R. Love, Director, REDSO/EA ________

Curt Andersen, Enviromental Officer ________

Laurence Hausman, Chief, Project Design Division ________

Edward Spriggs, Legal Advisor ________

Assistant Adminstrator Decision:

APPROVED ________

DISAPPROVED ________

DATE ________

AID 1120-1 (8-66)

PAAD

DEPARTMENT OF STATE
AGENCY FOR
INTERNATIONAL DEVELOPMENT

PROGRAM ASSISTANCE
APPROVAL DOCUMENT

1. PAAD NO. 617-0101

2. COUNTRY Uganda

3. CATEGORY Commodity Support - CIP

4. DATE September 14, 1979

5. TO: Goler T. Butcher
Assistant Administrator, Africa

6. OYB CHANGE NO.

7. FROM Alexander R. Love
Director, REDSO/EA

8. OYB INCREASE $3,000,000
TO BE TAKEN FROM: ESF funds FY79

9. APPROVAL REQUESTED FOR COMMITMENT OF: $3,000,000

10. APPROPRIATION - ALLOTMENT

11. TYPE FUNDING ☐ LOAN ☒ GRANT

12. LOCAL CURRENCY ARRANGEMENT ☒ INFORMAL ☐ FORMAL ☐ NONE

13. ESTIMATED DELIVERY PERIOD Nov. 1979 to Sept. '81

14. TRANSACTION ELIGIBILITY DATE Sept. 30, 1979

15. COMMODITIES FINANCED

Commodities for the agricultural sector such as steel inputs for the production of hoes and other farm implements, rubber for bicycle tire production, seeds, fertilizer, produce sacks, milk pails, bicycles and vehicles.

16. PERMITTED SOURCE		17. ESTIMATED SOURCE	
U.S. only:	1,500,000	U.S.:	1,500,000
Limited F.W.:	100,000	Industrialized Countries:	100,000 (code 935)
Free World:	1,400,000	Local:	100,000
Cash:		Other:	1,300,000 (code 941)

SUMMARY DESCRIPTION

This grant will provide U.S. assistance to the Government of Uganda for the rehabilitation of the agricultural sector. The grant will make available foreign exchange to allow for the importation of essential commodities and related services as set forth in the PAAD and as agreed upon by the Government of Uganda and AID.

The major conditions governing the provsion of this assistance are:

1. That the GOU present to AID an implementation plan defining, inter alia, GOU responsibilities in program administration; implementation entities (parastatal and PVO organizations); and, use of reflows accruing from the sale of commodities; and,

2. That the GOU will provide assurances of its intention to provide foreign exchange, as available, on a priority basis, to those firms which AID proposes to assist through the provision of raw materials.

Project Committee:
Laurence Hausman, Project Design — John Lewis, Girard LaBombard, Commodity Management
Helen Soos, Economist — Edward Spriggs, Legal Advisor

Principal Drafting Officers: LHausman and HSoos

Clearances:		Date
AFR/DR,JWKoehring	JWK	9/21/79
AFR/DR,NCohen	JWK for	9/21/79
AFR/EA,SErves	draft *	9/19/79
AFR/EA,HJohnson	draft *	9/19/79
GC/AFR,JPatterson	draft *	9/19/79
SER/COM/ALI,SKlause	draft *	9/19/79
AFR/DP,JMartin	draft *	9/19/79
DAA/AFR,WHNorth		
AFR/DR/SDP.FDuncan	draft *	9/19/79

20. ACTION ☒ APPROVED ☐ DISAPPROVED

AUTHORIZED SIGNATURE — DATE 9/21/79

Assistant Administrator
TITLE

* same as Action Memodandum

UGANDA AGRICULTURE SECTOR REHABILITATION

COMMODITY SUPPORT PROGRAM

<u>Annexes</u>

Annex 1: Economic Tables

Table 1: Recorded Export Crop Production

Table 2: Production Indice of Major Food Crops in Uganda and Acreage

Table 3: Gazetted Minimum Prices to Growers and Free Market Prices for Major Food Crops (in cents per kilogram)

Table 4: Yield of Major Food Crops in Uganda

Table 5: Output of Selected Manufactures: 1970, 1975, 1977-8

Table 6: Real Returns from Urban Wage-Earning and Legal Cash Crop Sales

Annex 2: Institutional Assessments

A. Uganda Hoes Ltd

B. Ugma Steel and Engineering

C. Dunlop Tyres Ltd

Annex 3: Waiver

Annex 4: Initial Environmental Examination

Annex 5: Statutory Checklist

I. SUMMARY AND RECOMMENDATIONS

A. Background

On April 13, 1979, Idi Amin was deposed and a new Government was sworn into power in Uganda. This government inherited not only a war-torn country, but an economy which had been progressively reduced to ruins over a period of eight years of Amin's rule. Normal businesses were systematically dispossessed and given to largely inexperienced managers; commercial and export crops were neglected; supplies of commodities including essential goods and products dwindled; inflation averaged over 100% per annum while the minimum wage rose by only 54% in eight years; and the black market (magendo) provided the only means for the majority of the population to acquire essential goods. Fortunately many Ugandans were able to retreat to their farms and to focus on subsistence existence. Supplies of essentials such as sugar, salt, cooking oil, and soap were limited, if available. However, basic food crops such as plantains, beans, maize, potatoes, etc.were available due to an increase in subsistence agriculture.

The government of Liberated Uganda has not been able to ameliorate significantly the deep-seated economic malaise which it inherited. The first essential task relative to economic stabilization is to reform or rehabilitate the institutions and policies of the government. This task requires strong political leadership to bring a semblance of stability, law and order into the society. Large amounts of development assistance will not, independently, achieve desired effects until prerequisites such as political stability, institutional or administrative efficiency and sound economic development policies are attained.

There are few apparent signs that Uganda has been successful in achieving any of these prerequisites. On the contrary, current conditions point toward continued political and economic problems. Politically the 29-member National Consultative Council of Ugandan exiles has not yet taken action to expand its membership to include Ugandans who did not leave during the Amin era. The Council includes proclaimed Marxists, monarchists, socialists and liberals, a factor which has complicated agreement by the Council on an economic policy for the new government. (Unofficial comments indicate that the policy will prescribe a mixed economy.) The new government has not been able to establish law and order and several members of the Council appear to control small private armies. Because of these factors, the present government of Uganda is considered by many informed observers to be relatively unstable. The Council has exhibited little ability to produce basic and essential policy decisions which would promote economic and political stability. The development of a stabilization plan for the Ugandan shilling has been conspicuously absent: the black market rate for the Kenya shilling, officially at par with the Uganda shilling, has doubled from 8 to 13 since the liberation five months ago. This is but one of many indications that the economy is experiencing continued difficulty.

Although a solution to Uganda's political and economic problems is not yet in sight, we believe that AID should be prepared to extend emergency assistance destined for the rehabilitation of the agricultural sector at the present time. Without assistance for rehabilitation, the agricultural sector stands little chance of recovering even by the 1980 growing season. From a U.S. political point of view, the present government compares favorably with the potential alternatives and should be supported. Therefore, both the people of Uganda, who have survived a bitter decade, and the government of Uganda, which is attempting to restore the economic base of the country, would merit the support that is proposed in this paper.

B. Summary

The provision of AID assistance to Uganda must take into account the difficult economic and political circumstances which characterize the country at the present time. In the short term, AID should concentrate on emergency rehabilitation type assistance which focuses on the basic needs of the poor majority in rural areas. The basic needs of the rural poor coincide to a significant degree with the basic requirements for rehabilitating the economy. These needs are two-pronged: food and other basic commodity assistance and basic farm inputs. At the level of the small farmer, food commodity assistance (PL 480) will promote a good diet, including commodities such as cooking oil, which most families in Uganda, have lived without for a long time. Basic farm inputs, such as hoes and seeds for production, and produce sacks, pails and bicycles for marketing, will enable the small farm family unit to re-establish its economic viability. At the macro-economic level, the provision of food commodities will signal the return of economic normalcy as the magendo market and prices diminish. Basic inputs for production and marketing will promote the rehabilitation of the agricultural base of the economy.

The proposed grant is designed to provide support for critical commodities for the rehabilitation of essential aspects of the small farm agricultural sector. The commodities to be provided include steel inputs for two agricultural implements factories which could resume production if they had adequate supplies of steel inputs; rubber inputs for a bicycle tire factory; farm production inputs such as seed and fertilizers; bicycles, produce sacks and milk pails for the marketing of agricultural produce; vehicles for distribution and marketing.

The provision of this commodity assistance will complement the efforts of other donors (primarily the EEC and UNDP/FAO at the present time, with the World Bank soon to follow) to support the rehabilitation of the agricultural sector. This will help to regenerate Uganda's ability to earn the foreign exchange critical for its consumer and industrial commodity imports. The proposed assistance will also complement the U.S. food commodity assistance strategy (PL 480) as set forth in Section II. C.

The proposed program grant of $3,000,000 will be obligated during FY 1979 from ESF funds. Further U.S. assistance to Uganda would probably be contingent on an AID assessment of the fiscal and monetary measures the GOU take to correct the country's fundamental economic problems. The IMF Mission to Uganda in October/November will facilitate AID's assessment of the status of economic measures taken by the GOU.

The commodities made available under this program will be sold at prevailing official prices or at cost if there is no established government price. The means of distribution will be either through CARE or similar PVO and church groups or selected cooperative channels. Counterpart generations from the sales (less distribution costs) will be deposited in a special account and used for rural development activities as jointly determined by AID and the GOU.

We believe that PL 480 food aid and the proposed rehabilitation program represent the optimal strategy for the United States in the current Ugandan context. Owing to the weakness of government structures, we propose that the implementation of this assistance be carried out primarily through private voluntary organizations, such as CARE, other PVOs and church groups. At the present time this type of program represents the only type of assistance which can be effectively absorbed and utilized without significant diversion to neighboring countries. As a stable government evolves in Uganda, the United States should be prepared to enter into basic economic development programs in collaboration with relevant government ministries and other donors.

C. Recommendations

REDSO/EA recommends that a $3.0 million commodity import grant to the Government of Uganda be authorized for the purposes of rehabilitating the country's small farm sector and its agricultural export earning capacity, subject to the conditions set forth in Section VII.B., to be funded from FY 79 ESF funds.

II. Assistance Rationale

A. Uganda's Economy[1/]

The current economic situation in Uganda reflects not only the damage inflicted during a prolonged Liberation War, but more fundamentally, an economy which has systematically been distorted through mismanagement and lack of foreign exchange. A final blow was the widespread looting which followed in the wake of the liberation. As a result, much of Uganda's productive capacity lies dormant in both the manufacturing and agricultural sectors. The operative economy is based almost entirely on magendo, which signifies the black and gray markets. Virtually all economic indicators show a downward trend after 1970, with some acceleration of this decline after 1973/4.

1. Agriculture

Uganda's economy is essentially agrarian, with an estimated 93% of the population in rural areas or towns of less than 1000 people. Most of Uganda's exports are derived from the agricultural sector, and many of the inputs into the industrial and service sectors derive from and are destined for agricultural purposes. Thus, overall economic performance is largely determined by the performance of agriculture, which accounted for 49.9% of GDP in 1970. At that time Uganda had a relatively diversified agriculture, producing a variety of crops both for the export market and for domestic consumption. The principal export crops were coffee, cotton, tea and tobacco. Money incomes in the agricultural sector were dependent primarily for the performance of two export crops, coffee and cotton. In 1970 these two crops accounted for almost 75% of monetized farm income.

The decline in export crop production since 1970 is shown in Table I. Food production has increased since 1970, as shown in Table II. Given the overall decline of the modern sector economy, it is possible that agriculture claims a larger share of GDP in 1979 than in 1970.

