PROJECT DATA SHEET

C | A = Add, C = Change, D = Delete | Amendment Number 1 | CODE 3

2. COUNTRY/ENTITY: UGANDA

3. PROJECT NUMBER: 617-0104 PD-AAU-672

4. BUREAU/OFFICE: AFRICA 06

5. PROJECT TITLE (maximum 40 characters): Rehabilitation Productive Enterprise

6. PROJECT ASSISTANCE COMPLETION DATE (PACD): MM 03 DD 31 YY 91

7. ESTIMATED DATE OF OBLIGATION (Under 'B.' below, enter 1, 2, 3, or 4)
A. Initial FY 84 B. Quarter 4 C. Final FY 88

8. COSTS ($000 OR EQUIVALENT $1 =)

A. FUNDING SOURCE	FIRST FY B. FX	C. L/C	D. Total	LIFE OF PROJECT E. FX	F. L/C	G. Total
AID Appropriated Total	6,000		6,000	18,200		18,200
(Grant)	(6,000)	( )	(6,000)	(18,200)	( )	(18,200
(Loan)	( )	( )	( )	( )	( )	(
Other U.S. 1.						
Other U.S. 2.						
Host Country						
Other Donor(s)		1,500	1,500		7,500	7,500
TOTALS		1,500	7,500	18,200	7,500	25,700

9. SCHEDULE OF AID FUNDING ($000)

A. APPROPRIATION	B. PRIMARY PURPOSE CODE	C. PRIMARY TECH. CODE 1. Grant	2. Loan	D. OBLIGATIONS TO DATE 1. Grant	2. Loan	E. AMOUNT APPROVED THIS ACTION 1. Grant	2. Loan	F. LIFE OF PROJECT 1. Grant	2. Loan
(1) EN	274	042							
(2)									
(3)									
(4)									
TOTALS									

10. SECONDARY TECHNICAL CODES (maximum 6 codes of 3 positions each): 070

11. SECONDARY PURPOSE CO: 264

12. SPECIAL CONCERNS CODES (maximum 7 codes of 4 positions each)

A. Code	BR	BL	BF	DEL			
B. Amount							

13. PROJECT PURPOSE (maximum 480 characters)

Improved incomes for rural poor and increased agricultural production through increased investment in agricultural enterprise.

14. SCHEDULED EVALUATIONS
Interim MM 09 YY 88 MM YY
Final MM 09 YY 90

15. SOURCE/ORIGIN OF GOODS AND SERVICES
☐ 000 ☒ 941 ☒ Local ☒ Other (Specify) 899

16. AMENDMENTS/NATURE OF CHANGE PROPOSED (This is page 1 of a ____ page PP Amendment.)

This Project Paper Supplement amends the original Project Paper in order to conform with the project authorization and to refine design based on two years of implementation experience.

17. APPROVED BY
Signature: Richard L. Podol
Title: Mission Director
Date Signed: MM 12 DD 16 YY 86

18. DATE DOCUMENT RECEIVED IN AID/W, OR FOR AID/W DOCUMENTS, DATE OF DISTRIBUTION
MM DD YY

AID 1330-4 (8-79)

UGANDA

REHABILITATION OF PRODUCTIVE ENTERPRISES

PROJECT PAPER SUPPLEMENT

(617-0104)

December 1986

REHABILITATION OF PRODUCTIVE
ENTERPRISES PP SUPPLEMENT

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I SUMMARY AND RECOMMENDATIONS

A. Grantee and Executing Agencies:

The Ministry of Finance is the designated grantee for this project and will sign Amendment One to the Grant Agreement on behalf of the Government of Uganda. The Bank of Uganda (the central bank of the country) will continue to be the official executing agency.

B. Recommendation:

1) That the Project Paper Supplement be deemed acceptable to meet conditions stipulated in the original Project Authorization to revise the Project Paper in line with the language given in the authorization (see Annex B)

2) That, based on the review and approval of the Project Paper Supplement, the second tranche ($5.3 million in FY 87 OYB) of this three tranche $18.2 million grant, be allotted in order to allow the Government of Uganda to continue to provide foreign exchange credit in order to stimulate the rehabilitation of war damaged productive agricultural related private sector enterprises.

3) Waivers:

A blanket waiver to allow for up to $3.0 million in purchases by subborrowers of items of Geographic Code 935 source and origin has already been authorized. An increase in this limit is not anticipated at this time.

C. The Project:

The project purpose continues to be to improve the income of rural poor and to increase agricultural production in Uganda through productive investment in agricultural enterprise. In order to meet this objective in a war rehabilitation environment the project's main thrust is to get a series of agricultural related economic enterprises back on their feet and operating on a profitable basis in order to: 1) provide a base for further growth, 2) produce goods currently in short supply on the local market, 3) to act as a catalyst in holding down inflation, and 4) to provide goods for local agro industry and for export markets.

In order to stimulate private sector investment or reinvestment in war damaged productive agricultural and/or agrobusiness enterprises, the Ugandan banking system is to provide a line of credit, both in local currency and foreign exchange, to finance the major private sector rehabilitation initiative. The alternative, economic stagnation, will further weaken the already strained private sector and could result in increased governmental intervention. This project is the primary source of foreign exchange for the rehabilitation of commercial agricultural ventures and thereby strengthening the private sector's investment role vis a vis possible expansion of state enterprises. As such, this project is the corner stone of AID's assistance to Uganda's war damaged economic recovery program and will continue to play an important role during the medium term as a basis for a healthy private sector which has potential to generate sufficient funds to ,in turn, finance public sector infrastructure improvements to further facilitate private enterprises.

However, the economic situation has worsened since project approval, necessitating a rethinking of certain policy aspects related to the full effectiveness of the project. A policy dialogue will be undertaken accordingly.

In the AID/W review of the original Project Paper, it was agreed to a) reduce the $32 million, 7 1/2 yr project to $18.3 million, b) to accelerate a trial (Phase I) operation, and c) to adjust the budget to encourage a lower cost approach to technical assistance. This project paper supplement reflects these changes as well as includes revisions based on the trial implementation period (Phase I). As can be seen from the revised budget below there exists a greater demand for foreign exchange credit, complemented by a reduced need for technical assistance to the private sector, since entrepreneurial operational and technical know-how has not been lost, only their physical infrastructure has been destroyed.

Revised Budget
($100)

	Original	Revised
Credit	10,000	15,000
Technical Assistance/Training	5,582	2,161
Other Costs (Commodities, Studies, Evaluations, Audits)	1,333	795
Contigencies	1,292	244
Total	18,207	18,200

D. Summary Findings

The project committee has reviewed the detailed economic, financial, institutional, social, economical and administrative analysis provided in the original Project Paper. With the exception of the economic analysis, they were found to be applicable for the Project Paper Supplement. The Supplement does include a revised analysis of the current economic conditions in Uganda. As the IMF/World Bank dialogue continues with the relatively new Government of Uganda the fluid economic situation could rapidly improve, and thereby make this project even more effective in its thrust to get agro related enterprises back on their feet.

E. Legal Criteria:

The original project and itemize statutory checklists remain valid. A revised FY 87 country statutory checklist developed by AID/W is required. The combined GOU and participating Intermediate Credit Institutions (ICIs) contributions to the project will be at least 29% of the total project costs excluding subborrower equity and capital. In addition, the project has already been authorized at the current planned AID funding level of $18.2 million.

II. BACKGROUND

A. History of RPE Authorization

The RPE Project Paper was prepared in May of 1984 and sent to AID/Washington for review in June. During the review several important technical, managerial and phasing changes were recommended. At about the same time, the Department of State raised serious questions about the human rights record of the Ugandan Government in power at that time. These two factors, combined with changing economic circumstances in Uganda, led to an authorization with a large number grant conditions and covenants. Most important of these was the requirement for the submission of a revised Project Paper prior to the main implementation phase of the Project. The revisions would be based on the experience and operational planning completed during the "pre-implementation phase". The grant was authorized for $18.2 million with an initial increment of $6.0 million obligated with the GOU on September 28, 1984.

Although the basic design and concept of the project remained unchanged from the originally submitted PP, the original project paper does not reflect certain recommendations and decisions regarding the pre-implementation period, phasing,

budget, and measures adopted to enhance the flow of benefits to the project recipients made during the official review and approval process in AID/W. These modifications are detailed in Tab B attached to the Project Authorization (See Annex B of this paper). With respect to benefits to the human rights question, the primary purpose of the project was changed from its previous focus on lending system improvements to "improved income for the rural poor and increased agricultural production through increased investment in agricultural enterprises (primary production, processing, marketing, and other agriculturally related operations)".

The outputs and conditions expected at the end of the project, however, still included the original system and enterprise development objectives in addition to new targets associated with lending to increase the flow of targetted benefits to the poor.

A post-authorization attempt to revise the Project Paper was made in Washington, but it was found that some of what was proposed, (the involvement of the Private Development Corporation of the Philippines, for example) was not possible, and in other cases adequate data, information and consultations with Ugandan institutions were not available for a complete, thorough and internally consistent revision. Also, to a degree, the revision had been overtaken by events as the economic and institutional setting in Uganda continued to evolve rapidly.

With the above in mind, AID/W decided to leave the PP unchanged. Appropriate revisions to incorporate the design as laid out in Tab B were to be developed in a subsequent PP Supplement which was required as condition to proceed with the main implementation phase of the Project (see also State Cable 308364 at end of Annex B). This Supplement would be forwarded to Washington for review and approval. In the meantime, the authorization package and grant agreement were used as the officially approved version for purposes of the initial and experimental Phase I (October 1984 - September 1986) of the project.

This document is the PP Supplement that incorporates the initial Tab B changes along with modifications to reflect experiences to date and recent changes in Uganda's political and economic situation that could effect the outcome of the project.

B. Present Situation in Uganda

1. Political Changes

The original PP briefly presented a history of the instability, war and social/structural problems that Uganda has faced since its independence through mid 1984. Since authorization of the RPE Project these same problems have continued to limit development opportunities for the country as a whole and this Project specifically. Three governments have been in power during the short life of RPE. With the assumption of power by Yoweri Museveni and the National Resistance Movement (NRM), Uganda is now beginning the rehabilitation and reconstruction of its war-damaged economy.

Among the important requirements for rebuilding the Ugandan economy is political stability. Except for the north this has largely been achieved by the NRM. Evidence of a war torn economy is, however, every where present. Roads have greatly deteriorated due to the lack of maintenance; buildings have lost roofs and fixtures; water systems are in urgent need of repair; rural and urban health facilities are run down needing rehabilitation, staff and medical supplies; road transport facilities are in short supply with the number of operating vehicles limited due to the inadequate rate of replacement and acute shortage of spare parts; and many enterprises are either idle or operating at low rates of utilization or productivity.

Thus, there is an urgent need to rebuild the country's economic infrastructure. A parallel requirement is the rehabilitation of productive enterprises which before the wars of the 1970s and '80s were contributing to impressive rates of growth. These include private sector firms involved in agriculture production and/or marketing, and agro-industrial firms that supply farm inputs and market or process agricultural produce for both urban consumers and export markets.

The provision of credit and access to foreign exchange, and the availability of technical assistance as required, can do much to overcome the agricultural sector's shortage of capital and can at the same time provide the necessary financial incentives to entrepreneurs to rehabilitate their previously productive enterprises, or undertake new investments in which financial returns can be expected to be both substantial and required to revitalize the Ugandan economy.

Thus, the emphasis will be toward the rehabilitation of the economic base in war-damaged areas which is central to the new government's planning for the country's economic recovery. Prior to its decline during the 1970s, Uganda was a very productive and relatively wealthy nation. As a result, many of the residents of the now war-damaged areas are able to identify their priority recovery needs and the means to achieve them. It should be noted that the most productive areas of the country are found in the south and northwest where peace has been restored. The NRM government intends to capitalize on these existing skills and strengths by helping Ugandans to help themselves in rebuilding the productive enterprises they have lost, and to encourage them to invest in previously destroyed or run down enterprises or delayed economic ventures. In President Museveni's own words, two of the primary objectives of the NRM are: "building an independent, integrated and self-sustained economy and, in order to achieve this, following an economic strategy of mixed economy in which "the majority of economic activities (are) carried out by private entrepreneurs." (Yoweri Museveni: Selected Articles on the Uganda Resistance War, NRM Publication, 1985.

In the last few months the RPE project has come to play an important, but unexpected role.

The Uganda President's stated policy is to leave the bulk of economic activity to the private sector--if it can perform. He has thus challenged the private sector to take a leading role in economic reconstruction and growth. But the implication is that if the private sector fails to perform up to GOU expectations, the state will step in. We have already seen this happen in the importation and distribution of several key imported consumer goods - sugar, for example.

By circumstances the RPE project has become our contribution to the prevention of "creeping statism". The diary industry illustrates the point. Milk and other diary products are in extra short supply and are imported at high price from Kenya, or produced with WFP provided grant commodities. Still in 1986 production by local dairies is only 16% of the production capacity of 1972. The private sector dairy industry is the number one applicant for RPE loan funds (see attachments E & F). If it is not able to fill the gap, or we cannot demonstrate that it will fill the gap, there will be strong pressure within certain government circles to re-establish state owned diary farms.

We might say that the RPE project is "policy dialogue" in its most meaningful form - through an action program.

As it turns out the dairy loans are also a key part of our contribution to the nutritional aspect of this country's child survival program.

2. Macro Economic Update

The economy as of November 1986 is in disarray, approaching severe economic crisis. Foreign exchange reserves are now critically low -- only sufficient to pay for two to three week's of imports. Inflation is increasing at an alarming rate, currently at 175 percent and could reach 200 percent during the first of the year. The free market foreign exchange rate is 5-6 times the official rate and there are no signs it will abate.

Under present policies the government budget deficit is expected to reach eight percent of GDP during the current fiscal year which is without precedent in recent years. The sources include large expenditures needed to rehabilitate a war-torn economy and a low level of tax revenues given a weak tax base. The deficit is largely financed by printing of money thereby further fueling inflation. Another important aspect is the on-going military operation in the north. Thus, the military is creating a severe drain on the budget, the extent to which is not presently known. The balance of payments deficit is expected to reach $170 million but could be greater if coffee prices decline, or if the overvalued exchange rate persists, thus encouraging smuggling thereby reducing official purchases and export earnings.

GOU policy makers, thus, will be faced with difficult choices, not unlike those prevailing in other deteriorating or stagnating African economies. The policy trade-offs are well defined and will become increasingly real as a severe foreign exchange crisis sets on. That is, foreign exchange supplies are not sufficient to achieve investment targets, maintain adequate consumption levels via imports or finance Uganda's external debt. The latter in this fiscal year is about $201 million, or about 60 percent of the countries projected export earnings.

The internal requirements for foreign exchange are enormous. Just the rehabilitation of economic infrastructure (e.g., roads, educational and health facilities, water supplies, electrical transmission and communications), maintaining petrol imports and other "essential commodities", let alone requirements for the rehabilitation of previously productive enterprises will require more foreign exchange than Uganda can earn via exports. Getting the economy back to its productive

capacity of the early 1970's will require not only substantial increases in foreign exchange earnings, but also major increases in external assistance.

Macro Prices

Exchange Rate: With the annoucement of the new budget during August 1986 the GOU unified its dual exchange rate system. At the time the official rate was USH. 1470/$ and the dual rate was USH 5000/$. Unfortunately, unification was set at USH 1400, or in the wrong direction establishing an exceedingly overvalued exchange rate to guide the economy. The overvalued exchange rate, in the wake of hyper inflation is eroding production and export incentives, contributing to an increasing budget deficit, causing dwindling foreign exchange reserves and reduced earnings and forcing the private sector to rely upon higher priced foreign exchange in the parallel market. The magnitude of the overvalued exchange rate is reflected by the fact that domestic prices for coffee, tea, cotton and five food crops are less than border prices and therefore the government budget must subsidize its principal exports. In the final analysis the existing exchange rate favors domestic consumers at the expense of farmer's, Uganda's principal source of foreign exchange earnings.

Interest Rate: Current savings and lending rates are high by international standards (25 and 38 percent respectively). However, with the present rate of inflation running at 175 percent per annum, interest rates are negative in real terms. While local private commercial banks are awash in loanable funds, with the current rate of inflation there is not an incentive to lend, particularly beyond very short term working capital loans. At current negative interest rates long term loans will contribute to the decapitalization of the banking system. While banks cannot charge interest rates that would reflect a real rate (there would be no demand for loans), they also cannot afford to lend in the present inflationary environment.

Inflation: During September 1986 inflation was raging at 170 percent and increasing. This is compared to 24-, 35- and 138 percent in 1983, 1984 and 1985 respectively. Simply put, there are just too many shillings chasing too few goods. Inflation has already eroded the real value of the April 1986 price increases for key agricultural commodities. For example, the 80 percent increase in coffee prices were fully wiped out in October. Thus, production incentives have plummeted and the

incentives for smuggling have increased substantially. Earlier projections of official foreign exchange earnings and tax revenues for the current fiscal year are likely to be down substantially.

Money Supply

In order to finance a growing budget deficit the Bank of Uganda has been printing money. The money supply increased 40 percent between June 1985 to December 1986; by 50 percent between January 1986 to June 1986 and by 70 percent since then. Thus, the money supply has more than doubled since January 1986 thereby fueling inflation.

Scarcity of Foreign Exchange

Foreign exchange reserves have declined and are approximately $21.0 million which is only sufficient to pay for 2 to 3 weeks of imports. Thus, the Bank of Uganda will find it increasingly difficult to finance more than meager levels of imports if the GOU is to remain on track with its external debt service. Given the increased incentives to smuggle exportables out of the country prospects for maintaining foreign exchange earnings of $360 per annum are bleak.

Productive enterprises are finding it exceedingly difficult to obtain the necessary foreign exchange to import raw materials, spare parts and minimum inputs. For those in the private sector foreign exchange has to be acquired in the parallel market thus not only increasing their costs of production, but also the price for their ultimate goods and services. In fact what has happened in recent months is that the market for foreign exchange at the official rate has been reduced to inflows from foreign aid, payments for petroleum imports and dollars to finance selected debt service payments. Almost everything else is being financed in the parallel market. Thus, the structure of prices in the economy, with the exception of those imports financed at the official rate already reflect a significantly depreciated exchange rate.

Parallel FX Market

It is difficult to get a handle on the actual depth of the parallel market. But, it is certain the demand for dollars is greater than the supply, consequently, the increasing divergence between the official and parallel exchange rate (the latter during November was between USH 8000-9000/$). The parallel market is increasingly attracting dollars that would otherwise enter the commercial banking system and ultimately the Bank of Uganda.

Debt Service Burden

Uganda's debt service burden, relative to current foreign exchange earnings is enormous. During the current fiscal year, the country's debt service is projected to be $201 million, of which $93 million will be owed the IMF. This magnitude of debt service, a significant share that can be expected to become arrears, has already limited Uganda's capacity to import and finance rehabilitation activities and consequently stimulate economic growth. Policy makers now face critical economic and political trade-offs that will influence the country's economic stability and growth, and its external relationships.

Policy Adjustments

In order for the economic environment to improve and provide the necessary incentives and resources to support the rehabilitation of productive enterprises and the overall economy, the following are the critical policy adjustments required: increase the price of foreign exchange and pass on the benefits to producers, reduce the growth in money supply, control government expenditures and dramatically reduce the rate of inflation. Until these policy adjustments are undertaken, production and consumption incentives will remain distorted, the private sector will be severely constrained to respond to the government's objective to stimulate economic rehabilitation and growth. Government will also be severely limited in its ability to generate both foreign exchange earnings and tax revenues to finance economic rehabilitation without a major, comprehensive reform effort in the months ahead.

When such economic adjustments are implemented not only will a substantial increase in domestic resource mobilization occur, but large sums of external assistance, both multilateral and bilateral can be expected to flow into the Uganda economy, thus settling the stage for renewed economic growth and development.

However, even if the government undertakes a comprehensive reform program some social services are likely to face severe budget cuts in the short to medium term. This outcome is predictable given the necessity to drastically curb government expenditures and control domestic financing of budget deficits by the Bank of Uganda. Health services and education could be prime targets and this, if it occurs, will call forth the need for introducing users fees and well targetted donor assistance. In this respect, unless the health and education budgets can be protected at a "reasonable" level, there will be much resistance within certain government and N.R.M. circles to cutting this budget deficit and increasing the exchange rate.

3. Human Rights and the Poor in Uganda

With the success of Museveni in the civil war and the installation of the NRM government, the human rights situation has improved. The present government has a policy of reconciliation and the participation of all tribal groups in the decisions and power of government. The change in project purpose and the target group of beneficiaries made at the time of authorization because of the human right abuses of the previous regime have become much less of a concern in the present environment. Political and Economic opportunities are being shared much more equitably. Nonetheless, the criteria set out in the authorization to ensure benefits to the relatively poor have been included in the agreements between the BOU and participating ICIs. From a review of some of the initial appraisals, it appears that project loans will benefit the poor primarily through employment generation and a general improvement in the economy. As loans are targetted to potentially productive enterprises for the production of commodities that are currently in short supply the economy will experience increasing supplies of these commodities. A large share will enter rural and urban markets increasing availabilities and bringing down prices. Such supply responses will contribute to curbing inflation and ultimately reducing access demand, due to accute supply shortages. General welfare will be improved to the extent that limited effective demand (low cash earnings) is a constraint on households' ability to purchase adequate food. Lower commodity prices in turn, be it for diary products, eggs, meat etc. will in fact increase effective demand for the outputs of productive enterprises. This response will permit producers to expand output further and lower unit costs of production, thereby benefiting not only the private investers but increasingly wider segments of Ugandan society.

III. RPE PROJECT IMPLEMENTATION

A. Project Activities

The two phase approach to implementation which was set out in the authorization turned out quite appropriate because of the political and economic changes which have taken place in the last two years. Although much of the project activity envisaged for Phase I has not taken place, the objectives and scope of the project and implementation procedures have become more refined, since the installation of the NRM government. President Museveni, himself, has singled out RPE as the type of rural credit scheme that is needed to bring private enterprises

into production. Thus, the present government has acted very quickly to take the necessary actions to clear the grant conditions. In early September 1986, USAID/Kampala notified the GOU that all CPs to loan disbursement were met and that AID had earmarked an initial traunche of $1,500,000 of RPE loan funds. This was raised to $3.0 million in October 1986.

The project had a slow start during its first 9 months and then serious security and political problems forced the evacuation of the USAID Mission from July 1985 until the spring of 1986. This action resulted in the Project being held in abeyance until mid-1986. Implementation did not start to move until May 1986 when the Uganda Commercial Bank signed a loan agreement with the BOU for the provision of funds for borrowers. The Uganda Development Bank and the Bank of Baroda have followed suit and signed similar agreements with the BOU. The agreement with the Bank of Baroda was signed in November 1986. Prior to entering into the RPE program, USAID/Kampala is undertaking an institutional analysis of the Bank of Baroda. The first loan appraisals from the bank are not expected until early 1987. As mentioned above the CPs to technical assistance and lending have been met. Letters of Commitment for $3.0 million have been opened with City Bank of New York. AID/Washington authorized approximately $1.5 million of this total as an additional increment for lending during Phase I. Estimates of loan draw down indicate that potentially up to $5.0 million could be lent by the end of FY 1987.

To date technical assistance has been limited to one TDY, a Finance and Development Specialist, identified in the authorization package, and the assignment of the long term advisor to UDB starting in July 1986. This Personal Service Contractor has in fact taken on a line function in the UDB as the head of the Agricultural Department which is responsible for agricultural loan appraisals.

Project procurement has been limited to the purchase of one vehicle and four computers. There has been no training to date, but there was a short inspection tour in October 1986 by four potential borrowers and six bank employees to inspect agricultural equipment at the Agriculture Show and Preferencial Trade Fair in Nairobi. The BOU has published and widely distributed a poster announcing the RPE loan program and is in the process of announcing the program in meetings and news bulletins at the District level. Three workshops to publicize the program to regional government extension agents and cooperative associations have been held in Kampala, Mbale and Mbarara. One additional workshop will be held in Gulu in the near future.

As of 11/30/86 two loans from the UDB and seven from UCB have been approved by the BOU for a total of $491,000 in RPE foreign exchange credit (see Annex E). The nine agreements are currently being legalized by participating ICIs, the final step in the loan approval process prior to disbursing funds to international suppliers. In addition, the BOU is reviewing 12 more loan appraisals from the UDB and the UCB (see Annex F) for an additional $1.1 million in RPE funds. Both banks are keeping the term of the loans to under six years with interest set at 38% p.a. for foreign exchange costs and a one year grace period on principle repayment only.

B. Evaluation of Project Implementation to Date

As seen from the above much activity has occurred during the past uncertain, fluid, and unstable conditions in Uganda. However, the Mission has identified two general areas that need further study and fine tuning prior to entertaining expanded Phase II project activities. One area involves the economic environment within which the project is to be implementated. The second area is more technical in nature and deals with systems to manage and control the loan portfolios developed as a result of RPE funds.

1. Economic Issues

In line with the concerns raised and revisions made in RPE during the AID/W review, a series of special conditions were set out in the authorization and grant agreement. In October 1986, AID/W authorized an increase of $1.5 million to a total of $3.0 million of loan funds available for the first phase. In the authorization cable, (See Annex B) the AFR Bureau emphasized one of the original concerns, interest rate levels, and then raised a new concern, that is the overvalued exchange rate. Background to both of these issues was provided in the macro-economic assessment. Both are key issues that are addressed immediately below.

Inflation and Interest Rate

Issue: How to deal with the overvalued interest rate, which will directly decapitalize the banking system to the extent medium- long-term loans are extended, is the principal issue that must be dealt with in the PP supplement.

The interest rate issue cannot be viewed in isolation of domestic inflation, which is currently raging at close to 175 percent annually. It could be 18-24 months before the present

rate of hyper inflation is curbed and receeds to the level of current interest rates. Given the fact that the present lending rate (38 percent) is very high by international standards, upward adjustment of the interest rate makes little sense. Consequently, negative interest rates can only be tackled by focusing on monetary and supply issues that will reduce the current demand pull type of inflation Uganda is experiencing.

Thus, the project faces extending loans at negative interest rates through much of 1988, assuming inflation is soon brought under control. Under these circumstances it can be argued that borrowers will receive "windfall profits" since the value of the shillings they use to pay back loans will have less purchasing power than today.