Agricultural production has traditionally been dominated by smallholders for food crops, coffee, cotton and tobacco. Tea and sugar cane are the main crops in the large-scale sector with more than half of total production grown on estates. Between 5% and 10% of the coffee crop is grown on estates; the rest is grown on small and medium-scale farms. The dairy industry is about 25% small-scale, while the entire grade beef industry is large scale.

1/ The discussion of Uganda's economy draws heavily on the Commonwealth Secretariat report published in June 1979.

A wide diversity of foodcrops is grown in Uganda.1/ In different regions different crop predominate: Bananas form the staple in the high rainfall areas of the south while cereals become more important in the north. Some food crops such as bananas, cassava, sweet potato and various lentils are produced primarily for on-farm or rural consumption, while others such as maize, groundnuts, Irish potatoes and rice, are for export from the area of their production.

The effect of the economic events of the 1970's on the various food crops differed from area to area. Basically there were two conflicting sets of forces at work: one led to the increase in the area under a particular crop while the other reduced it. In the former and predominant case, a rise in the price of the food crops relative to traditional export crops led to resources, especially labour, but also land, being transferred to the production of food crops. Tables II and III attest to this development. This trend was reinforced as purchased foodstuffs became increasingly scarce. It should be noted, however, that 'farm-gate' prices of food crops did not rise uniformly throughout Uganda. This was due first to the increasing deterioration of all forms of road transport and secondly to the increased harassment of traders by Amin's troops. In the latter case the transport of goods at night became impossible and during the day traders ran the risk, at the best of being forced to sell their produce below cost, or worse, of having their load, and also possibly their lorry, confiscated.

A conflicting set of forces led many farmers to retreat further into subsistence production, simply to maintain production at a level necessary to meet the food requirements of their own household. Principal among these forces was the shortage of consumer goods, and especially the basic necessities - soap, sugar, salt, etc. As the economic war proceeded, these became increasingly expensive at <u>magendo</u> prices and consequently out of reach of small farmers. Purchased agricultural tools, such as hoes and ox ploughs, became difficult, if not impossible, to obtain, and so for many farmers both the incentive and the ability to increase output were absent. Between 1970 and 1978 the overall area under foodcrops probably increased by about 14% or 4.5% per annum. In contrast, the area under groundnuts fell by 32% and finger millet by 7%. One worrying aspect of the changes which have taken place in the area under the different foodcrops is the fact that the cultivation of cassava, a crop with a low nutrient content is increasing, apparently at the expense of the more nutritious grain crops, such as finger millet and sorghum.

There are in Uganda several areas which are likely to suffer a food deficit. The capacity of the nation, as a whole, to meet these deficits is dependent not only upon its total foodcrop production but also on its distributive network. It is reported that in Teso District there

1/ This section is excerpted from the Commonwealth report, pp 94 ff.

is likely to be a 60% deficit in food between October and January due to poor rains and an outbreak of cassava mite. In Acholi, due to the disruption of the liberation war, farmers did not plant as much as usual. This has been compounded by late rains. The District Commissioner has estimated, at the end of this year, there will be an 80% deficit in East Acholi and a 60% gain in West Acholi. Normally in such circumstances Acholi is able to obtain ample supplies of food from the neighbouring Lango area but this year that may not be possible because of the shortage of road transport.

There are two aspects of food crop production which require attention. First, there is the need for rehabilitating farmers' productive capacity through the supply of adequate inputs, and second, there is the need to make special provision for possible food deficit areas. Oilseeds offer good prospects for increasing farmers' cash incomes as well as improving the people's diet. Production of vegetable oil also provides valuable animal feedcake as a by-product.

As noted in the Commonwealth Secretariat report, "In terms of relative priorities for development, the small-scale sector in general enjoys the advantages of the low cost of self-employed family labour, a long-attested responsiveness to strong economic incentives and, in several cases, a backlog of appropriate innovations in terms of technique or enterprise which are likely to be adopted on an increasing scale. Also, a small-scale sector is both the residual area of gainful employment for that majority of new entrants to the labour force who fail to find employment in the formal wage-earning sector, and the repository of the majority of the lowest income groups in the economy. On grounds of both economic efficiency and social equity, the case for priority to be given to the small farm sector is extremely persuasive except in those limited cases where a feasible small-scale technology is not available." (page 27).

2. Manufacturing

Industrial production[1/] has also declined dramatically, as shown in Table V. Industrial developments since 1970 have been affected by a series of far-reaching changes in basic industrial policy. Initially came the measures announced on May Day 1970, commonly known as the Nakivubo Pronouncements. The Government decided to acquire a controlling interest in a number of private companies and manufacturing establishments, and also to exclude private enterprise from external trade. This policy had only been partially put into effect when the military took power in January 1971.

1/ This section is excerpted from the Commonwealth Secretariat report pp 105-107

The new regime then reduced state participation from 60% to 49% in 11 of 18 companies covered by the Pronouncements.

Policy was once again reversed when the economic war was launched in August 1972. This led to the deportation of Asians and non-nationals. It was followed by the allotment of their businesses and industrial units to parastatal corporations, some newly constituted, as well as to a number of individuals. The non-nationals who had to leave constituted virtually the only experienced technical and managerial cadres in the country. Unfortunately, some of the nationals who took their place and who had some middle-level experience were, in turn, replaced. Many of the new-comers (who were close to ministers or to the head of the regime) had practically no previous association with any business or industry. A great deal of political interference in administrative and financial matters resulted in gross inefficiencies and general demoralization.

An Action Programme was launched in 1977 to regain the output levels of 1972. But no serious attempt was made to achieve the targets set. A few new projects were started only to be frustrated by the difficulties that faced industries generally. Little was done to replace obsolete equipment and spare parts became increasingly scarce. This, combined with the growing shortage of experienced technical personnel, led to an alarming deterioration of plant and machinery. In Uganda practically all industries depend on imports: in 1975, imports accounted for 57% of industrial inputs. But this sector was starved of foreign exchange. As a result, most industries could not get adequate supplies of essential imported inputs, and many were forced to shut down.

The main impact of these events and developments on the industrial sector has been as follows:

- Except for cigarettes, the level of production of all industrial commodities in 1978 was much lower than that in 1970 (see Table V).

- In both the private and public sector, a number of factories closed down.

- Due to lack of proper maintenance, plant and equipment, some already second-hand when it was installed, deteriorated further, and the effective capacity available is currently much less than that originally installed.

- Shortages of consumer, basic and other manufacturing goods continued to grow. This encouraged black marketing and fanned inflation.

- The financial position of parastatal corporations worsened and their request for subsidies increased.

Immediate problems and issues with which the Government must deal are as follows. These difficulties were found in most of the establishments visited by the Commonwealth team.

- Unavailability of foreign exchange, leading to inability to obtain inputs and spare parts.
- Old and absolete machinery requiring frequent maintenance and spare parts, in a country where there are few experienced technicians.
- Inadequate provision of and/or erosion of working capital, leading to difficulties in meeting obligations including wages.
- Transportation problems, including delays, high freight charges and demands for prepayments in foreign exchange by Kenya Railways.
- Controlled distribution mechanisms, often under licences granted by Ministers.

The revival of many companies depends primarily on the availability of foreign exchange, which to date has not been forthcoming for most companies. Managerial problems are pervasive in some companies and will require technical assistance and training.

The government has invited several foreign companies which were nationalized in the early 1970's to return to Uganda. These negotiations are under way and investors in sugar cane and other production are planning to return as soon as negotiations are completed. In addition, the Commonwealth report recommends that inefficient public sector activities be reduced. This measure would help to diminish magendo.

3. Commerce

The commercial sector experienced the same type of disruptions as the industrial sector with the expulsion of Asians and non-nationals in 1972, and faces similar problems with respect to managerial skills, transporation problems, working capital, availability of foreign exchange, and severe overall shortage of commodities. In addition, the government has imposed retail price controls which are unrealistic, and appear to worsen the black market situation. The commonwealth report recommends that retail price controls be abolished.

Owing to the near collapse of the commercial sector and the shortage of commodities within the economy, magendo has evolved since about 1974, as an alternative to the formal commercial sector. The development of magendo was supported by several trends, including the scarcity of consumer goods to the general public; the availability of most consumer goods at official prices to the elite of the country, who were able to resell these goods at enormous profits; rampant inflation without corresponding increases in salaries so that many persons became involved in magendo activities in order to be able to pay magendo prices; and smuggling of primary and manufactured products to neighboring countries where they could be sold/exchanged for consumer goods which were handsomely resold in Uganda. The magendo system continues today because the basic economic conditions which fostered its growth have not been alleviated. The practical effects of magendo is that it encourages the smuggling of cash crops such as coffee plus some consumer goods out of Uganda for sale or barter in neighboring countries, in exchange for consumer goods in short supply.

4. Transportation[1/]

The conclusion of the Commonwealth report is that the transportation sector of the Uganda economy has been severely undermined by eight years of neglect, capped by war damage in April and May. Without massive infusions of maintenance equipment, spare parts, workshop facilities, vehicles and railway rolling stock, this sector is incapable of underpinning a national economic reconstruction effort. The public vehicle fleet, including buses and lorries, has deteriorated as a result of lack of spare parts and poor road maintenance. The private sector has been better able to keep its fleet moving because of the availability of spare parts on magendo, access to which is officially denied the publicly owned corporations. However, even the private fleet has aged rapidly over the period and was seriously depleted by war damage and looting.

The breakup of most components of the East African Community during the mid-1970s affected railway activities in Uganda especially severely. Uganda Railways Corporation (URC), which was created in July 1977, has suffered a rapid erosion of traffic, and has not been able to accomodate the major share of import, export and transit traffic which rail customarily carried in Uganda, even though the total amount of this traffic diminished over the period. As a result of the lowered capacity of the railway, an increased transportation burden has been placed on the lorry fleet. Because of the deterioration of this fleet, Kenyan lorries, hired at heavy foreign-exchange costs, are used to carry goods traditionally moved by rail.

Passenger transportation services have also been affected by years of neglect. Currently, people are being transported on unlicensed, open, 10-ton lorries, at rates up to 20 and 30 times the officially posted fees for licensed passenger-carrying vehicles. In the rural areas, people wait days for transportation, even to and from major centers. To some extent, the crisis in passenger transportation is the result of war damage, but it has arisen more fundamentally from the growing inability of the licensed bus fleet to handle even a stable level of demand.

1/ This section is excerpted from Commonwealth Secretariat report, pp. 189-90

Few bicycles or motorcycles were imported during the military regime, so that one sees on the Uganda roads only a fraction of the customary number of these machines. This shortage has affected the small farm sector most seriously, as farmers use bicycles extensively to transport their coffee, tobacco, tea, milk and bananas to market towns or collection points.

The financial reconstruction of Uganda's commerce and industry, including publicly owned corporations, is critical and complementary to the physical rehabilitation of the transportation sector. Neither road nor rail transport firms have been able to generate sufficient revenue at official prices to meet normal operating expenses. As a result, current revenue (supplemented by loans or sales of assets) has been used to pay for wages, fuel and minimal maintenance. Equipment expansion has not taken place and often very large, short-term liabilities have been allowed to accumulate. These conditions are common to public corporations beyond the transportation sector, and call for the high priority development of a credit program during the reconstruction period, a need which is elaborated in the sector report on banking and currency in the Commonwealth report.

5. Balance of Payments and Foreign Exchange

There are no reliable statistics for the trade balance since the East African Community and its statistical system broke down in July 1977. Even these statistics would offer no indication of the scope of smuggling of raw materials and consumer goods to and from neighboring countries.

Despite the absence of statistics, it is clear that Uganda's official exports have fallen, and that the country does not have the foreign exchange to import essential consumer and investment goods in quantities sufficient to reduce magendo prices and rehabilitate the productive capacity of the economy.

As the Commonwealth report points out, the country is in critical need of a devaluation or, in the absence of a devaluation, measures to allocate and ration scarce foreign exchange resources. As the present time, anyone who has access to foreign exchange can import goods at far below prevailing market prices within Uganda. Thus, the Commonwealth report recommended that foreign exchange not only be rationed, but also taxed, to reduce excessive profit-making. There are signs that foreign exchange is currently being misallocated; many companies which need small amounts to resume production are unable to acquire foreign exchange. Steps to severely curb misallocation are necessary if the situation is to improve.

6. Inflation

Inflation in Uganda has been extremely high by any standards. The cost of living index for the Kampala low-income group rose from 100 in 1970/71 to 785 in 1978/79, while the wage index rose to only 154 during that same period. See Table VI for further details.

Inflation in Uganda has been accompanied by rapid increases in the money supply. Monetary survey data appear to be of good quality. Table VII compares the growth in money supply in Uganda with that of its East African neighbors. Clearly the rapid growth in the money supply has fanned inflation with the result that there is too much money chasing scarce goods.

7. Government Budget

Data on recent government budgets in the Amin rule are unreliable and appear to have been misrepresented. The new government has issued no budget to date, and currently plans to release its budget in November.

The fiscal policy recommended by the Commonwealth report places a high priority on ending budgetary deficits as a step toward slowing inflation.

B. Stabilization Strategy and GOU Response to Current Economic Crisis.

Any economic stabilization strategy for Uganda must confront the complex problems of 1) widespread shortages of consumer goods throughout the economy; 2) need for investment goods; 3) widespread smuggling of goods both in and out of the country; and 4) desperate need for currency reform or devaluation. These problems are inter-related. The over-valuation of the currency promotes both smuggling and shortages of local goods on the domestic market since it is more profitable to export than to sell on the local market. Yet the problem of currency reform cannot be resolved until the shortage of basic consumer goods subsides, since any depreciation in the currency could simply result in another round of inflation. Thus, immediate devaluation would probably not effect the supply problems, but it would alleviate the excessive demand for foreign exchange by making it more expensive in relation to the Ugandan Shilling. This in turn would alleviate the problem of monitoring foreign exchange and controlling windfall profits easily made when a currency is overvalued.

The GOU has not yet developed an economic stabilization plan which confronts the complex problems cited above. In recognition of the need to generate foreign exchange in order to expand the supply of consumer and investment goods, the government's initial emphasis has been on the rehabilitation of the country's agricultural export sector, which has traditionally been its foreign exchange earner. To this end producer prices for coffee, cotton and tea have been increased as recommended by the Commonwealth report. This emphasis is a sound one - yet leakages in terms of smuggling are likely to persist as long as a pound of coffee brings significantly more in terms of goods in Kenya or Rwanda than in Uganda. The policy of rehabilitating agricultural production for import substitution, e.g. cooking oil and sugar, will impact strongly and beneficially on the economy since these products are not as subject to smuggling and their ready availability will contribute to the reduction of food prices.

The government has also adopted a policy of inviting the private sector owners of key industries to return to Uganda. This policy will also contribute to economic stabilization.

In spite of the above measures, the government's stabilization strategy leaves much to be desired. The government has not yet confronted the difficult task of realigning its currency. Until this problem is resolved, along with attendant problems of shortages of consumer goods, the policies adopted to date will have little impact on the overall economic situation.

C. AID Assistance Strategy

The provision of AID assistance to Uganda must take into account the difficult economic and political circumstances which characterise the country at the present time. In defining an AID strategy under these circumstances, it is important to accept that the hard policy decisions necessary for the economic rehabilitation of the country can only be made by a forceful stable government with adequate political authority. Until a stable government evolves, AID cannot develop a normal strategy based on working relationships with relevant government institutions. Therefore, in the short term, AID should concentrate on emergency type assistance which focuses on the basic needs of the poor majority in rural areas, and which can be implemented with minimal reliance on in-effective and corruption-prone government institutions.

The basic needs of the rural poor coincide to a significant degree with the basic problems of rehabilitating the economy. These needs are two-pronged: food commodity assistance and basic farm inputs. At the level of the small farmer, food commodity assistance will insure an adequate diet, including commodities such as cooking oil which most families in Uganda have lived without for a long time. Basic farm inputs, such as hoes and seeds for production, and produce sacks, pails and bicycles for marketing, will enable the small farm family unit to re-establish its economic viability. At the macro-economic level, the provision of food commodities will signal the return of economic normalcy as the magendo market and prices diminish. Basic farm inputs for production and marketing will promote the rehabilitation of the agricultural base of the economy, and will re-establish the export earning capability of the economy without which no other aspect of the economy can return to normalcy. Therefore, the short-term emphasis of an AID strategy should focus on: 1) food commodity assistance through PL 480, and 2) on agricultural commodity assistance through non-project support assistance. These two foci respond to the two major needs of the economic rehabilitation strategy as set forth above as well as in the Commonwealth Secretariat report, while at the same time responding to the basic needs of the rural poor.

In addition to these basic foci, we propose that a short-term AID strategy include select, rapid assessments and analyses of conditions prevailing in the agricultural sector, principally, as well as in the health and education sectors, in order to establish the basis of a framework for assistance in the medium and long term. Training may also constitute a valid objective in the short-term, as will be determined by assessments and analyses. Perhaps these needs could be met through regional training projects or included in projects as they develop. At the present time, any consideration of training is complicated by the weak institutional capability of relevant ministries.

In the medium and long term, an AID assistance strategy can be developed on the basis of the assessments initiated under the short-term strategy. This strategy should be developed in collaboration with the government, as a stable and representative government evolves. The specific foci of this strategy will depend on government priorities and on other donor activities. Agriculture would probably constitute the leading edge of a collaborative development strategy, with cooperatives playing a central role in both GOU and AID sector priorities.

The proposed assistance for agricultural production and marketing commodities is based on the premise that certain inputs are essential for the rehabilitation of the means of livelihood of the majority of rural Ugandans. We believe that these inputs can be delivered and operated by reliable non-government organizations such as CARE and church missions, which have adequate knowledge of and experience with distribution problems in Uganda. At such time as the government develops the capability of handling distribution, some of the activities could be handed over. However, the drafters of this document believe that the government is not capable of managing leakage-free distribution at the present time, and there are no firm indications that would enable us to predict a time by which this condition could change. Given the emergency nature of the proposed assistance, it is preferable to proceed principally with non-government organizations than to withhold assistance until the government stabilizes.

D. Other Donor Assistance

The major donor to Uganda in the foreseeable future is the European Community (EC). The EC has approximately $98 million available for Uganda from the Lomé I convention. This sum must be programmed by early 1980. The EC has already made available emergency assistance and is currently in the process of allocating $24 million of short-term assistance, largely for agricultural and livestock inputs, transport and road maintenance equipment, water supply equipments, and school supplies. In addition, about $74 million of the longer-term projectized assistance is under discussion. Tentative allocations, based on feasibility studies done over the last few years, will concentrate assistance in agriculture ($29 m); livestock ($15 m); industry ($14 m); transport ($10 m for 2 road segments); and social services ($6 m) for health, training and technical assistance for project preparation.

Portions of the aid to be provided by the EC will complement components of the proposed AID assistance: The EC is providing hoes, seeds (for maize, wheat, barley and potatoes), fertilizer, insecticide and capital equipment for Uganda Hoes, Inc. The types and quantities of agricultural inputs required clearly indicate that AID and EC assistance combined will not fill the total demand, and will complement each other. EC assistance to Uganda Hoes includes spare parts, equipment and vehicles in order to expand productive capacity. AID assistance will be limited to the provision of raw materials. The bulk of EC's short-term assistance will be committed before the end of the year. The longer-term development assistance will be contingent on major corrective actions by the government in the economic field and, consequently, may take additional months. For the future, Uganda's share of the upcoming Lomé II allocations could total as much as $200 million for the period 1980-85.

The FAO/UNDP has also developed a program of assistance, including emergency relief, short-term assistance and medium-term rehabilitation. The FAO is preparing emergency projects dealing with hoof and mouth disease and the supply of agricultural inputs (seed and transport). It also has under consideration projects to support the rehabilitation of the Co-operative college, three agricultural colleges, the extension service, agricultural marketing, and cashew nut production, plus the resumption of other programs which have been interrupted by recent events. The FAO proposed program covers many areas with limited funds, the entire program totalling opproximately $2 m.

The World Bank is in the process of preparing a major commodity assistance program which could amount to as much as $50 million. The program would focus on the rehabilitation of the agriculture, industry and transport sectors, and could be funded during the current calendar year. Timing of that proposal will probably be dependent upon the GOU discussions with an IMF team that is scheduled to visit Uganda in Oct/Nov.

Other donors include the British, who contributed £2 million soon after the liberation of Uganda. They appear to have no firm plans for further assistance pending political developments. Canada, Holland, Australia and Germany have indicated intentions to assist Uganda, but no committments expressed in either program objectives or amounts have been specified.

The AID Liaison Office in Uganda has coordinated closely with the other donors resident in Kampala, and there are particularly close working relationships with the EC. In addition, there are formal donor meetings, at which all donors and the GOU are represented, to review sectoral activities and exchange information. Furthermore, REDSO/EA has developed good contacts with the World Bank office in Nairobi. At both the formal and informal levels there appears to be a concerted effort among donors to keep each other advised in the current fluid situation in Uganda.

CARE is the foremost among PVO's in Uganda, with a staff of about 20. CARE has submitted several proposals for AID funding, and plans to undertake several small programs including one which will distribute hoes and bicycles to small farmers. CARE's role at the present time appears to be as a channel for the distribution of PL 480 food commodities. CRS, UNHCR, WFP, Christian Aid in England, Medical Assistance Programs, International, and International Committee of the Red Cross (based in Switzerland) have also been involved in food distribution and emergency aid. The Experiment in International Living is preparing a technical training program in the country under an AID PVO grant. There are also numerous church groups in Uganda which serve as conduit for both emergency and developmental assistance. Many of these groups receive supplies from PVO's which are active in Uganda.

III. Description of Assistance

A. Components of Assistance

The proposed program grant will finance the importation of a number of commodities that are critical to the immediate rehabilitation of the agricultural sector. These commodities have been requested by the Government of Uganda, reviewed by the design team and determined to be essential to meet the requirements of a rural population that has been systematically stifled in its attempts to obtain a sufficient quantity of essential agricultural inputs over the past years. These commodities will help farmers to resume their normal production and marketing of both food and cash crops.

Unlike a general commodity import program, the commodities to be imported have largely been selected. This was done to ensure that AID-financed commodities will directly benefit the target rural population and help to re-establish the economic viability of the small farm family unit. These units, which account for the bulk of Uganda's food and cash crops production, are seen as principal actors in the critical process of revitalizing the country's agriculture sector.

An illustrative list of the proposed commodities is included on the following page. The list consists of three groups of commodities:

(1) raw material inputs for agriculture-related industries (farm implements and bicycle tires) - approximately $1.8 million;

(2) inputs for agricultural production and marketing (seeds, farm inputs, produce sacks, milk pails, bicycles) - approximately $1.0 million; and

(3) vehicles for distribution and marketing ($100,000);

In addition, $100,000 is requested to provide services in program implementation, distribution and monitoring.