However, measures could be adopted to minimize windfall profits to borrowers and a decapitalization of the banking system. These may include:

1. During loan appraisal only approve loans that have economic rates of return (as opposed to financial) that are above the prevailing interest rate. This would involve shadow pricing costs and projected benefits and consequently loaning at economic rates of return above the prevailing interest (lending) rate.

2. Accept the proposition that inflation is primarily a demand-pull phenomenon (too many shillings chasing too few goods) and lend not only to projects with the highest economic internal rates of return, but also those that will contribute most to increasing food supplies, those that have important weights in the consumer price index.

3. Give preference to short and medium term loans to the extent possible--those with gestation periods less than four years. This may ideally require subborrowers to phase rehabilitation and investment plans, and consequently credit requirements, to insure that benefits come on stream as soon as possible. Subsequent loans will then be made at rates of interest that, if not positive, will be less negative in real terms, under the assumption current inflation rates are reduced.

In order to implement these proposals existing appraisal criteria and loan agreements will have to be altered to reflect these objectives. USAID will hold discussions with the appropriate GOU officials to determine if these measures are feasible and can be adopted in the short-term.

On the demand side it is important to note that attractive interest rates will do little to attract borrowers. Of prime importance is political stability and positive economic incentives. Without these, Ugandans will remain unwilling to invest their energies and capital in productive enterprises, particularly those requiring major rehabilitation which are relatively large investments.

These measures can do much to minimize "windfall profits" and reduce the potential decapitalization of the banking system. However, since most RFE loans will have foreign exchange components the interest rate issue cannot be viewed in isolation of the current overvalued foreign exchange rate.

Exchange Rate

The rehabilitation of productive enterprises, not to mention new ventures, will require the private sector's access to foreign exchange. However, at the prevailing overvalued exchange rate subborrowers will acquire foreign exchange at an artificially low price, therefore, potentially reaping windfall profits. The artificially low priced foreign exchange will also tend to distort resource allocation away from domestic resource costs (e.g., labor) toward more capital intensive technology. Both are not in Uganda's economic interest and most be avoided particularly in the short to intermediate term.

To reduce both potential "windfall profits" and capital intensive investments by sub-borrowers measures can be adopted to partially overcome these outcomes, such as the following:

1. Restructure unpaid loan balances to keep pace with future adjustments in the exchange rate as they occur;

2. For dollar loans permit GOU to levy customs on imported commodities (at realistic rates) up and until the exchange rate is depreciated. This would help "correct" for the overvalued exchange rate, reducing exchange rate subsidies. It would also, given the governments limited tax base and increasing budget deficit permit government to earn tax revenues which in turn could be

reinvested in economically feasible rehabilitation, or infrastructural projects. Subborrowers with investment plans that have attractive rates of return will still demand RPE loans because their opportunity costs will be high, since their only alternative source for foreign exchange is the higher priced parallel market.

Current IBRD/IMF Discussions

During November the IBRD held extensive discussions with the GOU including several sessions with President Museveni. The purpose of these discussions was to convince the government that current micro economic policy requires immediate adjustment. The World Bank spent a great deal of time explaining why the current exchange rate is overvalued; data were assembled to explain the linkages among the exchange rate, the budget deficit and the rate of inflation. Affects on the supply-side of the economy of removing key economic distortions were central to the discussions; consequently, the need to radically improve producer incentives was illustrated. The IBRD achieved a great deal of head-way and as a result the GOU has requested IBRD and IMF technical assistance missions to come to Kampala in January and February to assist the government in the design of a comprehensive economic reform package.

USAID Interim Measures

The RPE project is in the initial phase of implementation. As discussed earlier the economy requires urgent policy reform, without which the project will not achieve its basic objectives over the long term.

The five measures outlined above (3 with regard to the negative interest rate, and 2 which are an attempt to cope with the overvalued exchange rate) are potential adjustments in lending criteria which are designed to address, prior to GOU agreement with the IBRD on a comprehensive policy package, key economic distortions affecting RPE and the Ugandan economy.

These measures require immediate attention by the mission via policy dialogue with appropriate government and banking officials. The aim will be to obtain practical, short run resolution that will fit in with the proposed IBRD recommendations. These measures are required to ensure that RPE does not contibute to unacceptable windfall profits, misallocation of scarce resources and a decapitalization of the banking system even in the short run.

The changes we will pursue should not be considered static, one-time adjustments. When the GOU undertakes major structural adjustments, some of these measures could be overtaken by events. This does not concern us, nor should it as we believe the policy environment is fluid, and ultimately the correct measures will be devised and implemented by the GOU. Our policy dialogue should contribute, in a small way, to agreement on comprehensive reform with the IBRD, if we are successful in convicing policy makers of the economic costs of not adjusting now and in the right direction. Thus, as the government adopts its intended comprehensive macro economic package our intended policy dialogue may need to be reconsiderd and amended accordingly to reflect the hoped for dynamics of government policy.

It is important to stress the rationale for going ahead with the project while we conduct policy dialogue. RFE was designed to provide credit to encourage investment and rehabilitation of productive enterprises in a war damaged economy. The needs are urgent as available food supplies are in short supply, a situation contributing to hyper inflation. Thus, the supply-side of the economy must be aggresively stimulated; but the response will not occur over night. Consequently, there is an urgent need to direct funds now into the most productive sub-sectors of agriculture and agro-industry before the correct macro policies are in place, while keeping at the forefront the nature of the policy adjustments that will eventually be implemented.

It is necessary to point out that some of the CP's originally negotiated are now out of date and have since been overtaken by events, some of which are very recent. They will, therefore, be reopenned for discussion and reformulated. We refer to the measures outlined under the "exchange rate" discussion. On the other hand, the three measures described under the heading of the "interest rate" will be negotiated with the government within the scope of the RFE project. These are essentially technical issues and measures to tighten-up loan appraisal and selection to assure lending is directed to those investment projects with the highest economic returns and those which can contibute most to the type of supply responses most required by the Ugandan economy now, and within the scope of the RFE project.

2. Project Implementaion Control Systems

a. The original project agreement signed in September 1984 included essentially ten conditions precedent to disbursement of funds provided within Phase I. Due to the turbulent times following the signing it took close to two years to meet these conditions. At times evidence other than originally anticipated was obtained in efforts to satisfy conditions within a very fluid environment. A summary of these conditions is given below:

1) 4.1. First Disbursement:

The GOU provided specimen signatures of authorized representatives thereby satisfying condition precedent 4.1 on February 7, 1985.

2) Technical Assistance:

The borrower met one of the two conditions precedent to disbursement for technical assistance on April 11, 1985 by establishing a high level interagency project committee to provide for national oversight of the project's execution and to serve as a vehicle for policy level intervention when necessary. However, the terms of reference and operating procedures for the committee were not included as was originally requested by CP 4.2. a(1). These two items are still important for proper project implementation. Therefore, the Mission plans to shift the long term advisor currently working in UDB to the BOU to assist the central bank to develop the terms of reference and operating procedures.

3) Technical Assistance:

The GOU met the second condition precedent to disbursement for technical assistance 4.2. a(2) on May 10, 1985 by providing evidence that the Uganda Development Bank consolidated its crops and livestock departments.

4) Lending:

The borrower met the first of seven conditions precedent to the disbursement of grant funds for the lending program, CP 4.2 (b) (1) on May 23, 1986 by establishing a rediscount facility within the Bank of

Uganda, to provide for on lending to ICIs in order to secure the local currency counterpart contribution required by the sub-lending program. The terms, conditions and operating procedures for this facility indicate that the BOU will initially cover U.Shs. 500 million which will be lent to the ICIs at not less than 3% below the current interest payable on 12 months fixed deposits in (as of November 1986 that would be 35%). In turn, the ICIs must repay the principle within sixty days after the due date of repayment from the sub-borrower. The Mission wishes to investigate if these terms are sufficiently attractive to the ICIs as an incentive to use the funds for on lending rather than utilizing their own shilling funds. This item will be discussed at the next inter agency project committee meeting to be called shortly by the recently appointed Governor of the BOU.

5) Lending:

Also on May 23, 1986 the borrower met condition precedent 4.2 (b) (2) to disbursement of grant funds for lending by providing the current account ledger of the BOU showing that a new non funded account has been established for ICI reflows to the RPE project. However, this ledger did not include a discussion of the rules and procedures for the use of reflows deposited by the ICI. However, it was understood that the rediscount procedures given in the preceeding condition precedent apply as well to the special account for deposits of repayments by the ICI. Mission wants to obtain clarification on the procedures governing this special account. The long term technical advisor to be transferred to the BOU will address this concern.

6) Lending:

The borrower marginally met condition precedent 4.2. b (3) to develop an officially approved operations manual for the lending component on September 5, 1986 by supplying existing lending manuals of the two ICIs currently approved for operating within the RPE program. These manuals provide guidelines for lending, not unlike the focus of the RPE lending criteria, but do not directly specify procedures for foreign exchange and Uganda Shilling lending for the

AID and counterpart RPE line of credit. As more loans are approved it will become increasingly difficult to distinguish whether the ultimate borrower has received an RPE local currency loan or a loan from other ICI sources. One of the first tasks of the transferred long term technical advisor will be to assist the BOU develop and provide to AID an operational manual to be used by the ICI specifically for the RPE lines of credit. This operational manual will include credit policy, regulations, and lending criteria for the ICI. The following items should be addressed as well: 1) procedures for compliance with AID's environmental regulations; 2) evidence of a credit policy to provide loans to sub-borrowers at positive real rates of interest by the end of the project; 3) evidence of the establishment of lending policies and criteria for sub-loan and sub-borrower eligibility which will assure effective participation of the needy people in the benefits of investments to be financed by the Project. In addition, the policy will require that only sub-project proposals that demonstrate one or more of an illustrative list of approved benefit impacts (see list on page 26-27) will be approved. The policy will also require that the basis for approval be documented; and, 4) procedures for referring proposed sub-loans which require over $200,000 in foreign exchange or have overriding environmental concerns to AID for approval with respect to AID's project, program, policy and legal requirements.

7) Lending:

On May 23, 1986, the GOU met condition precedent 4.2 (b) (4) (compliance with environmental analysis, review and mitigating measures and procedures for sub projects to be financed with RPE funds) by indicating that the two ICIs currently within the program (UDB, and UCB) had received copies of guidelines prepared by the REDSO environmental officer and by demonstrating that as stated within section 2.2 of ICI/BOU agreements the subloans must conform with applicable AID environmental requirements. To date, the loan applications being processed do not include the environmental checklist developed by REDSO. However, the feasibility studies do indicate that potential environmental impacts were studied. The long term advisor to the BOU will tighten up this

process so that in the future all ICI loans approved by the BOU will include these environmental checklists.

8. Lending:

The Borrower met condition precedent 4.2 (b) (5) by providing signed loan agreements with individual ICIs in May 1986 (UDB and UCB) and November 1986 (Bank of Baroda). These standard agreements provide a list of nine AID specific lending criteria for the use of RFE loan funds (see list on page 26-27) as well as specifying that the ICIs would receive a 5% spread of the 38% interest rate charged by the BOU for foreign exchange and local currency loans. Loan applications received to date by AID, while focusing in a general sense on the AID criteria do not specifically address one by one the nine items identified within the BOU/ICI agreements. As time progresses, lack of control of the lending portfolio could develop, resulting in the inability of the BOU to identify the impact of the loan portfolio on increased rural employment, income, and food supply for both producing households and the marketing system. The Mission requires that the BOU and the ICIs more closely follow the criteria set out in the BOU/ICI agreements so that the total RFE lending portfolio can be better managed and evaluated. One long term advisor each in the BOU, the UCB and the UDB should provide sufficient criteria monitoring. In addition, the Mission will review the 5% interest spread provided by the BOU to the ICIs to see if this is sufficient incentive for the ICIs to borrow local currency from the BOU. As mentioned earlier, this will be the topic of the next inter agency committee meeting.

9) Lending:

The BOU/ICI agreements identified in the section above also addressed condition precedent 4.2 b(6) to lending by stipulating that the three ICIs must have a maximum delinquency and default rate of no more than 10%. While the Mission is in agreement with the establishment of a high loan recovery rate based on good loan appraisals, the Mission will ask the three long term technical advisors to provide additional information on how the ICIs plan to achieve this high repayment rate, what will it cost in terms of

operating expenses to supervise and collect these loans, and finally if these costs are compensated by the interest rate spread provided for by the BOU.

10) Lending:

The GOU met condition precedent 4.2 (b) (7) on May 5, 1985 by providing a statement that imported project commodities financed under the grant will be exempted from import duties and inspection fees. AID/Kampala understands that currently all farming inputs are imported into Uganda duty free. If the GOU, in order to increase its tax revenue, changes this policy, AID/Kampala would support the position that the RPE subborrowers should <u>not</u> be exempt from these duties and taxes.

b. In addition to the ten conditions precedent, it is also necessary to review the 10 covenants to assess the current status of the RPE project as follows:

1) Section 5.1 Sub-loan Approval

The BOU/ICI agreements specify that any loan with a foreign exchange (i.e AID portion) of more than $200,000 will require prior AID approval. To date, no $200,000 applications have been approved by the ICIs for submission to AID.

2) Section 5.2 Copies of Sub-loans

The BOU/ICI agreements specify that the ICI must submit these proposals promptly. To date, the Mission has received three of the nine proposals approved by the BOU and anticipates receiving the others shortly.