The first group of commoditites -- raw material inputs for agriculture-related industries -- will include steel for the manufacture of hoes, spades, axes and other farm implements, and rubber (natural and synthetic), cotton cloth and valve parts used in the production of bicycle tires. These items are basic to the production and marketing of all crops -- the hoes and other farm implements are essential to Uganda's non-mechanized agricultural production, and the bicycles (and tires) are necessary for transport and marketing for both food and cash crops. A six-month supply of steel will be provided to Uganda Hoes Ltd., and Ugma Steel and Engineering Corp. to produce farm implements, principally hoes, and a six-month supply of rubber, cotton cloth (for tire backing) and valve parts will be made available to Dunlop Tyres, Ltd. All three

PROGRAM COMPONENTS-ILLUSTRATIVE LIST
(in million $ US)

Commodities	
Production Inputs (Industrial)	
1. Uganda Hoes, Ltd. (Steel Flats)	$1.2
2. Dunlop Tyres, Ltd. (rubber, cotton cloth, value parts)	.3
3. UGMA Steel and Engr. Corp. (steel billets)	.3
Production Inputs (Agricultural)	
1. Seeds (cotton, groundnuts, maize, veg., etc.)	.2
2. Fertilizer and other inputs	.15
3. Produce Sacks/Milk Pails	.15
4. Bicycles (15-20,000)	.5
Transport	
1. Trucks - pick-ups (1 - 1½ Ton) (10)	.1
Technical Assistance (Implementation/Monitoring)	.1
	$3.0

manufacturing firms are parastatal organizations that were nationalized by the GOU in 1972. Of the three, only UGMA Steel is currently still producing, albeit on a very limited basis. The other two stopped production in the last 60 days, owing to a lack of inputs (steel and rubber). Although the work forces of each of the firms are largely in place, a severe shortage of raw materials has resulted in a virtual suspension of work. Applications for foreign exchange with which to purchase raw materials are pending, but the Government has deferred taking any action on the applications due to the shortage of hard currency. This situation is unlikely to ease significantly within the near future.

The proposed program will finance with importation of approximately six months supply of raw materials to enable those firms selected to resume full (double shift) production. The design team visited each of the factories and discussed the situation with senior management. In all three cases, assurances were given that production could be resumed on short notice once raw materials were on hand. No additional foreign exchange-financed inputs were immediately required, although, obviously, spare parts, lubricating oils, etc. would become necessary once current stocks are depleted. To ensure the availability of foreign exchange to meet normal raw materials imports requirements, a condition of the grant agreement will require that the GOU provide written assurances that it will make foreign exchange available to three firms on a priority basis. The situation at Dunlop Tyres is weakest managerially, and may require additional assistance. An examination of this firm will be conducted to determine financial and organizational viability prior to the procurement of inputs. Furthermore, a study of production costs and the financial status of each firm will be undertaken to determine the terms at which the GOU will make credits available to them.

The <u>second group</u> of commodities -- inputs for agricultural production and marketing -- is likely to include a variety of seeds (cotton, groundnuts, maize, vegetables) and other farm inputs, produce sacks, milk pails and bicycles. These commodities were selected from lists of rehabilitation requirements prepared by the Government, identified in the Commonwealth Report, and discussed with senior officials of the Ministry of Agriculture and Ministry for Cooperatives and Marketing. They were selected on the basis of their likely impact upon the revitalization process of the agriculture sector, in general, and upon the expressed need of the small farm sector, in particular. All the items are in critical short supply, especially bicycles, which form the backbone of the rural marketing system.

The <u>third group</u> of commodities -- vehicles -- will include approximately ten trucks for distribution and marketing, as well as spare parts. According to the Commonwealth Report, Uganda's heavy road transport fleet declined from approximately 8000 trucks in 1970 to 3200 in late

1978, and 1600 in mid-1979. Light transport has reportedly suffered a similar decline. The consequences have been extremely negative in terms of distributing what consumer goods do exist throughout the country and collecting export crops for shipment out of the country. The trucks provided by the grant will assure that transport is available for the implementation of the program, in particular the distribution of commodities destined for small farm use. The trucks will be used for marketing and transport requirements of select cooperatives and other small farmers' groups after they are no longer required for program implementation.

It should be noted that the following list of commodities is illustrative and may be subject to revision, based upon possible changes in GOU priority requirements and the activities of other donors. Although considerable care has been taken to avoid duplication of efforts, several potential donors have not indicated the areas of assistance that they plan to support and some flexibility in AID procurement is deemed necessary. In addition, several rapid assessments of key agricultural sector activities (extension service, cooperative movement, marketing distribution) may result in decisions to add or delete specific commodities, as determined by the assessment of cooperative needs and organizational strengths and weaknesses.

The authorized source and origin of most commodities and related services to be financed by this grant will be AID Geographic Code 000 (U.S. only). The exceptions include those costs associated with inland transportation from East African ports of discharge (principally, Mombasa) to destination points in Uganda as well as commodities such as natural rubber, jute sacking, bicycles and certain seeds. The total value of these items is not expected to exceed $1.5 million.

A waiver is requested for the procurement of up to 10 trucks with a 1 to 1½ ton capacity from Code 935 countries. These vehicles will be procured in Kenya.

B. Counterpart Generation

The commodities made available under this rehabilitation program will be sold to consumers at prevailing official government prices or at cost. The means of distribution will either be through CARE or similar PVO or church groups, selected cooperatives, or Ministry of Agriculture/Cooperatives and Marketing channels. These implementation arrangements are discussed in the succeeding section. The initial funds generated from the sales (less distribution costs) will be deposited in a special account and used for purposes jointly agreed upon by AID and the GOU. The proposed uses of reflow will include: a) providing local currency support for CARE or similar PVO projects in the agriculture sector; b) strengthening the cooperative movement, e.g. training, capitalization, etc.; or c) for general agriculture development purposes. These implementation arrangements will be included in a program implementation plan, to be submitted by the Government as a condition of the grant.

C. Implementation Assistance (Distribution/Monitoring)

To assist the GOU in the implementation and distribution of the programs activities, the grant will include about $100,000 for technical services. The services will be used to facilitate the entry of goods into Uganda as well as to ensure proper distribution of the commodities once inside the country. In all likelihood, these services will either be contracted with CARE or a similar organization. No problems in obtaining such services are anticipated.

Grant funds will also be available to assist the GOU in monitoring and in arrival accounting. If it is determined by REDSO and EAAC that Transocean Uganda Ltd is capable and willing to carry out this function, grant funds will be made available to Transocean Uganda Ltd for this this purpose. REDSO and EAAC will assure that other arrangements are made should Transocean Uganda Ltd not be willing or capable of carrying out this function.

IV. Implementation

A. Procurement Procedures 1/

AID's Standard Commodity Financing Procedures, as set forth in AID Regulation 1, will provide the criteria for the procurement procedures to be followed for this grant. Procurement of jute and rubber, etc. will follow normal competitive bidding procedures. A negotiated procurement authority is granted for steel and agricultural inputs, due to the emergency needs for these items to bring idle capacity back to production and increase employment, as well as to produce agricultural implements necessary for the rehabilitation of the agricultural sector. With respect to certain commodities, e.g. bicycles, it is likely that procurement and distribution will be turned over to CARE. In those instances, CARE will follow AID approved procurement procedures.

B. Administrative Responsibilities

The overall administrative responsibility for the implementation of the grant will rest with the Ministry of Finance. This responsibility includes the signing of the project agreement, the preparation of all reports, and the assurance of compliance ~~will~~ with all A.I.D. requirements. The Ministry of Finance will coordinate with the Ministry of Agriculture and Ministry of Merketing and Cooperatives in preperation of specific procurement actions for production and merketing inputs. Assistance will be provided to those Ministries, as necessary, for the development of specific commodity lists and specifications, bidding process in the United States (including awards), and the adoption of distribution plans. This assistance will be provided by REDSO/EA, EAAC, and by consultants financed from grant funds, as necessary. However, with regard to the procurement of raw materials. the principal responsibilities for preparing specifications, tender documents, etc. will rest with the firms to be assisted, although REDSO/EA, EAAC, and AID/W will also provide support.

Primary responsibility for managing AID's implementation functions under this grant will rest with REDSO/EA in Nairobi, Kenya, until such time as an adequate AID resident staff exists in Kampala. REDSO will be responsible for issuing implementation letters and CPI's. REDSO/EA and EAAC staff

1/ See also Section III.A on page 16.

will monitor the project in all respects, including commodity specifications and procurement, distribution, and use of reflows.

Responsibility for some aspects of implementation will be transferred on a selective basis to CARE and other PVOs and/or church groups. Select procurement actions may be delegated to CARE, for example, with both AID and GOU concurrence. The role of CARE and other groups in distribution and sales is expected to be considerable (see Section VI. Issues); the Ministry of Agriculture has suggested that CARE should implement the distribution and sales of hoes and other farm inputs. The CARE/Uganda Director has expressed his willingness and ability to collaborate with the Ministry in this respect. CARE may also play an implementing role in the use of reflows for rural development activities.

C. Implementation Schedule

The following is the proposed implementation schedule for the project:

1. Grant Authorization	September 1979
2. Signing of Grant Agreement	September 1979
3. Conditions Precedent Met	October 1979
4. First Letter of Commitment Opened	November 1979
5. First Commodity Shipment	December 1979
6. Initial Disbursement of Funds	December 1979
7. Final Commitment of Funds	June 1981
8. Final Disbursement of Funds	September 1981

This schedule has been developed in view of the extensive and critical need for the commodities to be financed under the grant for the rehabilitation of the agricultural sector. In view of possible delays, the terminal disbursement date will be two years from the date that conditions precedent are met.

D. Commodity Import Procedures

At present, all imports into Uganda by parastatal firms are subject to licensing controls. The Ministry of Commerce and Industry is responsible for the allocation of foreign exchange. After a company has applied for foreign exchange and been accepted, it must determine its priority requirements and request price quotations and pro forma invoices from potential suppliers. Once received, the invoices and quotations are forwarded to a board in the Ministry of Industry, which must approve the commodities and prices and then instruct either the Bank of Uganda or the Uganda Commercial Bank (both public entities) to issue letters of credit. The process can be rather lengthy.

To facilitate this process, the importers of raw materials will issue IFBs and request foreign exchange from the Ministry of Commerce and Industry at the same time. Once the approval to proceed with procurement has been given, the Ministry of Finance will request that AID/W (FM/BFD) issue a direct L/Com to the U.S. suppliers, by-passing the government banking system and saving banking charges. These procedures will be reviewed with the interested Ministries and will be included in the government's implementation plan.

With regard to procurement of items from Code 941 countries, payment using standard Letter of Credit procedures is anticipated.

E. Disbursement Procedures

The proceeds of this grant are expected to be disbursed within a period of 24 months after conditions precedent are met. Therefore, the final disbursement date will be set for o/a December 1981, assuming the grant is authorized and the agreement is signed in September 1979. The terminal date for requesting disbursing authorizations will be set for June 1971.

The method of disbursement will be through AID's standard Letter of Commitment/Letter of Credit procedure. Direct AID Letters of Commitment to suppliers will be used when possible for the procurement of raw materials and/or other selected commodities. The approved applicant for the Letters of Commitment will probably be either the Uganda Commercial Bank, or the Bank of Uganda, both of which are wholly-owned by the GOU.

F. Commodity Handling and Disposition

Traditionally, Uganda's trading outlet to the sea has been through the Kenyan port of Mombasa. Most goods were transported by rail. After 1974, owing to the break-up of the East African Railways Corporation for political and economic reasons, a steady decline in trade and transit with Kenya occurred. Passenger traffic decreased very significantly and the state of Uganda's rail facilities deteriorated markedly. Furthermore prior to 1975, Uganda had had an alternative route to the sea - by ferry from Jinja to Mwanza and then by Tanzanian rail to Dar-es-Salaam. This service disintegrated, however, as political relations between the two countries worsened.

Although the latter route will become more important once wagon-ferry traffic on Lake Victoria is built up again, the handling problems of the port of Dar-es-Salaam are such that no significant long-term increase in traffic is possible under the present situation. The Commonwealth Report examined the port situation in Mombasa and concluded that the facilities there were fully adequate to handle the increased traffic that can be expected to result from rehabilitation efforts in Uganda (p. 194).

Uganda already has a freight forwarding firm active in Mombasa - Transocean (Uganda) Ltd. - which will be the principal forwarding agent for the goods being imported into the country. Reports from an AID agent in Mombasa indicate that no special problems are being encountered in the port in the handling of the increased volume of goods. Furthermore, funds are included in the proposed grant to provide for services in expediting the movement of AID goods into Uganda. A great deal of this traffic will be by road, although increasing amounts will go by rail once efforts to upgrade the facilities and maintenance are initially completed. While there has been some delays of trucks crossing the Kenya border, no major potential problems in handling the commodities proposed under this grant are evident at this time.

V. Other Considerations

A. Impact on U.S. Balance of Payments

Most of the procurement under the proposed program grant is anticipated to come from the United States: to this extent, the grant will have a small, beneficial impact on the U.S. balance of payments position. Some of this procurement, e.g. vehicles, in particular, will result in follow-up orders for U.S. spare parts. In the long run, U.S. exporters may be able to establish market positions in Uganda for select items, but the transportation cost disadvantage of buying from the U.S., as opposed to traditional European suppliers, makes significant, lasting inroads unlikely. Similarly, it is unlikely that the grant will displace other potential imports from the U.S. since the forseeable foreign exchange posture of the Ugandan government would not allow much importation to occur without foreign assistance.

B. Use of U.S. Government Excess Property

None of the commodities to be procured under this grant appear to be suitable for excess property procurement.

C. Use of Consultants

The grant agreement will provide that grant funds may be used to finance the services of one or more U.S. firms to assist the government in the assessment of exact types of commodity needs and spare parts, the preparation and issuance of procurement documentation, the analysis of awards, the execution of supply contracts, the assessment of distribution practices, and the analysis of price structures for farm implements. Although no specific plans have been developed by the government of Uganda for the utilization of these consultants, AID will encourage the government to do so as deemed appropriate.

D. Relation to Export-Import Bank Credits

The EXIM Bank has provided no new credits to Uganda in recent years, due primarily to the economic and political climate within the country during the current decade. As the Ugandan economy undergoes rehabilitation, there are possibilities that aircraft and other advanced technological equipment for Uganda may be financed by the Bank.

E. Counterpart Generation

The Uganda shillings which will be generated by the sale of the commodities financed under the proposed grant will accrue to the Government of Uganda for allocation to rural development activities. These counterpart funds will be utilized for agricultural development and cooperative development. It is anticipated that the government will collaborate with CARE in the execution of some of these development activities. (See also Section III.C. on page 17.)

The Government of Uganda will also provide counterpart funds in the amount of commodities procured which are not sold. This amount is not expected to exceed $100,000 representing procurement of vehicles to be utilized for distribution and marketing.

VI. Issues

The major issue identified by REDSO/EA relates to the potential leakage of commodities across Uganda's fluid borders. This anticipated problem bears directly on the larger objective of the rehabilitation support program, which is to reach effectively the target farm population and help them to rehabilitate the agriculture sector. In recent years many commodities from Uganda found their way across the borders to Kenya, Rwanda and Zaire. This situation is bound to persist as long as the Ugandan shilling is overvalued in relation to neighboring 'harder' currencies. Although nominally at par with the Kenyan shilling, the Ugandan shilling is currently exchanged at rates of as much as 13:1. The issue is whether or not a distribution system can be devised that will minimize this leakage. The problem clearly will not disappear, but it can be minimized. REDSO/EA proposes the following approaches to this problem:

First, arrangements will be made with extra-governmental organizations to handle commodity distribution. The institution most likely to supervise the bulk of the program is CARE. CARE is currently functioning in Uganda and has a resident staff of approximately 20; furthermore, it already proposes to distribute modest amounts of the same kinds of agricultural inputs that are included in the commodity list. Discussions with senior CARE/Uganda staff have been held and tentative agreement has been reached. Another American PVO group, the Experiment for International Living, will shortly be establishing a program in Uganda and has also indicated a potential interest in supervising the distribution of a limited amount of commodities. In addition, a number of Ugandan church groups are likely distribution agents, either working directly with AID and the GOU or through CARE. Given their intimate knowledge of local conditions, these groups would be most effective in secondary distribution. Furthermore, there is a rural organization entitled Young Farmers of Uganda that has an affiliation with the 4-H group in the U.S. and a current membership of approximately 100,000 in Uganda. The local Young Farmer offices could be used as potential distribution points in concert with CARE or the other groups mentioned. Lastly, there are cooperatives at either the national, district or primary society level that may be effective vehicles for distributing commodities. However, given the organizational decline of most of the cooperative movement, considerable care will have to be used in selecting those cooperatives that are properly managed and responsive to the needs of their membership. A rapid assessment of the cooperative movement is proposed for the near future, with the results to be used in determining the effectiveness of this distribution channel.

Second, only predetermined amounts of inputs would be sold per farm family, based on average family size. To the extent that distribution groups are familiar with the individuals in an area, it will be easier to control the sale of commodities. From the reports of groups and individuals who have travelled around the country, the apparent need for all of the proposed commodities is acute. This factor alone will greatly reduce the possibility that farmers will resell items which are exceedingly difficult to acquire or replace. In the case of vehicles, the most likely recipients will be farmer organizations. This will include organizations with which PVO's are collaborating and select cooperatives or Young Farmer groups. The vehicles would be made available to district or national cooperatives or their Young Farmer equivalents and either used by those groups for the benefit of their members or leased or sold to smaller societies. The distribution agents mentioned earlier would be expected to monitor their usage during the initial stages of the grant implementation.

Third, distribution will be carried out at the district or local level, away from urban concentrations where magendo middlemen are most active, and at a sufficiently individual level that would make potential resale to middlemen less attractive in terms of volume and more difficult in terms of transport.

At issue is whether this system is adequate to prevent wholesale losses of commodities during the process of distribution. Based upon REDSO's assessment and discussions with potential distribution agents and assuming the proposed distribution groups are willing, we believe most of the concerns about leakage can be effectively addressed.

VII. Negotiating Status and Conditions

A. Negotiating Status

No special problems in the negotiation of the Project Agreement and in reaching agreement on the implementation plan are foreseen. High officials in the Ministry of Finance are in agreement with the proposed list of commodities and are aware of the broad outlines and conditions of the grant. The Minister of Agriculture has been active in the development of the grant and submitted the list of commodities from which the project components have been developed. Given the urgent need for the commodities financed under the grant for the rehabilitation of Uganda's agricultural sector and for foreign exchange generation, we believe that the Government of Uganda will be able to sign the Project Agreement within the short time frame which is available.

REDSO/EA is drafting a Project Agreement, and upon notice of authorization from AID/W will negotiate and sign the agreement.

B. Conditions and Covenants

In addition to the standard conditions included in AID Project Agreements, the following conditions and covenants are proposed:

1. Conditions Precedent

a. Condition Precedent to Initial Disbursement

The GOU will present to AID for its approval a project implementation plan or plans which, inter alia, (1) specify GOU responsibilities in program implementation, including the ministries and officials responsible for monitoring program implementation; (2) specify GOU actions to be taken to expedite the importation of program commodities; (3) identify the parastatal entities and major private voluntary organizations that will be responsible for program implementation, including importation and distribution of program commodities; and (4) sets forth a plan for the establishment of an account(s) into which the reflows accruing from the sale of commodities imported under this Agreement will be deposited, and the subsequent disposition of the reflows; Furthermore, prior to disbursement for each of the three categories of commodities to be imported under the program, the Government shall provide a plan satisfactory to AID covering importation and distribution of each such category of commodities (i.e. raw materials, motor vehicles and agricultural sector inputs).

b. <u>Conditions Precedent to Disbursement of Funds for Importation of Raw Materials</u>

The GOU will present to AID for its approval written assurances of its intention to provide adequate and timely foreign exchange, as available, on a priority basis, to those firms which AID proposes to assist through the provision of raw materials.

2. <u>Covenants</u>

a. That the GOU will examine the relationship of Uganda Hoes, Ltd. to the Uganda Steel Corporation, and will take appropriate steps to assure that Uganda Hoes, Ltd. will be able to operate with sufficient autonomy to carry out the objectives of this Agreement.

b. That the GOU will review periodically the need to maintain official prices for farm implements. To the extent that official prices are maintained, the GOU covenants that it will determine and/or adjust the official prices of farm implements on the basis of fair production and distribution costs and profit margins, and that official price adjustments will be made without undue delay, particularly when major cost shifts occur owing to exogenous events, such as the realignment of the exchange rate.

c. That the GOU will examine the existing distribution system for farm implements and will take appropriate steps to assure that manufacturing entities to receive assistance under this Agreement are permitted to develop equitable and efficient distribution systems.

d. That the GOU will use its best efforts to assure that adequate maintenance and spare parts are available for all vehicles procured under this Agreement.

e. That the GOU will undertake to prevent the misappropriation, loss or export of commodities financed or manufactured under this Agreement.

Table I

Recorded export crop production (in 000 metric tons)

	1970/71	1978/79
Coffee	175	80
Tea	18	11
Sugar	144	12
Cotton	76	11

PRODUCTION INDICE OF MAJOR FOOD CROPS IN UGANDA AND ACREAGE

(1971 = 100)

	1971	1972	1973	1974	1975	1976	1977	% Average change/ annum 1971-1977	% Average change/ annum 1971-1976
PRODUCTION									
Maize grains	100	118 5	99.3	101.8	135.2	149.2	199.8	+ 14.3 %	+ 9.8
Finger millet	100	91.3	99.0	90.9	104.8	92.0	74.6	- 3.6 %	- 1.6
Sorghum	100	120.2	111.7	156.7	134.0	140.8	139.5	+ 5.6 %	+ 8.2
Beans	100	106.8	76.8	88.5	146.9	156.9	220.8	+ 17.3 %	+ 11.4
Soya beans	100	175.0	125.0	107.5	92.5	202.5	75.0	- 3.6 %	-
Groundnuts	100	93.3	84.6	79.5	68.0	93.9	87.0	- 1.9 %	- 1.2
Simsim	100	93.2	99.4	100.0	126.5	128.5	136.9	+ 5.3 %	+ 5.7
Average	100	104.7	97.0	103.6	117.2	121.9	133.2	+ 4.7 %	+ 4.4
ACREAGE									
Maize grains	100	148.2	112.2	138.5	169.7	187.3	155.9	+ 9.3 %	+ 17.5
Finger millet	100	69.4	88.8	71.2	67.6	69.6	71.1	- 4.8 %	- 6.1
Sorghum	100	103.6	93.5	119.5	101.4	106.4	92.6	- 1.2 %	+ 1.3
Beans	100	67.3	78.2	88.9	88.7	94.7	74.8	- 4.2 %	- 1.1
Soya beans	100	175.0	125.0	150.0	130.0	202.5	75.0	- 4.2 %	-
Groundnuts	100	98.9	75.4	90.9	82.6	72.5	60.4	- 6.6 %	- 5.5
Simsim	100	88.3	93.2	94.2	118.7	110.2	67.4	+ 5.4 %	+ 2.0
Average	100	89.1	88.7	94.5	94.7	98.1	84.4	- 2.6 %	- 0.4

Table II

GAZETTED MINIMUM PRICES TO GROWERS AND FREE MARKET PRICES FOR MAJOR FOOD CROPS (in cents per kilogram)

		1970	1971	1972	1973	1974	1975	1976	1977
Maize (grains)	G	18	25	25	25	40	50	50	50
	FM	60	74	88	79	122	129	240	379
Finger millet (grains)	G	40	45	45	45	50	70	70	70
	FM	182	192	202	192	342	232	382	519
Sorghum (grains)	G	20	20	20	20	25	35	35	35
	FM	74	87	78	86	126	191	331	674
Beans (mixed)	G	50	45	45	45	50	70	70	70
	FM	98	97	110	138	211	258	487	667
Soya beans	G	55	55	55	60	80	110	110	110
	FM	–	–	–	–	–	–		–
Groundnuts (shelled)	G	110	110	110	110	130	160	160	160
	FM	225	375	415	450	474	423	479	979
Simsim	G	120	120	125	125	130	180	180	180
	FM		–	–	–	–	–		–
Cow peas	G	45	45	45	45	50	70	70	70
	FM	127	139	169	150	165	181	485	681
Field peas	G	55	50	60	60	65	90	90	90
	FM	110	113	100	157	173	175	304	612
Pigeon peas	G	45	45	50	50	55	80	80	80
	FM	91	134	80	151	174	213	339	476

Source : Ministry of Agriculture – Planning Division.