3. Section 5.3 Currency of Payment and Repayment of loans

The Grantee covenanted to make loans to the borrowers through the ICIs from the BOU which will be payable in both foreign exchange and local currency. The repayment of these loans both by the borrower and the ICI will be payable in local currency and the amount, with respect to foreign exchange, will be calculated in accordance with the rate of exchange prevailing at the time the foreign exchange is disbursed to or on behalf of the borrower. Both the BOU/ICI agreements and the individual ICI/subborrower agreements specify this local currency repayment scheme, thus meeting covenant 5.3.

4. Section 5.4 Encouragement of Participation by Private ICIs

The BOU and the three participating ICIs are currently discussing appropriate interest rate spreads, acceptable to the BOU which would also stimulate ICI involvement in the RPE credit program. New interest rate spreads if acceptable to the parties, would replace the 5% spread currently allowed within the BOU/ICI agreements.

5) Section 5.5 Interest Rates

The Grantee has agreed to review interest rate ceiling but has yet to revise these rates to keep in line with inflation rates. (see comments in Section III B 1 on inflation and interest rates as well as comments on IBRD/IMF discussions with the GOU).

6) Section 5.6. Encouragement of Local Production

As a result of recent changes in import duties for vegetable oils and a complementary reduction in sales taxes on both domestic and imported oils, domestic oil now retails at about U.Shs. 15,000/= per litre and imported oil retails slightly higher at U.Shs. 18,000/= per litre. The GOU has, therefore, satisfied this portion of the covenant.

In addition, the GOU covenanted to expeditiously resolve disputes over ownership of private enterprises

seeking RPE credit for subprojects. Given the backlog of loan requests, the GOU is first processing those with clear ownership titles. To date it has not been necessary to resolve ownership disputes.

7) Section 5.7 Counterpart Personnel

The GOU has provided counterpart personnel as required on a timely basis.

8) Section 5.8 Sub Loan Review Procedures

The GOU is fulfilling this covenant by placing environmental procedures directly within the BOU/ICI agreements. (see earlier statement regarding environmental procedures given in Section III. B. 2. a. 7) page 20)

9) Section 5.9 Sub Loan Agreements

As with the above covenant, the GOU and the ICIs are fulfilling the environmental covenant by specifying loan appraisal procedures within the BOU/ICI agreements which will satisfy this covenant. Although the first nine loan appraisals submitted to the BOU for its review included a discussion of environmental concerns the AID approved environmental checklists were not attached. In the future, new loan appraisals will include the checklist.

10) 5.10 Evaluation

AID and the GOU have yet to establish firm dates for project evaluation. However, this PP Supplement provides further guidance in specifying appropriate evaluation benchmark dates.

IV. REVISED PROJECT DESCRIPTION

A. Goal and Purpose

The project goal remains unchanged, that is to make available medium term financing (approximately 2 to 5 years) for investment in high potential agricultural enterprises. The purpose in the original PP was changed in the authorization to "improved income for the rural poor and increased agricultural production through increased investment in agricultural enterprises". Events of the last two years have strengthened

the justification for the shift in project emphasis from credit institutional development to the provision of direct benefits through a credit scheme to agricultural enterprises. First, foreign exchange shortages are more severe today than in previous years. RFE is a significant source of foreign exchange for agricultural investment. In fact it is currently the only foreign donor program focused on supplying credit for imports directly to the private sector. Secondly, many capable and experienced Ugandans have had their farms and enterprises destroyed during the civil disturbances over the past two years. These individuals need little, if any, business or technical assistance to rehabilitate their enterprises. Similarly, Ugandans who have been living outside of the country are beginning to return under the NRM government. They too are very capable of using investment and rehabilitation funds productivity. Both groups would require little assistance from the proposed Technical Assistance Entity. At the same time the mix of technical assistance for FCIs to appraise, execute, and supervise larger more diversified loan portfolios has been revised.

B. Project Phasing

The proposed level of funding for the project will remain unchanged at $18.2 million. However, the PACD will be extended by eighteen months to March 30, 1991 to make up for initial project delays. While demand for foreign exchange credit is quite high, it is difficult to precisely predict the loan approval rate. The Mission anticipates that about $5.0 million in RFE credit and $760,000 in other expenditures may be expended by September 30, 1987, thus the possibility of utilizing Phase II funds to be obligated during FY 87, earlier than expected. The balance of the RFE credit funds ($10.0 million) would be expended by the end of 1989. The PACD extension is necessary to establish good loan recovery practices and ensure that all AID financed goods and services are in place and operating. Obviously, if the Ugandan economy strongly recovers, the money may move much more quickly. On the other hand, the continued or expanded civil disturbance could limit lending opportunities.

C. Description of Loan Portfolio

In keeping with the original concept of the use of AID's RFE line of credit we are providing below a summary of the focus, activities, and expected results of sub-projects eligible for project financing. Loans out of Grant funds originating from USAID will be for financing viable profit making enterprises which are Ugandan owned and controlled with their principal

place of business in Uganda. Eligible enterprises (including cooperatives) are to be private sector entities, primarily operating in the agricultural sector, either in production or in processing or service activities directly linked to agriculture. The projects must be labor intensive, have clear potential for import substitution or export and provide increased markets, inputs, or service for agricultural production based on locally available resources. Special consideration will be given to projects in the war torn areas of Uganda in particular the Luwero triangle, West Nile and the districts of Lira, Masaka and Mbarara. All projects proposals must reflect adequate planning and cost and benefit estimation and be environmentally sound and otherwise conform with applicable AID requirements. In addition, all sub-projects must demonstrate that one or more of the following beneficial impacts will occur as the result of the investment:

(1) increased employment of poor rural or urban wage earners or potential wage earners (to include on or off-farm employment of small holder family members);

(2) increased income for small holder agricultural producers through increased production, lower costs of production, improved markets and incentive prices;

(3) increased supply of and lower cost basic foods for poor rural and urban consumers resulting from direct RPE financed investments;

(4) as corollary to 3) above, improved nutrition/health of the rural and/or urban poor as a result of increased food availability and/or lower prices of essential food commodities required for an adequate diet;

(5) increased real wages paid to under-employed workers due to improved labor productivity, expanded operations, appropriate technology, enterprise profitability,etc.;

(6) more efficient utilization of family labor (women, children, parents) on the farm or within the household enterprise. This could also include village enterprises involved in production, processing or provision of agriculturally related goods or services;

(7) increased and/or more effective participation of women in productive enterprise financed by the project and receiving an equitable share of the economic benefits to be derived;

(8) improved economic returns to small producers, processors or intermediaries from reduced government participation in the production and marketing of agricultural commodities; and

(9) improved returns to rural or urban poor cooperative members or enterprises shareholders from improved efficiency and economies of scale, more equitable management and distribution of profits.

D. End of Project Status and Outputs

There is much difference between the EOPS and outputs listed in the PP and those set out in Annex 1, the Amplified Project Description, of the grant agreement. The grant agreement reflects the revisions made in the authorization process. What is presented below tracks closely to the grant agreement description. There are four general areas where change in status and significant outputs are expected: lending, ICI strengthening, borrower strengthening, and project and credit data collection and analysis.

The end of project status will be:

(1) Capacity to replicate RPE project activity exists within the financial community in Uganda.

(2) BOU capacity to monitor ICI borrowing, loan appraisal and supervision and the process of international procurement;

(3) active participation by two or more parastatal or private commercial banks with a target portfolio of new loans of approximately $2.0 million per year per bank;

(4) Sound and efficient loan processing and credit management procedures which are fully developed and tested, revised and formalized as part of official bank policy;

(5) ICIs capable of evaluating credit requirement via the preparation and appraisal of appropriate loan documents;

(6) Improvement in appraisal and supervision such that outstanding delinquent balances on loans are held to less than 10% of the outstanding portfolio balance;

(7) Cost of lending (including defaults) will be reduced to a level covered by the interest spread between the BOU and ICIs and sustainable on the basis of earnings from lending;

(8) A consolidated Agricultural Project Division within UDB effectively functioning as an integrated unit capable of appraising agricultural enterprise loan proposals;

(9) Productive enterprises rehabilitated receiving credit from ICIs and generating income; and

(10) Increased domestic food supply and complementary decreased drain on foreign exchange as a result of import substitution or direct exportations.

Project outputs will be as follows:

(1) Approximately 200 loans made to agricultural enterprises for rehabilitation and development ($15.0 million from RPE and approximately $7.5 million in shillings raised by banks);

(2) Approximately 180 new or expanded enterprises operating profitably and approximately 20 failed business ventures;

(3) Approximately 4,500 new jobs generated for the rural poor;

(4) At least three banks participating with the BOU in the RPE scheme;

(5) 20 loan officers trained in agricultural commercial lending;

(6) 200 borrowers experienced in credit use;

(7) Loan arrearage rate of less than 10%;

(8) Capitalization of an ongoing source of LC lending for agricultural enterprises;

(9) Detailed operational reporting for project monitoring and evaluation; and

(10) Base line information on borrowers, projects, procurements, operational costs and ICI performance in general; and studies indicating increased domestic food production and/or decreased food costs.

D. Inputs

1. Loan Funds

The original PP and the Authorization Package set out a line of credit of $10,000,000. Because of the planned reductions in technical assistance, training and commodities, the loan component has been raised to $15.0 million. This increase will put 50% more funds into the rehabilitation of productive enterprises. Present loan demand is very high primarily because of the stability and accessibility of the regions formerly cut off by civil disturbances. Although the security situation remains a question in the North, the most densely populated and agriculturally productive areas are peaceful and open. In all of these regions, farms and agro-industries could, with financial and economic assistance, recover rapidly.

As set out in the original authorization, the funds will be used for agricultural rehabilitation and revitalization, including agro-industries. A recent survey indicates that loans will be made for mixed farming (usually maize and/or matoke as the chief crop with a wide range of supporting activities), dairy, poultry, piggeries, grain and flour milling and oil processing. Ranching loans have had a poor record in Uganda, especially with the UDB. Ranching loans may be made but will require very detailed appraisal and a strong loan repayment record on the part of the borrower.

The loan package will include foreign exchange funding from RPE, local currency finance from the ICI or BOU, and an equity contribution on the part of the borrower. Loan appraisals will be approved by the ICIs and the BOU before RPE funds are released. For projects requiring over $200,000 of RPE funds, USAID/Uganda's review and approval will be required.

For the credit component, procedures to ensure competitive procurement are presented in the procurement plan. All approved loans will meet the conditions set out in the grant agreement and will follow good banking practices.

2. Technical Assistance

A Prime Contractor as described in the original PP will not be required since the level of technical assistance judged to be needed is substantially less than originally planned. During the first phase of project implementation it was found that the subborrowers are more sophisticated and knowledgeable about the operations of their destroyed business enterprises than was previously anticipated. As a result, much less technical

assistance will be required by these subborrowers. The previous plan provided assistance in project coordination and monitoring, loan appraisal and ICI strengthening, and borrower strengthening. Assistance will be provided in all these areas but at a greatly reduced level that reflects local subborrower capacities more accurately. In the immediate short term the one long term PSC providing technical assistance to the UDB will be transferred to the BOU to assist in the establishment of uniform lending criteria and in the improvement of loan approval, monitoring and reporting procedures. In the longer term a total of three long term advisors and a mix of short term assistance will be required as follows:

a. Long Term Technical Assistance
(Three Individuals/7 person years)

Two long term financial analysts are required to insure efficient loan appraisal, execution, and collection at both of the parastatal banks (UCB and UDB). In addition one long term financial analyst/credit advisor will be required at the central bank (BOU) to assist in the development of standard RPE loan criteria and the loan approval process. One PSC financial analyst was hired during FY 86 to work at the UDB. His services will be required for a total of three years for both loan appraisal assistance as well as for subloan supervision and collection. An additional financial analyst will be required for two years at the UCB to assist in the approval, supervision, and collection of RPE subloans. This individual will complement the technical services of a Development Finance Specialist to be hired in the near future by the EEC to assist the UCB in development activities. The third long term financial analyst will provide two years of service to the Bank of Uganda assisting them appraise RPE credit applications approved by the ICIs. In the process this person will provide assistance in the development of RPE loan criteria so that all loan applications can be reviewed by the BOU using standard guidelines. In total the revised project will require seven person years of long term technical assistance (three individuals), a significant reduction from the 17 person years (six individuals) programmed under the original project paper The assistance to have been provided by the three eliminated long term positions including an accountant, an agricultural business manager and a loan officer (from the Private Development Corporation of the Philippines) will be incorporated at a reduced level into the short term technical assistance package.

b. Short Term Technical Assistance
(47 Person months)

As presently envisioned the BOU, the ICIs and the subborrowers may require specific short term assistance in the execution of the RPE line of credit. The long term financial analyst in the BOU may identify short term banking, financial management, accounting or loan supervision needs at the BOU, or within the participating ICIs. Likewise the BOU and the ICIs may find it desirable to request specific assistance related to a specific problem area within the banks. In addition, an ICI may require that the subborrowers obtain technical advise as a condition to loan approval or a subborrower may request technical assistance as part of his/her loan application. Given the wide range of banking, administrative and technical services to be provided sporatically during the life of project a cooperative agreement with a non governmental entity will be sought rather than individual PSC contracts. The short term entity chosen would then subcontract local technical assistance whenever possible for required subloan specific expertise. The cost of the local expertise would be included as a portion of the total loan package to be repaid by the subborrower. All requests for short term technical assistance to the ICIs would be channelled through the Bank of Uganda. The short term technical assistance entity in turn will schedule the appropriate services.