Table IV

YIELD OF MAJOR FOOD CROPS IN UGANDA.

kg/ha

	Theoretical yield (1)	Computed yield(2)	Actual yield in seeds production farms (3)		
			SENDUSU	ISIMBA	KISINDI
Maize	4 000	1 239	900 to 2 200	500 to 800	700
Finger millet	1 700	1 124	240 to 378	– –	–
Sorghum	3 000	1 387	600 to 2 530	440	–
Beans	1 000	631	450 to 700	70 to 340	142
Soya beans	1 000	836	350 to 950	225	–
Groundnuts	1 700	993	100 to 670	350 to 800	
Simsim	500	321	60 to 165	– –	.

(1) Following "Crop Production Pocket Book" Ministry of Agriculture - Entebbe.

(2) Following production and area planted since 1971 to 1976.

(3) Following informations collected in the farms.

TABLE V

Annex 1

Output of Selected Manufactures: 1970, 1975, 1977-8

	Unit	1970	1975	1977-1978	1977-78 as % of 1970
Cotton and other fabrics	m. linear metres	54.6	39.1	30.3	55
Blankets	000s	1164	322	165	14
Socks & stockings	000 dozen	1246	261	290*	23
Soap	000 tonnes	12.9	3.6	1.2	9
Paper	000 tonnes	1603+	1805	1380	86
Cooking oil	000 tonnes	13.0	6.1	1.5	11
Paints	000 litres	1660	852	586*	35
Matches	000 cartons	49.3	31.4	8.1	16
Cement	000 tonnes	191	98	73	38
Superphosphates	000 tonnes	24.8	4.0	0	0
Corrugated iron sheets	000 tonnes	11.9	1.4	0.8	7
M.S. rounds squares etc.	000 tonnes	17.6	6.3	7.9*	45
Beer	m. litres	27.8	38.8	22.1*	79
Waragi	000 tonnes	563	859	420	75
Cigarettes	million	1536	1754	1867*	122

* Asterisked figures refer to 1977, all others are for 1978

+ 1972

Source: Industry - level discussions.

Source: Commonwealth Secretariat Report, June 1979; p. 28.

Table VI

Real Returns from Urban Wage-Earning and Legal Cash Crop Sales

	1970/71	1975/76	1978
Cost of living index, Kampala low-income, (1970=100)	100	346*	785**
Minimum wage index,	100	140	154
- deflated by low-income price index	100	40	20
Official grower price index, robusta coffee, kiboko,	100	118	294
- deflated by low-income price index	100	34	37
Official grower price index, cotton	100	152	400
- deflated by low-income price index	100	44	51
Average realized export price index, tea	100 (1972)	117	121
- deflated by low-income price index	100	34	15
Kampala low-income food price index	100	381*	1238
- deflated by low-income price index	100	110	158

* Average of 1975 and 1976 indices

** Average for the year

Source: Office of Statistics, Commonwealth Team figures

Table VII

Growth in Money Supply, East Africa, 1971/78

	1971	1975	1978	March 1979
Uganda (Shs. m.)	1160	3252	7084	7808
Uganda (1971=100)	100	280	611	673
Kenya (1971=100)	100	175	356	n a
Tanzania (1971=100)	100	207	341	n a

Source: IMF, International Financial Statistics,
Bank of Uganda, Bank of Tanzania,
Control Bank of Kenya

Source: Commonwealth Secretariat Report, June 1979, pages 32 & 33

A. Uganda Hoes, Ltd.

Uganda Hoes, Ltd. was founded in 1962 as Chillington Hoes (Uganda), the East African branch of Chillington Hoes (UK), Ltd. Both production and profits remained steady in the early 1970s, reaching a peak of about 1.5 million hoes and U Shs 600,000, respectively, in 1970 (see attached table). Sales of the hoes were primarily in Uganda, although 300,000 were exported officially to Kenya, 250,000 exported to Rwanda, and an indeterminate number unofficially exported to neighboring countries.

In 1973, government nationalized the company and renamed it Uganda Hoes, Ltd. Production has declined steadily since that time, owing principally to increased difficulties in obtaining steel inputs. As access to imported steel became more difficult, the factory turned to local steel produced by Uganda Steel Manufacturers, which like Uganda Hoes is a parastatal subsidiary of Uganda Steel Corporation. Unfortunately problems were often encountered because local steel does not achieve the desired degree of hardness required for hoe production. In addition, Uganda Steel Manufacturers does not find it profitable to produce the small batches required by Uganda Hoes.

About two months ago, Uganda Hoes essentially ceased production owing to a lack of steel inputs. Although the company has placed orders for more steel from Uganda Steel Manufacturers, there have been serious delays and problems in getting any steel at all. Small amounts will probably be forthcoming, because of GOU pressure, but this is seen only as a stop gap measure. Uganda Hoes, Ltd. has been unable to acquire an allocation of foreign exchange which would enable it to order quality steel in sufficient quantities to assure its production. The company has continued to pay its staff, as well as the loan repayments for the new production line installed last year.

The production capacity of Uganda Hoes is about 1.5 million hoes on the original production line, using double-shifting. The original line was second-hand when it was installed in 1962. However, it has been very well maintained. The Manager says that the old line is superior to the machinery which is available on today's markets. The company purchased a new production line from Germany, albeit piece by piece over the past three years. Several small pieces of this equipment are currently tied up at the port in Mombasa. When the second line is complete, it will be able to produce almost 1.0 million hoes per annum on the first shift, and approximately 1.25 million hoes on a double shift basis.

The company employs 170 people; this number would expand by about 30 when the second line comes into production. Even though production essentially stopped in June, the factory is maintaining its payroll for the time being. However, the firm's financial position is increasingly perilous. About 90 employees work on the production line, with the remainder working in the workshop and maintenance units and in management and accounting positions. Apart from the Acting General Manager, who is British and has been with the company since 1971, the entire staff is Ugandan. The technical skills and staff morale appear to be very high under the circumstances.

With respect to demand for hoes in Uganda and throughout East Africa, the Manager believes that demand is both high and inelastic at current and projected levels of production. Experience to date has shown that every hoe that is produced can be sold, even at prices which are triple the current official price. While demand within Uganda would probably not absorb all of the hoes produced after two or three years, the export market within the region has always provided a steady market.

The distribution of hoes was handled by the company through its retail agents in each district until nationalization in 1972. With nationalization came a licensing system whereby only traders licensed by the Minister of Agriculture were allowed to purchase hoes for resale. The company also had an outlet on its premises for direct, cash sales to the public. Subsequently, the company could sell directly to District Commissioners on credit. This system was disasterous for the firm and when District accounts arrears reached 3 mil. shillings, the system was changed to function through Provincial Governors.

Yet a third system was subsequently devised, with distribution through the Ministry of Agriculture. Hoes were sold against government drafts, with Ministry of Agriculture personnel responsible for the sales. Of the controlled distribution systems, this was the best from Uganda Hoes' perspective, since payments were not a problem. However, a directive setting up a fourth system was recently issued, putting distribution under Ministry of Commerce auspices. Since there have been no hoes to sell, the workings of the system remain unclear.

As a company, Uganda Hoes appears to be well managed and on a sound technical footing. When the government recently reduced the official price of hoes from Sh 45/- to Sh 27/-, Ugma Steel Engineering Corp. had to go out of hoes production. However, the manager of Uganda Hoes believes that with 1) sufficiently high levels of production, 2) non-interference in the management of the company, and 3) access to steel and/or foreign exchange, the company could produce at a profit.

UGANDA HOES, LIMITED

HOES PRODUCTION PER YEAR FROM 1970 TO 1978

YEAR	PIECES	VALUE
1970	1,502,825	13,525,825.00
1971	1,370,975	12,338,775.00
1972	1,452,875	13,075,875.00
1973	1,205,500	10,849,500.00
1974	1,066,200	9,595,800.00
1975	752,625	12,042,000.00
1976	404,000	9,696,000.00
1977	375,200	9,004,800.00
1978	332,950	11,266,975.00
TOTAL	8,462,850	101,395,550.00

JINJA
21ST MAY 1979

B. Ugma Steel and Engineering Corporation Limited

Ugma Steel and Engineering Corporation Ltd was founded in the mid-1960's as part of the Sugar Works complex in Lugazi, about 40 kilometers from Kampala. The company employs over 300 persons and has two main business components: 1) it produces industrial machinery components and machinery parts for the Sugar Works factory, and was once the largest foundaries in East Africa; and 2) it has a small agricultural implements factory which makes hoes, spades, axes and pick-axes. As a subsidiary of the Sugar Works, the company has been treated as a captive source of supply for the sugar mill, with 70% of output going to the Sugar Works. Since the sugar mill has been inoperative, the company has concentrated on its agricultural implements component. Until early September, the company was producing hoes at a rate of 800 per day. However, the recent change in the official price of hoes has forced the company to turn to the production of other agricultural implements which are not subject to official price controls. Unfortunately, the only type of steel which the company has in stock can be used only for hoes production. Therefore, the company will probably cease to produce farm implements until it has access to steel billets used for making axes and pick-axes or thinner steel flats for making shovels.

C. Dunlop Tyres (E.A.) Limited

Dunlop Tyres (E.A.) Ltd was founded by Dunlop Tyres (U.K.) Ltd. in the early 1960's. The company was taken over by the Government in 1972. Its products are bicycle tires and tubes, rubber solution and adhesives. The company employs 160 persons and produced 300,000 tires and 450,000 tubes in 1978. At peak capacity, the company can produce 60,000 tires per month or about 720,000 per annum on a double shift basis. Two standard sizes of bicycle tires are produced: 28 x 1½ and 26 x 1¾. Until July 1979, the company operated on one shift only owing to a shortage of foreign exchange to purchase its main raw material inputs, rubber (natural and synthetic) and cotton cloth. (The company uses about 300 tons of natural rubber per annum, in addition to synthetic and reclaimed rubber.) Since then, the company has ceased production. The company has some supply of other necessary materials, but needs natural rubber, synthetic rubber, cotton cloth and valve parts to resume production. Since materials usually take three to four months from the time orders are placed until their arrival in Jinja, the company faces several critical months ahead.

Waiver Control No.