In order for the technical assistance entity to provide timely responses to requests the entity must have quick access to and good communications with Uganda. A contractor located in the United States could not provide this easy access. On the other hand it may be too costly for a contractor to establish an office in Uganda, complete with possible short term technical expertise on board. It has, therefore, been determined that an entity working in the region should be tapped. Given AID's experience with various cooperative development organizations (CDO) in Africa and the AID/W partnership grants with a number of the CDOs, AID/Kampala wishes to invite applications from a limited number of these CDOs (Attachment D provides the justification for solicitation from limited sources for applications for an RPE cooperative agreement).

By placing all of the short term TA under a single Cooperative Agreement as well as perhaps two or three of the long term advisors identified in the preceeding section, the management burden on USAID/Uganda will be greatly reduced and the coordination of various RPE components should be improved. The Cooperative Agreement will also include all funding and responsibility for training.

(c) Summary of Technical Assistance

Long Term Technical Assistance

Contract Type	Skill	Length
PSC[1]	Financial Analyst (UDB)	3 yrs
PSC[1]	Financial Analyst (UCB)	2 yrs
PSC[2]	Financial Analyst/Credit Advisor (BOU)	2 yrs
	Total	7 yrs

Short Term Technical Assistance (Illustrative)

	Contract Type	Skill		Length
1.	Coop Ag.	ICI Assistance/BOU		10 months
		-Accountants	(2 months)	
		-Financial Contracts	(2 months)	
		-Computers	(2 months)	
		-Agriculturalists	(2 months)	
		-Livestock Specialists	(2 months)	
2.	Coop Ag.	Borrower Assistance		34 months
		-Business & Coop Mgmt	(12 months)	
		-Accounting	(6 months)	
		-Business Systems	(2 months)	
		-Agriculturalists	(4 months)	
		-Livestock Specialists	(4 months)	
		-Logistics	(4 months)	
		-Procurement	(2 months)	
3.	Coop Ag.	Cooperative Agreement TA		3 months
		-Training Assessment	(3 months)	
			Totals	47 months

1 Could be included in a combined long term/short term cooperative agreement.

2 Could be included in a combined long term/short term cooperative agreement if PSC currently on board becomes part of cooperative team.

3. Training

Training assistance will be provided primarily for ICIs to improve staff appraisal and supervision skills. All training will be short term. In-country, third country and US short term training will be provided, but the preference will be for training in Uganda with lessons and examples drawn from examples from bankers experience. Each ICI will be asked to prepare a training plan. The Cooperative Agreement Grantee will assist in preparing the plan and will arrange for all training.

Eight to ten in-country workshops and seminars for entrepreneurs are also planned as well as a number of industry or farm observation trips to other countries for ICI staff members and businessmen. Procurement, computer and data collection training for the BOU will also be provided. This training will be included in the Cooperative Agreement. The objective is to relieve the Mission of implementation details but keep it informed for project monitoring.

The training proposed in this revision follows the original plan. Total funding has dropped from $340,000 to $286,000.

4. Studies

Four hundred thousand dollars in grant funds will be set aside for AID/Direct or host country contracting of mutually agreed upon studies to improve the effectiveness of host country and ICI credit policies and practices. Studies such as a private sector climate assessment, agroindustrial growth and promotion or specific institutional assessments, among others could be funded.

5. Commodities and Other Costs

A relatively modest procurement in support of the technical assistance and ICI staff will be made. Six four-wheel drive vehicles for loan appraisal and supervision will be provided to the participating ICIs and BOU. The Bank of Uganda and both the parastatal ICIs (UCB and UDB) will each receive a vehicle for loan appraisal, supervision, and collection. All three long term advisors to BOU, UCB, and UDB will also be supplied vehicles for project activities which will be turned over to the participating bank upon their departure. Computers, including software, peripheral equipment and supplies will be procured for all three institutions. Funding for some other equipment and supplies is also included in the budget to ensure that commodity bottlenecks do not seriously limit implementation.

The major procurement expenditures will be done by borrowers under the ICI loan programs through the auspices of a Host country contracted Purchasing Agent (PSA). Procedures and arrangements for these purchases are presented in the section, Procurement Plan.

The only other costs will be for evaluation and audits. No construction or recurrent cost funding is envisioned.

E. Financial Plan and Budget

The detailed budget that appears in the original authorization Annex B (Tab B, page 7) has been reviewed and then revised to reflect the proposed changes in this supplement. The total cost of the project is now $25.7 million of which AID will contribute $18.2 million (71% of project costs). Of this amount, $15.0 million will be for loans to enterprises. Complementing the RFE foreign exchange portion of the loans will be approximately $7.5 million of Uganda Shillings raised through the banking system to finance local costs and operating expenses. Direct equity contribution by the borrowers to the enterprises for the purpose of the loan is not included in this analysis.

The detailed budget appears in Table I while the methods of financing and payment for the project are given in Table II:

Table 1

REVISED RPE BUDGET ($000)

FY	1984-86 (Act. Expd.)	1987	1988	1989	1990	1991	Totals
AID EXPENDITURES							
1. Credit Line	0	5000	5000	5000	0	0	15000
Subtotal	0	5000	5000	5000	0	0	15000
2. Technical Assistance							
a. UDB, UCB & BOU Finance Analyst (7yrs @ $165,000/yr)	67	206	495	387	0	0	1155
b. Coop. Agreement (Short Term @ $15000/mo)							
- ICI Assistance (10 mo)	0	50	50	50	0	0	150
- Borrower Assist. (34 mo)	0	170	170	170	0	0	510
- Training Assessments (3 mo)	0	45	0	0	0	0	45
c. Other ST Assistance (completed)	15	0	0	0	0	0	15
Subtotal	82	471	715	607	0	0	1875
3. Training (Short Term Only)							
a. US & Third Country	0	15	30	30	15	0	90
b. In Uganda	0	20	20	20	20	0	80
c. Entrepreneur	0	10	30	20	20	0	80
d. Observation Tours	0	21	15	0	0	0	36
Subtotal	0	66	95	70	55	0	286
4. Commodities							
a. Vehicles (@ $20000)	18	82	20	0	0	0	120
b. Computers	3	77	10	5	0	0	95
c. Misc.	0	20	10	10	0	0	40
Subtotal	21	179	40	15	0	0	255
5. Other Costs							
a. Studies	0	100	200	100	0	0	400
b. Evaluations	0	0	50	0	50	0	100
c. Audits	0	10	10	10	10	0	40
Subtotal	0	110	260	110	60	0	540
Total (1-5)	103	5826	6110	5802	115	0	17956
6. Inflation & Cont. (Credit Excluded)	0	82	81	81	0	0	244
AID TOTAL	103	5908	6191	5883	115	0	18200
LOCAL CONTRIBUTION							
1. Bank Financed Inputs (LC Credit Component)	0	2500	2500	2500	0	0	7500
GRAND TOTAL	103	8408	8691	8383	115	0	25700

Budget Notes
To Table I

AID Expenditures

Item

3a Training - US $ Third Country: An average cost of $5,000 per month is used.

3b Training - In Uganda: It is estimated that eight two-week courses will be offered with 15 participants in each. Each course is estimated to cost $10,000.

3c Training - Entrepreneurs: Eight one-week courses for 10 borrowers or potential borrowers is the planned use for the budget. Each course will cost $10,000.

Bank Contributions

The local currency component of each proposed loan will vary since each loan appraisal document will have a specific foreign exchange and local currency request. For the first 9 BOU approved RPE loans and the twelve proposals currently under review at the BOU the ICIs are supplying about one third of the loan package in Ugandan Shillings for local expenses. Using this as a rough guide the BOU and /or the ICIs will provide counterpart contributions in Shillings equivalent of approximately one half of the RPE financed foreign exchange line of credit. Of course, the value of the work of the ICI staffs on the loans were not included in the budget.

Borrower Contributions

In all cases, borrowers are required to provide collateral for the requested loan, normally in the form of fixed assets such as land or buildings. The current banking practices require that the value of this collateral be at least as much as that of the requested loan. In addition, the borrowers may pay for some operating costs during the life of the loan as well as interest costs pertaining to the the loan itself. Where applicable, borrower in-kind contribution such as self help labor could also be included as a borrower contribution. In all cases it is difficult to estimate as well as debatable as to whether or not it is practical to do so. AID/Kampala has not tabulated borrower contribution as part of the host country counterpart listed in Table I. BOU/ICI contributions provide over 29% of the project costs. This should be sufficient to stimulate the rehabilitation of war damaged productive enterprises without additional sources of lending capital; at least in the short to medium term.

TABLE II

Contract/ Grant	Task	Method of Financing	Amount (000)
1. ICI Grant	Enterprises Rehabilitation (Credit)	Bank L/C	$15,000
2. Contract	IESC (Completed/FY 86)	Direct Reimburse	$ 15
3. Cooperative Agreement	Technical Asst & Training	PRLC	$ 991
4. .PSC x 3[1]	UDB Advisor, UCB Advisor, BOU Advisor	Direct Reimburse	$ 1,155
5. PSC, Contract Purchase Order	Studies	Direct Reimburse	$ 400
6. Contract	Evaluation	Direct Reimburse	$ 100
7. Contract/ Purchase Order	Audit	Direct Reimburse	$ 40
8. Contracts	Commodities	Bank L/C on Direct Reimburse	$ 255
9. Contingencies and Inflation for items 3 through 8			$ 244
TOTAL			$18,200

1 Some or all of these three PSC could be incorporated into the cooperative agreement for technical assistance.

F. Analyses:

1. Economic Analysis

The financial/investment analysis of the initial economic analysis remain valid. Actual appraisals of potential loans to dairy, mixed farming, oil processing, poultry farms and feed mills show very high returns to investment. The results of these analyses are skewed upward by borrowing at a negative interest rate. With the present exchange rate, high levels of loan repayments will be achieved. Once the shilling is devalued, investment return for new loans are expected to be lower but still adequate to cover repayments.

The macroeconomic questions, specifically the exchange rate and interest levels, were discussed previously in the Issues and Grant Conditions Section of this Supplement. There is no question of the economic need for RPE, but the issue remains one of the enabling policy environment.

2. Institutional Analyses

In line with AID requirements for ICI lending, institutional analyses of UDB and UCB have been completed. Additionally, an update of the institutional state at UCB is being completed for the Rural Economic Recovery Project. Now that the agreement has been signed between the BOU and the Bank of Baroda, USAID/Uganda is undertaking an institutional analysis in line with the guidelines set out in AID Handbook 3, Appendix 4A. An institutional analysis will be completed for all additional ICIs that enter the program.

3. Social Soundness

The special conditions added to the Project at the time of authorization will increase the flow of project benefits to the relatively poor. The criteria set out in the authorization (Tab A, page 4) have been included in the ICI agreement and are being used in loan appraisal.

The conclusions on institutional change and the sociocultural feasibility of loan programs as well as spread effects remain valid from the PP.

4. Environment

The original environmental review procedures set out in the PP will be followed for both Phase I and Phase II financed subprojects. Although the PP Supplement provides for

additional credit funds to finance more subprojects, the process for subproject loan appraisals will continue to use the same environmental procedures as originally provided. No modifications are required.

V. IMPLEMENTATION ARRANGEMENTS

A. Responsibilities

1. Government of Uganda

The GOU responsibilities set out in the original PP remain essentially unchanged. The BOU will continue as the coordinating agency. However, two new responsibilities now rest with the BOU. First, the BOU has primary responsibility for project data collection and analysis. As the entity with oversight and monitoring responsibility, it is a logical choice for collecting data and monitoring records on the loan program, the enterprise activities, procurement, repayment, etc. Secondly, the BOU will be responsible for the coordination of all ICI procurement . To help them in this task, The Bank will let a contract for a Procurement Services Agent and will hire a Procurement Specialist to monitor their work and to handle in-country tasks.

2. Intermediate Credit Institution

The general responsibilities of the ICIs as a group remain unchanged from the PP. Specific responsibilities are spelled out in the agreements between the ICIs and the BOU (sample in Annex C).

3. USAID

The project monitoring and management responsibilities for the revised activities will be essentially the same as originally planned. Since no prime contractor will be selected, contracting responsibilities will increase and the task of project coordination expanded. The Mission's Project Development Office will handle project management.

4. Contractors

The contractor responsibilities are discussed in the technical assistance and training sections. The PSA's tasks are described in the procurement plan.

B. Contracting

One of the three long term TA PSCs has been awarded and the PSA contractor selected. The contracting of the remaining 2 long term PSCs and the award of a cooperative agreement for short term training and technical assistance are pending the approval of this Supplement (note: the long term PSCs may be included within the cooperative agreement). Attached as Annex D is an Action Memorandum for solicitation of applications from a limited number of Cooperative Development Organizations (CDO) or Private Voluntary Organizations (PVO).

C. Procurement Plan

Under the original procurement plan, a technical assistance entity was to hire a Procurement Service Agent (PSA) for the credit scheme. The PSA would then be called upon to undertake procurements for those borrowers who needed assistance to carry out cost effective purchases in Europe, Japan, the United States, other African states or elsewhere. In the Kenya marketplace, the use of a PSA would be particularly advantageous because local business practices often would not result in favorable prices to the borrowers. Moreover, neither borrowers, local dealers, nor local agents are likely to be familiar with, or likely to conform to, the requirements of AID regulations. Given this reality, the following procedures will be used to assist borrowers with the procurement of commodities and equipment under the Project.

As loan applications of the borrowers are approved, the commodity or equipment requirements contained in the application should be analyzed by the lending institution to determine if the borrower has obtained a sufficient number of quotations from suppliers to ensure that a favorable price has been obtained. The quotations should include, where possible and feasible, a proforma invoice from the manufacturer of the item, particularly when importation of a high value manufactured item is to occur. This is necessary because customs duties and dealer mark-ups make goods much more expensive when purchased at the retail level in Uganda or Kenya.

If the borrower has obtained sufficient appropriate quotations, and in the opinion of the lending institution will be capable on his own of carrying out the procurement according to AID regulations and good commercial practice, the borrower can be permitted, upon approval of the bank, to purchase the item(s) for which the loan is being granted. Where borrowers are conducting their own procurements, goods imported by them shall be consigned to the borrower who will be responsible for clearing the goods through customs and filing a receiving report with the bank. This report will, at a minimum, acknowledge receipt of the goods and note any shortages, damage or discrepancies. Where borrowers or their own agents are conducting their own procurements, responsibility for filing insurance claims or taking any other remedial action which might be required will rest with the borrower. The bank will render assistance to the borrower in making such claims to the extent that it is capable of such assistance.

Where the Bank determines that the borrower or the agency that he plans on using is unlikely to be able to carry out the procurement under AID regulations and in a cost effective way, the borrower will be instructed to use the services of the Procurement Services Agent which is under contract with the Bank of Uganda to provide procurement services. Procurements which are referred to the PSA will be handled in the following manner:

1. The list of the goods to be purchased will be forwarded to the Bank of Uganda together with a letter from the lending institution requesting that the PSA undertake the procurement of the needed items. The Bank of Uganda will complete a work order (PIO/C) to the procurement agent directing it to purchase the items. Assistance in completing the PIO/C work orders will be rendered by USAID or by the REDSO Commodity Management Officer during his periodic visits to Kampala. The BOU has agreed to hire a full time Procurement Specialist to coordinate and monitor all procurement. Project funds are available to assist in his further training.

2. Commodities or equipment purchased by the PSA will be consigned to the lending bank which upon notification of shipment will contact the borrower to arrange for customs clearance and physical deliver of the item to the borrower. Any fee charged by the PSA will be included in the delivered price of the item and will be included in the repayment obligation of the borrower.

A source and origin waiver for $3,000,000 to Code 899 for the procurement of goods under the credit component was approved at the time of authorization. Since most procurements can be made in the authorized source and origin, Code of 941, it is expected that the $3.0 million waiver is adequate for the life of the project.

Commodities needed by the BOU and the ICIs, mostly computers and vehicles, will be purchased by HC contracts executed by the BOU with the assistance of the USAID and the RCMO. Vehicles will be purchased from Code 935 countries under the world wide waiver for right hand drive vehicles. No other waivers will be required.

D. Implementation Schedule

Date		Event/Action	Responsible Agent
Sept 1986- to Sept 1987	-	Draw down of $5.0 million of RPE funds for rehabilitation (including part of the FY 87 obligation)	ICI, BOU, & USAID
1987			
January	-	PP Supplement approved	AA/AFR
January	-	Host country/PSA contract signed	BOU
February		Pro Ag Amendment signed	USAID
February	-	Issuance of RFA for limited list of technical assistance CDOs/PVOs	PDO/RCO
February		Issuance of scope of work for 2 long term PSCs	PDO/RCO
March	-	Computers for ICIs ordered	BOU & RCMO
March	-	Six vehicles ordered (For UCB, UDB & BOU)	BOU & RCMO
April	-	Receipt of CDO/PVO Applications	PDO & RCO
May	-	Cooperative Agreement awarded	RCO & USAID
May	-	2 PSCs contracted	RCO & USAID

February-May	-	BOU project monitoring systems established	PSC
May	-	First ST advisors to ICI arrive (continue for LOP)	CDO/PVO & ICIs
June	-	Assessment of training and TA needs at ICIs	ICIs & CDO/PVO
July	-	Training and TA plans submitted and approved	AID & Proj. Committee
July	-	2 long term PSCs arrive	USAID
July	-	Training courses begin (continue for LOP)	CDO/PVO, ICI & BOU
July	-	Commodities arrive	BOU
December	-	Audit	PDO & RIG
<u>1988</u>			
September	-	First Evaluation	PDO, Proj. Comm. & Contractors
December	-	Audit	PDO & RIG
<u>1989</u>			
December	-	Audit	PDO & RIG
<u>1990</u>			
September	-	Final Evaluation	PDO, Proj. Comm. & Contractors
December	-	Audit	PDO & RIG
<u>1991</u>			
March 31		PACD	

E. Evaluations and Audits

The general scope of the two evaluations planned in the original PP is not changed. Timing of the first evaluation is moved to the last quarter of FY 1988. At that time about $10.0 million worth of loans will have been made. The evaluation can identify problem areas and possible shifts in implementation to benefit the project. The second and final evaluation, two year later in late FY 1990, will set out a course for additional assistance, if needed, and identify experiences and lessons that can be used to replicate the program in Uganda or other countries. Gray Amendment firms will be considered for these two evaluations.

Four Annual Audits of the ICIs and the BOU are planned at the end of each calendar year of the project. These are expected to be non-Federal audits that will draw heavily upon the financial and other data collected by the BOU as part of its Project monitoring role. Local firms will be contracted for these audits (There are I.Q.Cs with three Nairobi based U.S. firms.

F. Gray Amendment Considerations

A Gray Amendment firm was recently selected to provide services as a PSA. The host country plans to sign a contract with the firm in January 1987. In addition, the Mission will encourage Gray Amendment firms to apply for a contract to undertake one or both of the scheduled project evaluations.

ANNEX A

REVISED LOGICAL FRAMEWORK

Life of Project
From FY 1984 to FY 91
Total US Funding: $18,200,000
Date Prepared: 12/12/86

Project Title & Number: Rehabilitation of Productive Enterprises (RPE) - 617-0104

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
I. GOAL: To make available medium term financing for investment in high potential agricultural enterprises.	Increase in credit provided to private sector to rehabilitate productive enterprises	Bank of Uganda, ICI financial reports	Peace and stability are maintained in project areas; Economic factors external to project area are favorable.
II. PROJECT PURPOSE	END OF PROJECT STATUS (EOPS)	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIOS
To improve income for the rural poor and to increase agricultural production through increased investment in agricultural enterprises.	a. Capacity to replicate RPE project activity exists within the financial community in Uganda;	Evaluation, observation, monitering, Bank of Uganda, ICI financial reports	a. ICI's are able to deliver services in project areas safely and in a timely manne
	b. BOU capacity to monitor ICI borrowing, loan appraisal and supervision and the process of international procurement;		b. Suppliers are able to deliver appropriate commodities to project areas;
	c. Active participation by three or more parastatal or private commercial banks with a target portfolio of new loans of approximately $2.0 million per year per bank;		c. Borrowers will make productive use of credit extended.

d. Sound and efficient loan processing and credit management procedures which are fully developed and tested, revised and formalized as part of official bank policy;

e. ICIs capable of evaluating credit requirement via the preparation and appraisal of appropriate loan documents;

f. Improvement in appraisal and supervision such that outstanding deliquent balances on loans are held to less than 10% of the outstanding portfolio balances;

g. Cost of lending (included defualts) will be reduced to a level covered by the interest spread between the BOU and ICIs and sustainable on the basis of earnings from lending;

h. A consolidated Agricultural Project Division within UDB effectively functioning as an integrated unit capable of appraising agricultural enterprise loan proposals;

i. Productive enterprises rehabilitated receiving credit from ICIs and generating income; and

	j. Increased domestic food supply and complementary decreased drain on foreign exchange as a result of import substitution or direct exportations.		
III. OUTPUTS	MAGNITUDE OF OUTPUTS	MEANS OF VERIFICATION	IMPORTAT ASSUMPTIONS
a. Loans made to agricultural enterprises for rehabilitation and development;	a. 200 loans using $15.0 million from RPE and $7.5 million in shillings raised by BOU/ICIs;	Evaluation, observation and monitoring, BOU, ICI records	a. Shillings can be gen rated for local currency contributio to ICI loan capital;
b. New or expanded enterprises operating profitably as well as some failed business ventures;	b. 180 new or expanded enterprises, 20 failed ventures;		b. Successful implementa tion of commodity procurement.
c. New jobs generated for the rural poor;	c. 4500 new jobs costing less than $6000 million RPE fund per job created;		
d. ICIs particiting with the BOU in the RPE scheme;	d. at least 3 ICIs;		
e. Loan officers trained in agricultural commercial lending;	e. 20 officers; of 10%;		
f. Borrowers experienced in credit use;	f. 200 borrowers;		
g. Loan arrearage rate reduced;	g. default rate		

h. Capitalization of an ongoing source of LC lending for agricultural enterprises;	h. -
i. Detailed operational reporting for project monitoring and evaluation; and	i. -
j. Base line information on borrowers, projects, procurements, operational costs and ICI performance in general, and studies indicating increased domestic food production and/or decreased food costs.	j.

IV. INPUTS	MAGNITUDE OF INPUTS ($000)	MEANS OF VERIFICATION	IMPORTANT ASSUMPTION
a. Credit ($ Foreign Exchange)	a. 15,000	Review of AID financial reports	Same as above
b. Technical Assistance	b. 1,875		
c. Training	c. 286		
d. Commodities	d. 255		
e. Studies	e. 400		
f. Evaluations/ Audits	f. 140		
g. Contingency	g. 244		
Subtotal AID	18,200		
h. Credit (Local Costs)	h. 7,500		
Subtotal GOU			
Total	$25,700		

ANNEX B
AUTHORIZATION PACKAGE

PROJECT AUTHORIZATION

Name of Country: Uganda

Name of Project: Rehabilitation of Productive Enterprises

Number of Project: 617-0104

1. Pursuant to Section 531 of the Foreign Assistance Act of 1961, as amended, I hereby authorize Rehabilitation of Productive Enterprises Project (the "project") for Uganda (the "Cooperating Country") involving planned obligations of not to exceed eighteen million two hundred thousand U.S. dollars ($18,200,000) in grant funds over a three year period from date of authorization subject to the availability of funds in accordance with the A.I.D. OYB/allotment process; to help in financing foreign exchange and local currency costs for the Project. The planned life of the Project is five years from the date of initial obligation.

2. The project consists or assistance to improve income of the rural poor and increase agricultural production in Uganda through increased productive investment in agricultural enterprise. Assistance is further provided to help in strengthening the capacity of both borrowers and lenders in the country for productive investment in agriculture through provision of (a) technical assistance and training for improved managerial and technical capacity of both groups, and (b) start-up lending capital for priming of the credit systems to be strengthened and to enhance experience and capital mobilization capability necessary for self-sustained development in the future.

3. The Project Agreement(s) which may be negotiated and executed by the officer(s) to whom such authority is delegated in accordance with A.I.D. regulations and Delegations of Authority shall be subject to the following essential terms and covenants and major conditions, together with such other terms and conditions as A.I.D. may deem appropriate.

4.a. Source and Origin of Commodities, Nationality of Services

Commodities financed by A.I.D. under the project shall have their source and origin in the Cooperating Country or in countries included in A.I.D. Geographic Code 941, except as A.I.D. may otherwise agree in writing. Except for ocean shipping, the suppliers of commodities or services shall have the Cooperating Country or countries included in A.I.D. Geographic Code 941 as their place of nationality, except as A.I.D. may otherwise agree in writing. Ocean shipping financed by A.I.D. under the project shall, except as A.I.D. may otherwise agree in writing, be financed only on flag vessels of

the Cooperating Country or countries included in A.I.D. Geographic Code 941.

4.b. Conditions Precedent.

(1) Disbursement for Technical Assistance. Prior to the first disbursement under the Grant for technical assistance, or to the issuance by A.I.D. of any commitment document to finance such assistance, the Grantee shall furnish to AID, in form and substance satisfactory to AID, except as AID may otherwise agree in writing, evidence of:

(a) The establishment of a high level, inter-agency project committee to provide for national oversight of the project's execution and to serve as a vehicle for policy level intervention when necessary. The evidence submitted should include terms of reference and operating procedures for the committee, and

(b) The establishment, or intention to establish within a satisfactory time period, of a consolidated agricultural projects appraisal department within the Uganda Development Bank which will draw from the existing Crops and Livestock departments.

(2) Disbursement for Lending. Prior to the first disbursement under the Grant for lending, or to the issuance by AID of any commitment document to finance such disbursement, the Grantee shall furnish to AID, in form and substance satisfactory to AID except as AID may otherwise agree in writing:

(a) Evidence of an established rediscount facility in the Bank of Uganda, to be utilized by project Intermediate Credit Institutions (ICIs), particularly the Uganda Development Bank, for securing the local currency counterpart contributions required for the sub-lending program. This evidence shall include the terms, conditions, and operating procedures for access and drawdowns from this facility;

(b) Evidence of the establishment of a special account for repayments by ICIs of Project loans which are to be relent for purposes in accord with project criteria in general, together with procedures for use of funds in the special account.