ACTION MEMORANDUM FOR ASSISTANT ADMINISTRATOR FOR AFRICA

From: Alexander R. Love, Director, REDSO/EA

Subject: Vehicle Procurement Waiver (Source/Origin)

1. Problem: Approval is requested for a procurement source/origin waiver for vehicles from AID Geographic Code 935 (Special Free World), as described below:

A.	Cooperating Country:	Uganda
B.	Authorizing Document:	PAAD
C.	Project:	Uganda Agriculture Sector Rehabilitation-Commodity Support Program 617-001
D.	Nature of Funding:	Grant - Section 531
E.	Description of Goods	Twelve One to one and one-half ton Pickup trucks and spare parts
F.	Approximate Value	$100,000
G.	Probable Procurement Origin:	Code 935 Countries
H.	Probable Procurement Source:	Kenya

2. Discussion: Section 636(i) of the Foreign Assistance Act of 1961, as amended, prohibits AID from purchasing motor vehicles unless such vehicles are manufactured in the United States. Section 636(i) does provide, however, that ".... where special circumstances exist, the President is authorized to waive the provision of this Act in order to carry out the purpose of the Act." In addition Handbook 1, Supplement B, provides that commodities procured under grants to RLDCs must be procured from countries included in Geographic Code 941, unless a waiver is obtained. The Handbook provides that a waiver from Code 941 to Code 935 may be granted for example, when there is an emergency requirement for which non-AID funds are not available and the requirements can be met in time only by purchase of non-U.S. manufactured vehicles, or in such other circumstances as are determined to be critical to the success of project objectives. Authority for making the special determination and waiver has been delegated to the Assistant Administration for Africa in accordance with Delegation of Authority No.40.

The above vehicles are urgently needed on a timely basis to deliver goods to be provided by this grant for the rehabilitation of the agricultural sector. Vehicles of the type indicated are now readily available in Kenya.

These vehicles will be purchased as needed to distribute goods purchased with this grant. If U.S. vehicles can be procured on a timely basis, then this waiver authority will not be utilized.

Accordingly, it is our view that special circumstances exist which justify waiving the origin requirements under Section 636(i) and source/origin requirements generally set forth in Handbook 1, Supplement B.

3. Recommendation: It is recommended 1) that you conclude that special circumstances exist justifying waiver of the requirement of U.S. manufactured vehicles under Section 636(i) and 2) that you certify that exclusion of procurement from the source requested herein would seriously impede attainment of U.S. foreign policy objectives and the objectives of the foreign assistance program.

APPROVED: ____________________

DISAPPROVED: ____________________

DATE: ____________________

Clearance: E. Spriggs, ARLA (draft)
G. LaBombard, COM (draft)

INITIAL ENVIROMENTAL EXAMINATION

Project Country: Uganda

Project Title: Agriculture Sector Rehabilitation: Commodity Import Program

Funding: FY79 $3,000,000
FY80 $5,000,000

Period of Project: The terminal date for requesting disbursement authorization is 12 months from the date of the grant agreement. The terminal disbursement date is 18 months from the date of the grant agreement

IIE Prepared By: Helen Soos, Economist, REDSO/EA

Enviromental Actions Recommended: Negative Determination

Concurrence: Alexander R. Love, Director, REDSO/EA ____________

Curt Andersen, Enviromental Officer ____________

Laurence Hausman, Chief, Project Design Division ____________

Edward Spriggs, Legal Advisor ____________

Assistant Adminstrator Decision:

APPROVED ____________

DISAPPROVED ____________

DATE ____________

I. Description of Project

Uganda is currently facing severe economic problems which are exacerbated by serious balance of payment difficulties. The Government of Liberated Uganda inherited not only a war-torn country, but an economy which has been progressively reduced to ruins by eight years of Idi Amin's military regime. During this period normal businesses were systematically dispossessed and given to largely inexperienced managers; supplies of commodities including essential food products were erratic; inflation averaged over 100% per annum while the minimum wage rose by only 54% in eight years; and the black market (magendo) provided the only means for the majority of the population to acquire essential goods. Fortunately many Ugandans were able to retreat to their farms and to subsist on their own agricultural production, often without such essentials as salt, sugar and cooking oil.

The proposed commodity import program will provide the Ugandan Government with needed foreign exchange for the rehabilitation of essential aspects of the country's agricultural sector. The agricultural sector provides the source of livelihood for over 90% of the country's population, and has traditionally contributed over 90% of Uganda's foreign exchange earnings. Commodities financed under the grant will include inputs such as steel for the local manufacturing of hoes and other farm implements, seeds, and fertilizer, as well as produce sacks, bicycles and vehicles to promote the resumption of marketing of agricultural produce. It is anticipated that no pesticides will be financed under this grant. None of the commodities to be financed will have a significant impact on the enviroment.

II. Recommended Enviromental Action

In accordance with AID Regulation 16, paragraph 216-2(f) and (g), it has been determined that a negative determination is appropriate regarding the enviromental impact of this grant. As the proceeds of the grant will not be used for the purpose of carrying out a specifically identifiable project or series of activities, an Enviromental Assessment or Enviromental Impact Statement is not required.

1/12

ANNEX 5

3A(1) - COUNTRY CHECKLIST

The criteria listed in Part A are applicable generally to FAA funds, and should be used irrespective of the program's funding source. In Part B a distinction is made between the criteria applicable to Security Supporting Assistance and the criteria applicable to Development Assistance. Selection of the appropriate criteria will depend on the funding source for the program.

A. GENERAL CRITERIA FOR COUNTRY

FAA Sec 116

1. FAA Sec. 481. Has it been determined that the government of recipient country has failed to take adequate steps to prevent narcotics drugs and other controlled substances (as defined by the Comprehensive Drug Abuse Prevention and Control Act of 1970) produced or processed, in whole or in part, in such country, or transported through such country, from being sold illegally within the jurisdiction of such country to U.S. Government personnel or their dependents, or from entering the U.S. unlawfully? — No

2. FAA Sec. 620(b). If assistance is to a government, has the Secretary of State determined that it is not controlled by the international Communist movement? — Yes

3. FAA Sec. 620(c). If assistance is to a government, is the government liable as debtor or unconditional guarantor on any debt to a U.S. citizen for goods or services furnished or ordered where (a) such citizen has exhausted available legal remedies and (b) debt is not denied or contested by such government? — No

4. FAA Sec. 620(e)(1). If assistance is to a government, has it (including government agencies or subdivisions) taken any action which has the effect of nationalizing, expropriating, or otherwise seizing ownership or control of property of U.S. citizens or entities beneficially owned by them without taking steps to discharge its obligations toward such citizens or entities? — No

620(a)

5. FAA Sec. 620(f); App. Sec. 108. Is recipient country a Communist country? Will assistance be provided to the Democratic Republic of Vietnam (North Vietnam), South Vietnam, Cambodia, or Laos? — No

A.

6. FAA Sec. 620(i). Is recipient country in any way involved in (a) subversion of, or military aggression against, the United States or any country receiving U.S. assistance, or (b) the planning of such subversion or aggression?	No
7. FAA Sec. 620(j). Has the country permitted, or failed to take adequate measures to prevent, the damage or destruction, by mob action, of U.S. property?	No
8. FAA Sec. 620(l). If the country has failed to institute the investment guaranty program for the specific risks of expropriation, inconvertibility or confiscation, has the AID Administrator within the past year considered denying assistance to such government for this reason?	No
9. FAA Sec. 620(o); Fishermen's Protective Act, Sec. 5. If country has seized, or imposed any penalty or sanction against, any U.S. fishing activities in international waters, a. has any deduction required by Fishermen's Protective Act been made? b. has complete denial of assistance been considered by AID Administrator?	Not applicable. Uganda is a land locked country
10. FAA Sec. 620(q); App. Sec. 504. (a) Is the recipient country in default on interest or principal of any AID loan to that country? (b) Is country more than one year in default on interest or principal on U.S. loan made pursuant to program for which funds appropriated under Approp. Act, unless debt was earlier disputed, or appropriate steps taken to cure default?	(a) No (b) No
11. FAA Sec. 620(s). What percentage of country budget is for military expenditures? How much of foreign exchange resources spent on military equipment? How much spent for the purchase of sophisticated weapons systems? (Consideration of these points is to be coordinated with the Bureau for Program and Policy Coordination, Regional Coordinators and Military Assistance Staff (PPC/RC).)	Not available: the new budget is expected to be released in November. The old budget is not relevant

A.

12. FAA Sec. 620(t). Has the country severed diplomatic relations with the United States? If so, have they been resumed and have new bilateral assistance agreements been negotiated and entered into since such resumption? — No

13. FAA Sec. 620(u). What is the payment status o: the country's U.N. obligations? If the country is in arrears, were such arrearages taken into account by the AID Administrator in determining the current AID Operational Year Budget? — No, Yes

14. FAA Sec. 620A. Has the country granted sanctuary from prosecution to any individual or group which has committed an act of international terrorism? — No

15. FAA Sec. 659. If (a) military base is located in recipient country, and was constructed or is being maintained or operated with funds furnished by the United States, and (b) U.S. personnel carry out military operations from such base, has the President determined that the government of recipient country has authorized regular access to U.S. correspondents to such base? — Not applicable

16. FAA Sec. 669. Has the country delivered or received nuclear reprocessing or enrichment equipment, materials or technology, without specified arrangements on safeguards, etc.? — No

17. FAA Sec. 670. Has the country delivered or received nuclear reprocessing, equipment, material or technology? Is the country not a "nuclear-weapon state" as defined in Article IX(3) of the Nuclear Non-Proliferation Treaty and on which detonates a nuclear explosive device? — No

18. FAA Sec. 901. Has the country denied its citizens the right or opportunity to emigrate? — No

FUNDING CRITERIA FOR COUNTRY

1. Security Supporting Assistance Country Criteria

a. FAA Sec. 502B. Has the Department of State made findings which indicate that the country has engaged in a consistent pattern of gross violations of internationally recognized human rights? If so, is program in accordance with policy of this Section? — No

B1

b. FAA Sec. 531. Is the Assistance to be furnished to a friendly country, organization, or body eligible to receive assistance?	Yes
c. FAA Sec. 609. If commodities are to be granted so that sale proceeds will accrue to the recipient country, have Special Account (counterpart) arrangements been made?	Yes
2. Development Assistance Country Criteria	
a. FAA Sec. 102(c), (d). Have criteria been established, and taken into account, to assess commitment and progress of country in effectively involving the poor in development, on such indexes as: (1) small-farm labor intensive agriculture, (2) reduced infant mortality, (3) population growth, (4) equality of income distribution, and (5) unemployment.	Not applicable to this grant
b. FAA Sec. 115. Will country be furnished, in same fiscal year, either security supporting assistance, or Middle East peace funds? If so, has the Congress specifically authorized such funds, or is assistance for population programs, humanitarian aid through international organizations, or regional programs?	Not applicable
c. FAA Sec. 116. Can it be demonstrated that contemplated assistance will directly benefit the needy? If not, has the Department of State made findings which indicate that this government has engaged in a consistent pattern of gross violations of internationally recognized human rights?	Yes
d. FAA Sec. 201(b)(5), (7) & (8); Sec 208; 211(a)(4), (7). Describe extent to which country is:	
(1) Making appropriate efforts to increase food production and improve means for food storage and distribution.	The government has recently raised prices of oil crops to encourage increased production; other crops are not experiencing shortages.
(2) Creating a favorable climate for foreign and domestic private enterprise and investment.	The government is inviting private enterprise to return.
(3) Increasing the public's role in the developmental process.	Cooperatives constitute the basis for all agricultural development.

B2d

(4) (a) Allocating available budgetary resources to development. (b) Diverting such resources for unnecessary military expenditure and intervention in affairs of other free and independent nations.	There is no budget for the new government yet; however there are no indication that resources will be diverted
(5) Making economic, social, and political reforms such as tax collection improvements and changes in land tenure arrangements, and making progress toward respect for the rule of law, freedom of expression and of the press, and recognizing the importance of individual freedom, initiative, and private enterprise.	The new government is beginning to undertake reform, and to restore law and order.
(6) Otherwise responding to the vital economic, political, and social concerns of its people, and demonstrating a clear determination to take effective self-help measures.	There is no evidence yet, given the new-ness of the government.
e. FAA Sec. 201(b), 211(a). Is the country among the 20 countries in which development assistance loans may be made in this fiscal year, or among the 40 in which development assistance grants (other than for self-help projects) may be made?	Yes

3A(2) - NONPROJECT ASSISTANCE CHECKLIST

The criteria listed in Part A are applicable generally to FAA funds, and should be used irrespective of the program's funding source. In Part B a distinction is made between the criteria applicable to Security Supporting Assistance and the criteria applicable to Development Assistance. Selection of the appropriate criteria will depend on the funding source for the progr

CROSS-REFERENCES: IS COUNTRY CHECKLIST UP TO DATE? IDENTIFY. HAS STANDARD ITEM CHECKLIST BEEN REVIEWED?

A. GENERAL CRITERIA FOR NONPROJECT ASSISTANCE

1. App. Unnumbered; FAA Sec 653(b)

(a) Describe how Committees on Appropriations of Senate and House have been or will be notified concerning the nonproject assistance;

FY79 Congressional Notification submitted in August 1979.

(b) Is assistance within (Operational Year Budget) country or international organization allocation reported to the Congress (or not more than $1 million over that figure plus 10%)?

No

2. FAA Sec. 611(a)(2). If further legislative action is required within recipient country, what is basis for reasonable expectation that such action will be completed in time to permit orderly accomplishment of purpose of the assistance?

No further ligislative action is required.

3. FAA Sec. 209, 619. Is assistance more efficiently and effectively given through regional or multilateral organizations? If so why is assistance not so given? Information and conclusion whether assistance will encourage regional development programs. If assistance is for newly independent country, is it furnished through multilateral organizations or in accordance with multilateral plans to the maximum extent appropriate?

No

4. FAA Sec. 601(a); (and Sec. 201(f) for development loans). Information and conclusions whether assistance will encourage efforts of the country to: (a) increase the flow of international trade; (b) foster private initiative and competition; (c) encourage development and use of cooperatives, credit unions, and savings and loan associations; (d) discourage monopolistic practices; (e) improve technical efficiency of industry, agriculture, and commerce; and (f) strengthen free labor unions.

Grant will increase exports, foster cooperative development and improve technical efficiency of agriculture and commerce to a limited extent.

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5. FAA Sec. 601(b). Information and conclusion on how assistance will encourage U.S. private trade and investment abroad and encourage private U.S. participation in foreign assistance programs (including use of private trade channels and the services of U.S. private enterprise).

Commodities imported to Uganda will originate in U.S. thereby strengthening U.S. trade

6 FAA Sec. 612(b); Sec 636(h). Describe steps taken to assure that, to the maximum extent possible, the country is contributing local currencies to meet the cost of contractual and other services and foreign currencies owned by the United States are utilized to meet the cost of contractual and other services.

Not applicable; there are no contract services.

7. FAA Sec. 612(d). Does the United States own excess foreign currency and, if so, what arrangements have been made for its release?

No, the U.S. owns no foreign currecy.

B. FUNDING CRITERIA FOR NONPROJECT ASSISTANCE

1. Nonproject Criteria for Security Supporting Assistance

a. FAA Sec. 531. How will this assistanc support promote economic or political stability? Is the country among the 12 countries in which Supporting Assistance may be provided in this fiscal year?

The assistance will strengthen small farmers productive capabilities, thereby helping the country overcome basic economic problems.

2. Nonproject Criteria for Development Assistance

a. FAA Sec. 102(c); Sec. 111; Sec. 281a. Extent to which activity will (1) effectively involve the poor in development, by extending access to economy at local level increasing labor-intensive production, spreading investment out from cities to small towns and rural areas; and (2) help develop cooperatives, assist rural and urban poor to help themselves toward better life, and otherwise encourage democratic private and local government institutions?

The activity will provide inputs and services to the poor, and will strengthen cooperative development.

b. FAA Sec. 103, 103A, 104, 105, 106, 107. Is assistance being made available: [include only applicable paragraph -- e.g., a, b, etc. -- which corresponds to sources of funds used. If more than one fund source is used for assistance, include relevant paragraph for each fund source.]

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(1) [103] for agriculture, rural development or nutrition; if so, extent to which activity is specifically designed to increase productivity and income of rural poor; [103A] if for agricultural research, is full account taken of needs of small farmers;	Yes
(2) [104] for population planning or health; if so, extent to which activity extends low-cost, integrated delivery systems to provide health and family planning services, especially to rural areas and poor; extent to which assistance gives attention to interrelationship between (A) population growth and (B) development and overall improvement in living standards in developing countries. Is activity designed to build motivation for small families in programs such as education in and out of school, maternal and child health services, agriculture production, rural development, and assistance to urban poor?	No
(3) [105] for education, public administration, or human resources development; if so, extent to which activity strengthens nonformal education, makes formal education more relevant, especially for rural families and urban poor, or strengthens management capability of institutions enabling the poor to participate in development;	No
(4) [106] for technical assistance, energy, research, reconstruction, and selected development problems; if so, extent activity is:	
(a) to help alleviate energy problem;	No
(b) reconstruction after natural or manmade disaster;	Yes
(c) for special development problem, and to enable proper utilization of earlier U.S. infrastructure, etc., assistance;	No
(d) for programs of urban development, especially small labor-intensive enterprises, marketing systems, and financial or other institutions to help urban poor participate in economic and social development.	No
(5) [107] by grants for coordinated private effort to develop and disseminate intermediate technologies appropriate for developing countries.	No

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c. FAA Sec. 207; Sec. 113. Extent to which assistance reflects appropriate emphasis on: (1) encouraging development of democratic, economic, political, and social institutions; (2) self-help in meeting the country's food needs; (3) improving availability of trained worker-power in the country; (4) programs designed to meet the country's health needs; (5) other important areas of economic, political, and social development, including industry; free labor unions, cooperatives, and Voluntary Agencies; transportation and communication planning and public administration; urban development, and modernization of existing laws; or (6) integrating women into the recipient country's national economy.	Assistance is designed to respond to 1) and 2), and 5) to a limited degree.
d. FAA Sec. 281(b). Describe extent to which program recognizes the particular needs, desires, and capacities of the people of the country; utilizes the country's intellectual resources to encourage institutional development; and supports civic education and training in skills required for effective participation in governmental and political processes essential to self-government.	Program responds to farmers' needs, and relies on their capacities for implementation.
e. FAA Sec. 201(b)(2)-(4) and -(8); Sec. 201(e); Sec. 211(a)(1)-(3) and -(8). Does the activity give reasonable promise of contributing to the development of economic resources, or to the increase of productive capacities and self-sustaining economic growth; or of educational or other institutions directed toward social progress? Is it related to and consistent with other development activities, and will it contribute to realizable long-range objectives?	Yes; Yes
f. FAA Sec. 201(b)(6); Sec. 211(a)(5), (6). Information and conclusion on possible effects of the assistance on U.S. economy, with special reference to areas of substantial labor surplus, and extent to which U.S. commodities and assistance are furnished in a manner consistent with improving or safeguarding the U.S. balance-of-payments position.	U.S. commodities constitute the majority of assistance to be extended.
3. Nonproject Criteria for Development Assistance (Loans only)	Not applicable
a. FAA Sec. 201(b)(1). Information and conclusion on availability of financing from other free-world sources, including private sources within the United States.	

b. FAA Sec. 201(b)(2); 201(d). Information and conclusion on (1) capacity of the country to repay the loan, including reasonableness of repayment prospects, and (2) reasonableness and legality (under laws of country and United States) of lending and relending terms of the loan.	Not applicable
c. FAA Sec. 201(e). If loan is not made pursuant to a multilateral plan, and the amount of the loan exceeds $100,000, has country submitted to AID an application for such funds together with assurances to indicate that funds will be used in an economically and technically sound manner?	
d. FAA Sec. 202(a). Total amount of money under loan which is going directly to private enterprise, is going to intermediate credit institutions or other borrowers for use by private enterprise, is being used to finance imports from private sources, or is otherwise being used to finance procurements from private sources?	

4. Additional Criteria for Alliance for Progress

[Note: Alliance for Progress assistance should add the following two items to a nonproject checklist.]

a. FAA Sec. 251(b)(1)-(8). Does assistance take into account principles of the Act of Bogota and Charter of Punta del Este; and to what extent will the activity contribute to the economic or political integration of Latin America?	Not applicable
b. FAA Sec. 251(b)(8); 251(h). For loans, has there been taken into account the effort made by recipient nation to repatriate capital invested in other countries by their own citizens? Is loan consistent with the findings and recommendations of the Inter-American Committee for the Alliance for Progress (now "CEPCIES," the Permanent Executive Committee of the OAS) in its annual review of national development activities?	Not applicable

3A(3) - STANDARD ITEM CHECKLIST

Listed below are statutory items which normally will be covered routinely in those provisions of an assistance agreement dealing with its implementation, or covered in the agreement by exclusion (as where certain users of funds are permitted, but other uses not).

These items are arranged under the general headings of (A) Procurement and (B) Other Restrictions.

A. PROCUREMENT

1. FAA Sec. 602. Are there arrangements to permit U.S. small business to participate equitably in the furnishing of goods and services financed?	Not applicable
2. FAA Sec. 604(a). Will all commodity procurement financed be from the United States except as otherwise determined by the President or under delegation from him?	Yes
3. FAA Sec. 604(b). Will all commodities in bulk be purchased at prices no higher than the market price prevailing in the United States at time of purchase?	Yes
4. FAA Sec. 604(c). Will all agricultural commodities available for disposition under the Agricultural Trade Development & Assistance Act of 1954, as amended, be procured in the United States unless they are not available in the United States in sufficient quantities to supply emergency requirements of recipients?	Yes
5. FAA Sec. 604(d). If the cooperating country discriminates against U.S. marine insurance companies, will agreement require that marine insurance be placed in the United States on commodities financed?	Yes
6. FAA Sec. 604(e). If offshore procurement of agricultural commodity or product is to be financed, is there provision against such procurement when the domestic price of such commodity is less than parity?	Yes
7. FAA Sec. 604(f). Are there arrangements whereby a supplier will not receive payment under the commodity import program unless he/she has certified to such information as the Agency by regulation has prescribed?	Yes

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8. FAA Sec. 608(a). Will U.S. Government excess personal property be utilized wherever practicable in lieu of the procurement of new items?	Yes
9. MMA Sec. 901(b). (a) Compliance with requirement that at least 50 per centum of the gross tonnage of commodities (computed separately for dry bulk carriers, dry cargo liners, and tankers) financed shall be transported on privately owned U.S.-flag commercial vessels to the extent that such vessels are available at fair and reasonable rates.	Yes
10. International Air Transport. Fair Competitive Practices Act, 1974 If air transportation of persons or property is financed on grant basis, will provision be made that U.S.-flag carriers will be utilized to the extent such service is available?	Yes

B. OTHER RESTRICTIONS

1. FAA Sec. 620(h). Do arrangements preclude promoting or assisting the foreign aid projects or activities of Communist-Bloc countries, contrary to the best interests of the United States?	Yes
2. FAA Sec. 636(i). Is financing prohibited from use, without waiver, for purchase, long-term lease, exchange, or guaranty of sale of motor vehicle manufactured outside the United States?	Yes
3. Will arrangement preclude use of financing:	Yes
a. FAA Sec. 114. to pay for performance of abortions or involuntary sterilizations or to motivate or coerce persons to practice abortions? to pay for performance of involuntary sterilizations as method of family planning or to coerce or provide any financial incentive to any person to practice sterilizations?	Not applicable
b. FAA Sec. 620(g). to compensate owners for expropriated nationalized property?	Not applicable
c. FAA Sec. 660. to finance police training or other law enforcement assistance, except for narcotics programs?	Not applicable
d. FAA Sec. 662. for CIA activities?	Not applicable