(c) Evidence of the development of an officially approved operations manual for the lending component of the project including credit policy and regulations and lending criteria for ICIs, sub-borrowers, and sub-projects. This will also include:

(c.1.) Procedures for complying with AID's environmental regulations

(c.2.) Evidence of the intent of the credit policy to provide for loans to sub-borrowers at positive real rates of interest (above officially established rate of inflation)

(c.3.) Evidence of the establishment of lending policies and criteria for sub-loan and sub-borrower eligibility which will assure effective participation of needy people in the benefits of investments to be financed by the project. Among other things, the policy will require that only sub-project proposals that demonstrate that one or more of an illustrative list of approved benefit impacts (to be included in the presentation) will, in fact, occur, will be approved. The policy will also require that the basis for approval be documented.

(c.4.) Procedures for referring proposed sub-loans to AID for approval with respect to AID's project, program, policy and legal requirements;

(d) Evidence of compliance with environmental analysis, review and mitigating measures procedures outlined in project implementation letters for sub-projects to be financed by the first disbursement and agreement with respect to environmental procedures for all subsequent disbursements;

(e) Signed loan agreements with the applicable ICIs to participate in the lending activity; (Once a loan agreement is signed with one ICI, lending may commence through that particular ICI. New loan agreements may be signed over the life of the project, each to be approved by AID, as each new ICI applies to participate in project lending activity. The loan agreements will stipulate compliance with project lending criteria and provide for terms and conditions acceptable to AID.)

(f) Evidence of acceptance of negotiated ongoing maximum levels of delinquency and default rates, at both ICI and sub-borrower levels, over the life of the project. It will be further accepted that if such rates exceed the agreed upon levels (in either or both the ICI in question and the sub-borrower group) disbursements for lending through that ICI will be stopped until the BOU and AID are satisfied that the rates have dropped below the levels in question and that adequate measures have been taken to avoid future occurrences of the problem;

(g) A statement that imported project commodities will be exempted from import duties and inspection fees etc.

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(3) Disbursement for Phase II. Prior to the first disbursement under the Grant for Phase II, or to the issuance by AID of commitment documentation for such disbursement, the Grantee shall submit to AID, in form and substance satisfactory to AID, except as AID may otherwise agree in writing:

(a) detailed plans and costs for Phase II project execution (based on the findings of the comprehensive evaluation to be carried out toward the end of Phase I in late 1986), and

(b) government approval of a plan to establish an independent technical assistance entity by the end of the project. The evidence should indicate approval of the concept and the substance of the proposed plan for arriving at the independent enterprise. The evidence should also indicate approval of the initial establishment of the technical assistance entity under the proposed Prime Contract.

4c. Covenants.

The Grantee shall covenant that except as AID otherwise agrees in writing it will:

(1) Assure that proposed sub-loans for an amount exceeding $200,000 in AID financed costs will be submitted to AID for approval prior to disbursement;

(2) Assure that the AID receives copies of all sub-loan proposals in general for purposes of information and monitoring;

(3) Assure that loans made available under the project will be payable through ICIs to private enterprises in both foreign exchange and local currency in accordance with the approved loan application submitted by the private enterprise. Repayment of loans at both the ICI and private enterprise levels will be entirely in local currency, the amount thereof determined with respect to the foreign exchange loan, in accordance with the rate of exchange prevailing at the time the foreign exchange is disbursed to or on behalf of the borrower.

(4) Attempt to reach agreement with commercial ICIs interested in participating in the project with respect to a combination of interest rates and a possible local currency credit guarantee scheme which will allow such ICIs to project a satisfactory return to their participation at an acceptable risk;

(5) Continue to review and revise interest rate ceilings in line with inflation rates;

(6) Make its best efforts to:

SV

(a) resolve the edible oil ex-factory tax question in a manner condusive to the development of the local industry and production for the Uganda market;

(b) resolve disputes over ownership of private enterprises soliciting credit for sub-projects under the project; and

(c) provide and maintain qualified counterpart personnel on a timely basis in the UDB;

(7) Require participating ICIs to develop procedures for making sub-loans under the project that include environmental analysis and review procedures satisfactory to AID; and

(8) Require participating ICIs to include the following conditions/covenants in each sub-loan agreement:

(a) With respect to all Class II and Class III activities, a covenant whereby the borrower agrees that production operations will not commence until adequate facilities for organic and toxic waste treatment are in place and whereby the borrower agrees to a right of inspection by the representatives of the lender, GOU or AID to insure compliance with, and the adequacy of, any environmental design requirements or environmental protection facilities agreed to as part of the loan approval process; and

(b) In the case of large industrial opertions which will receive loan funds in increments, a condition precedent to receipt of subsequent increments of loan funding requiring evidence that satisfactory progress has been made on installation of waste treatment facilities and verification (by intial monitoring) that the design of the facilities is adequate.

4.d. Waiver.

(1) Pursuant to the authority of HB 1B, CH 5B4a(2) and (7), and based on the justification contained in Annex C to the project paper, I hereby approve a source/origin waiver to AID Geographic Code 899 in an amount not to exceed $3 million, for procurement of commodities by sub-borrowers under the project.

Mark L. Edelman

Mark L. Edelman
Acting Assistant Administrator
Bureau for Africa

9-25-84

Date

Clearances:

DAA/AFR, P. Birnbaum		Date
AFR/DP, H. Johnson		Date
AFR/PD, N. Cohen		Date
AFR/PD/EAP, JHeard		Date
AFR/EA, E. Spriggs		Date
GC/AFR, T. Bork		Date
DAA/PPC, A. Herrick		Date

GC/AFR:MAKleinjan:afn:09/14/84:632-3808:0431H

SUPPLEMENTARY STATEMENT ON PRE-IMPLEMENTATION PERIOD AND BUDGET
PROJECT PAPER
REHABILITATION OF PRODUCTIVE ENTERPRISES
UGANDA

I. Introduction.

Based on a comprehensive review of the RPE project paper by the Africa Bureau it was agreed that the project should be modified in accordance with the following guidelines:

A. The basic design of the project is considered valid. Proposed modifications pertain only to the pre-implementation period, project phasing and length, and budget assumptions.

B. The third and last phase of the project is to be eliminated, cutting the project from a seven and one-half year effort to approximately five years.

C. The initial pre-implementation period is to be modified to incorporate further analysis of project assumptions and an accelerated trial operations activity in order to meet certain early credit demands and validate or adjust design structure as described in the PP.

D. Budget assumptions and guidelines for non-credit elements of the project are to be reworked to encourage more of an indigenous, lower cost approach to technical assistance, training and management of project activities.

Upon approval in final form these changes will be incorporated within the project paper proper so that it may serve as a valid management tool during implementation. In the meantime, and for purposes of authorization, proposed modifications and budget adjustments are as described below:

II. Modifications to Basic Design.

A. Project Period and Phasing.

The third and last phase of the project, originally to commence in January 1989 and run for three years, is eliminated. The assumption is that if a third phase is warranted by experience and analysis during implementation, the need would be handled through an RPE II follow-on project. Also, given the more ambitious effort to be realized during what was to be the initial pre-implementation period, i.e., pilot lending and other operational activity, this

period has been extended to two years and will run from obligation of the initial tranch of funding (September 1984) to the end of September 1986. Overall project length, therefore, including the three-year primary implementation effort, will come to five years and conclude in September 1989.

B. Pre-Implementation: September 1984 - September 1986.

1. Concept.

During the original pre-implementation period (June 1984 - Dec. 1985) critical planning, preparation and gearing-up activities were to take place including contractor recruitment and mobilization, the meeting of conditions precedent, preparation of detailed work and procurement plans, etc. Under the revised package, the objective is to augment this activity with:

- an additional analytical effort to revalidate and/or adjust design structure and approach as necessary in order to adopt more flexible, efficient, less demanding and less costly vehicles and procedures for lending to target clientele (through private commercial banking channels to the extent possible), and,

- a pilot lending effort to be implemented on an experimental basis with a select group of high priority sub-projects which are determined to be more ready to finance in terms of established feasibility and sound investment and management plans.

On the basis of the above experience, the design, structure and plan for the main operational phase of the project (fiscal years 1987-1989) will be modified as warranted depending on the nature and magnitude of changes contemplated. Washington review and approval will be required prior to proceeding with Phase II.

2. Implementation.

a) Finance and Development Specialist.

As soon as possible following execution of the Grant Agreement, a finance and development banking specialist will be recruited and contracted for services in Uganda. Ideally this person should combine a background and skills as an AID finance or projects officer and as an intermediate credit and development banking specialist. The contract will be structured flexibly to retain the person's professional services on an as required basis over the course of the pre-implementation period. It is estimated that approximately nine months of consulting time will be needed which would be provided in five or six trips of an average of six to eight weeks each.

The plan, role and functions of the specialist will be as follows:

(1) Assist the GOU and the USAID with the meeting of principal conditions precedent for both technical assistance and lending, i.e., establishment of the high level project oversight committee and its groundrules, the consolidation and restructuring of the Crops and Livestock Departments of the UDB together with the group to be brought in from the Private Development Corporation of the Philippines (See below), development and approval of an operating procedures manual for project lending (including the refinement and negotiation of ICI, sub-borrower, and sub-project criteria), loan agreements between the Bank of Uganda (BOU) and participating ICIs, and the establishment and operating procedures for the rediscount facility in the BOU for the provision of the local currency contribution requirement for UDB lending.

(2) Assist the GOU (Bank of Uganda), USAID and REDSO/ESA with the development, approval and establishment of simplified criteria and procedures for project review and approval, procurement, disbursement and vouchering, implementation management in general and monitoring, with special attention directed to environmental criteria and procedures, now considered to be overly rigorous for efficient implementation. (Modification of environmental criteria and procedures will have to be approved by REDSO/ESA as may other changes if substancive.)

(3) In collaboration with the Philippine group, assist participating ICIs, early prospective sub-borrowers and the USAID with the review, refinement and approval of an initial group of sub-projects to be financed during the pre-implementation period including the development of management plans and follow-up assistance activity for such projects from technical assistance to be supplied by the project during the main implementation phase.

(4) Assist the USAID with the development of scopes of work and solicitations for the various short and long term contracts under the project, including technical assistance and training for ICIs and sub-borrowers, procurement assistance, auditing services, and further analysis and evaluation.

(5) In collaboration with the Philippines Group assist the USAID with the planning and realization of an evaluation of pre-implementation experience against the original design of the project and with redesigning of the main implementation Phase of the project to the extent warranted by findings and recommendations of the

evaluation, including revision of various scopes of work for longer term technical assistance and training activity and the development and presentation of a PP supplement for field or Washington approval depending on the nature and magnitude of changes contemplated.

b) The Private Development Corporation of the Philippines.

Subsequent to authorization of the project a sole source waiver for the procurement of technical assistance from the Private Development Corporation of the Philippines (PDCP) will be sought in order to provide uniquely relevant technical assistance and training services to ICIs participating in the project, especially to the Uganda Development Bank. The objective is to bring to bear lessons learned from over a decade of experience of this organization in successful third world development lending on project operations.

As soon as possible following execution of the Grant Agreement, PDCP will be invited (under invitational travel procedures) to send a delegation of senior officers and technicians to Uganda sometime in the fall of this year (1984) to assess the situation and negotiate a draft contract for provision of the assistance tentatively described below. Such an agreement would hopefully be signed before the end of calendar year 1984 with actual assistance to commence in early 1985. It is currently envisioned that the assistance package from PDCP would consist of:

- Technical assistance extending over a period of one year in the form of one resident advisor and short term consultancies by specialists as required in finance and credit, accounting, agro-industry and marketing, project appraisal, data collection/analysis, evaluation and training. (The exact mix of skills to be brought in on a short term basis will have to await detailed planning and negotiations to be carried out by the USAID with the advance group from PDCP with assistance from the contract finance specialist described above.)

- Training in the form of participation of various key UDB and other ICI staff members in development banking courses given at PDCP headquarters in the Philippines and, on occasion, specially tailored courses to be given in Uganda by PDCP advisors, depending on PDCP's assessment of training needs made during its initial visit and early advisory work in the banking community.

More specifically, assistance to be provided is expected to include:

(1) a detailed reassessment of the proposed operating structure and plan for the project and appropriate modifications for initial lending operations (in collaboration with the contract finance specialist),

(2) technical assistance to the UDB in the consolidation and structuring of the combined Crops and Livestock Departments in collaboration with the contract finance specialist and development of an effective, streamlined project appraisal and approval procedure to be utilized during the pilot lending period. Assistance will also be directed to the development of improved supervision, monitoring and collection procedures.

(3) Assistance to participating ICIs, early prospective sub-borrowers and the USAID with the review, refinement and approval of an initial group of sub-projects to be financed during pre-implementation including the development of management plans and follow-up assistance activity for such projects from technical assistance to be supplied by the project during the main implementation phase.

(4) Assessment of training needs and development of a comprehensive training plan for ICI staffs for courses both in Uganda and at PDCP headquarters and monitoring would be carried out by the resident advisor.

(5) Assistance in the development of an initial base line data collection effort for project lending operations and for the installation of an ongoing data collection, analysis and reporting system - to feed into the Data Management component of the project once it commences under the main implementation phase.

(6) In collaboration with the contract finance specialist assistance to the USAID in the planning and realization of an evaluation of pre-implementation experience against the original design of the project and in the redesign of the main implementation Phase of the project to the extent warranted by findings and recommendations of the various scopes of work for longer term technical assistance and training activity and the development of a PP supplement if necessary.

3. Phase II - Implementation - September 1986 September 1989

This period, unless otherwise modified by the experience of Phase I, will remain more or less as described in the project paper except that:

- It will commence somewhat later than originally contemplated, i.e., Sept. instead of Jan. 1986, and,
- The scope and budget for the prime contract will be modified to encourage indigenous or locally resident firms or PVOs (local in the greater East Africa context) to bid on either the prime contract or as a joint venturers or sub-contractors especially with respect to portions of the project dedicated to assistance to sub-borrowers (the technical assistance entity or business advisory service as described on pp. 32-38 of the PP) and procurement of commodities financed by the credit component.
- Advance work originally to be carried out by the Prime Contractor, i.e., assistance in the consolidation of the crops and livestock departments of the UDB and much of the other preliminary administrative, financial and technical arrangements for the project, will now be carried out by the PDCP and the development finance contractor, thus simplifying and somewhat lowering preliminary short term technical assistance costs and requirements originally contemplated as part of the package including substantial initial mobilization costs.

III. Modifications to Project Budget.

The revised budget, detailed in the following tables, reflects modifications described above. Principal changes incorporate:

- An extended pre-implementation period, ie., 2 years as opposed to 18 months in the original implementation plan.
- Heavy front end loading of technical assistance and training activity associated with the Private Development Corporation of the Philippines and the Finance/Development Banker inputs.
- Reduced overhead on overall direct contract costs, ie. from 85% to 35%.
- Reduced salaries and other costs associated with the Technical Assistance Entity in line with emphasis on use of local organizational capability to address the need on the sub-borrower side.

- An additional evaluation in Year 2 to validate or modify design on basis of pre-implementation experience.
- An adjusted credit line to reflect the projected earlier start of lending operations.

The above changes have a ripple effect through the original budget which has been adjusted accordingly, as have counterpart contriutions. Assumptions for the old budget remain valid for the most part. Once the project has been authorized, a new budget will be integrated within the revised PP with a new master set of adjusted assumptions.

BUDGET TABLE 1

DETAILED EXPENDITURES BY PROJECT YEAR
($000)

Project Year	1 FY 85	2 FY 86	3 FY 87	4 FY 88	5 FY 89	Total
AID FINANCED INPUTS		-				
Credit Line	500	800	2000	2400	2600	8300
Inflation (7%)		56	289	540	808	1693
Sub-total	500	856	2289	2940	3408	9993
Long Term TA						
Chief of Party			165	165	165	495
Finance Anal. (UDB)			155	155	155	465
Ag-bus. Mgt. (TA Ent)			85	85	85	255
Accounting (TA Ent)			85	85	85	255
Finance Anal. (TA Ent)			85	85	85	255
PDCP Loan Off.	75	75				150
Sub-Total	75	75	575	575	575	1875
Short Term TA						
Finance/DevBanker	60	60				120
PCDP	50	50				100
Agro-Ind.		25				25
Bus Analyst		25				25
Other Int. & Local		50	150	150	100	450
Sub-Total	110	210	150	150	100	720

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(Budget Table 1. Cont.)

Project Year	1 FY 85	2 FY 86	3 FY 87	4 FY 88	5 FY 89	Total
Local Hire						
Professional Staff	30	80	130	190	190	620
Support Staff	10	20	50	50	50	180
Sub-Total	40	100	180	240	240	800
Local Travel	10	40	70	90	90	300
Local Office Costs	12	22	22	22	22	100
Training						
In-Country (ICIs)	10	20	20	20	10	80
US & Third Country	40	40	40	40	20	180
In-Country Entprs.	10	20	20	20	10	80
Sub-Total	60	80	80	80	40	340
Sub-Total Direct Contract Costs.	307	527	1077	1157	1067	4135
Contract Overhead (Consolidated: 35% on above costs - credit)	107	184	377	405	373	1447
Sub-Total TA and Trng.	414	711	1454	1562	1440	5582
Other Costs						
Commodities						
Vehicles	45	55	30	15		145
Office Equip		50	20	5		75
Computers		40				40
Sub-Total	45	145	50	20		260
Procurement Services	25	43	100	100	100	368
Research Fund (Data Management)		30	50	50	20	150
External Audit	10	50	100	100	100	360

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(Budget Table 1. Cont.)

Project Year	1 FY 85	2 FY 86	3 FY 87	4 FY 88	5 FY 89	Total
Natn'l Vol Services (IESC)	5	10	10	10	10	45
Evaluations		50			100	150
Sub-Total - All non Credit Costs	499	1039	1764	1842	1770	6915
Inflation - 7% compounded	--	72	236	414	550	1292
Sub-Total - Non Credit costs)	499	1112	2020	2257	2320	8208
Total AID Financed Contributions	999	1968	4309	5197	5728	18201

Rounded: Credit: 10,000 All other costs: 8,208
Total AID: 18,210

COUNTERPART CONTRIBUTIONS

Bank Financed Inputs. (Local Cur. Loan Component)	250	400	1000	1200	1300	4150
Inflation at 7%	—	28	145	270	404	847
Sub-Total:	250	428	1145	1470	1704	4997
Enterprise Financed Inputs						
Enterprise Equity	150	240	600	720	780	2490
TA Entity			50	60	65	175
Sub-Total	150	240	650	780	845	2665
Inflation - 7%		17	163	176	263	619
Sub-Total inc. Inf.	150	257	814	956	1108	3285
Total Host Country Contribution	400	685	1959	2426	2812	8282
TOTAL PROJECT COST	1470	2790	6731	8128	9127	28246

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BUDGET TABLE 2

SUMMARY OF TOTAL PROJECT COST BY FUNDING CATEGORY

	AID	Banks	Enterprises	Total
A. Credit	8300	4150	2490	14940
Inflation - 7%	1693	847	507	3047
Sub-Total (Rounded)	10000	4997	2997	17994
B. Project Operations				
TA & TNG	4135		175	4310
Overhead at 35%	1447			1447
Sub-Total	5582	—	175	5757
Other Costs				
Commodities	260			260
Procurement Services	368			368
Research Fund	150			150
External Audit	360			360
Int'l Vol. Services	45			45
Evaluation	150			150
Sub-Total	1333			1333
C. Sub-Total: All Non-Credit Costs	6915		175	7090
Inflation at 7%	1292	—	40	1332
Sub-Total (Rounded)	8210		215	8425
Grand Total (Rounded)	18,210	4,997	3,212	26,419
Per Cent Contribution	69%	19%	12%	100%

Combined Total of Host Country Contributions: $8,209 or 31% of Total Project Cost

AFR/PD/EAP: JHeard: 8/20/84: 1111J

VZCZCRRSTZDXAT85
PP RUDKKP
DE RUEHC #8364 2740059
ZNR UUUUU ZZH
P 010051Z OCT 86
FM SECSTATE WASHDC
TO RUDKKP/AMEMBASSY KAMPALA PRIORITY 7511
INFO RUEHNR/AMEMBASSY NAIROBI PRIORITY 6755
BT
UNCLAS STATE 308364

USAID 3
DCM 2

AIDAC

E.O. 12356: N A
TAGS:
SUBJECT: UGANDA: REHABILITATION OF PRODUCTIVE ENTERPRISES PROJECT (617-0104)

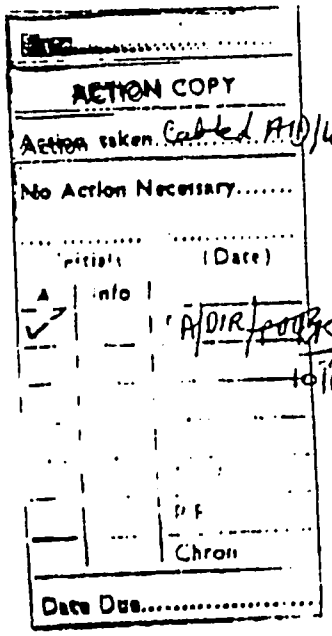
REF: KAMPALA 03057

1. THE AFRICA BUREAU CONCURS WITH MISSION PROPOSAL IN REFTEL TO INCREASE THE RPE LENDING CEILING TO DOLS 3.0 MILLION UNDER PHASE I.

2. THE BUREAU BELIEVES THE DOL 3.0 MILLION CEILING SHOULD NOT BE EXCEEDED DURING PHASE I OR UNTIL THE MISSION HAS EVALUATED THE PROJECT, SUBMITTED A DESIGN (PP SUPPLEMENT OR AMENDMENT) FOR PHASE II, AND RECEIVED AID W CONCURRENCE ON THE SECOND PHASE. ALTHOUGH THE INITIAL REASON TO SUBMIT A PP SUPPLEMENT FOR PHASE II WAS TO CLARIFY THE AMOUNT AND TYPES OF TA REQUIRED FOR SUCCESSFUL PROJECT IMPLEMENTATION, THE TERMS OF THE SUBLOANS ARE OF CONSIDERABLE INTEREST REGARDING OUR POSITION ON PHASE II. OF PARTICULAR CONCERN ARE INTEREST RATE ISSUES: WHAT IS THE RATE TO SUBBORROWERS? IS THIS RATE POSITIVE OR NEGATIVE? WHAT ARE THE TERMS OF REPAYMENT? ALSO, IF REPAYMENT IS IN LOCAL CURRENCY, WHAT EXCHANGE RATE IS USED? ARE WE PROVIDING WINDFALL PROFITS TO SUBBORROWERS? THESE AND OTHER QUESTIONS NEED TO BE FULLY EXAMINED BEFORE WE MOVE INTO PHASE II OR ADD SUPPLEMENTAL FUNDING FOR THE PROJECT.

3. THE MISSION SHOULD AMEND THE ILLUSTRATIVE BUDGET IN TAB B, PART I OF THE PP TO REFLECT THE INCREASED PHASE I LENDING COMPONENT AND ADJUST OTHER COMPONENTS DURING PY 1 AND PY 2 BASED ON CURRENT INFORMATION. COPIES OF THESE BUDGET CHANGES SHOULD BE POUCHED TO AID/W WHEN COMPLETED. ALSO, THE MISSION MAY HAVE TO AMEND THE PRO AG DEPENDING ON HOW THE BUDGET AND PHASE 1 PHASE II COMPONENTS ARE PRESENTED.

4. PLEASE ADVISE US OF YOUR PLANS TO EVALUATE AND PREPARE PP AMENDMENT SUPPLEMENT FOR THE RPE PROJECT.
WHITEHEAD
BT



UNCLAS

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TYPICAL BOU/ICI RPE SUBAGREEMENT

REHABILITATION OF PRODUCTIVE ENTERPRISES (RPE)

LOAN AGREEMENT BETWEEN

THE BANK OF UGANDA (BOU)

AND

UGANDA COMMERCIAL BANK

(UCB)

DATE

THIS AGREEMENT is made this 26th day of May 1986 between the BANK OF UGANDA, a body corporate established by the Bank of Uganda Act 1966 with its head office at 34/37 Kampala Road, P.O. Box 7120, Kampala Uganda (hereinafter called the Bank) of the one part and UGANDA COMMERCIAL BANK, a body corporate, established by the Uganda Commercial Bank Act of 1965, with its head office at Plot 12 Kampala Road, P.O. Box 973, Kampala, Uganda, (hereinafter called UCB) of the other part,

WHEREAS:

(A) UCB was established for the purpose of lending money to its customers and now requires additional financial resources for the purpose of financing agricultural development

(B) The Bank, through a Grant from USAID, an agency of the United States Government, is prepared to participate in the financing of the said agricultural development by:

(i) providing funds on a loan basis for on-lending on commercial terms to private productive enterprises in the agricultural sector; and

(ii) basing the actual amounts provided on the capacity of UCB to absorb the resources so provided in the form of viable packages of loan requests conforming to the Project Grant Agreement dated 23rd September, 1984 between the Republic of Uganda and the United States of America for the Rehabilitation of Productive Enterprises (Project Agreement No.61701014) and annexes thereto (hereinafter referred to as the Project Agreement).

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Now, therefore, this Agreement Witnesseth as follows;

ARTICLE 1

DEFINITIONS

Section 1.1 Wherever used in this Agreement, unless the context shall otherwise require the following terms shall have the following meanings:

(a) AID: Agency for International Development

(b) AID Geographic Code 899: Any area in the Free World, excluding the participating country itself. The "Free World" excludes the following area or countries: USSR, Albania, Bulgaria, Czechoslovakia, German Democratic Republic, Estonia, Hungary, Latvia, Lithuania, Romania, Poland, Vietnam, North Korea, People's Republic of China, Mongolia, Laos, Cambodia and Cuba.

(c) AID Geographic Code 941: An independent country in the "Free World", except the cooperating country itself and the following

Europe		Other	
Andorra	Luxembourg	Afghanistan	Libya
Austria	Malta	Angola	Mozambique
Belgium	Monaco	Australia	New Zealand
Denmark	Netherlands	Bahrain	Qatar
Finland	Norway	Canada	Saudi Arabia
France	Portugal	Cyprus	Singapore
Germany, Federal	San Marino	Gabon	S. Africa

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Europe		Other	
Republic of (including West Berlin)	Spain	Greece	Syria
Ireland	Sweden	Hong Kong	United Arab Emirates
Italy	Switzerland	Iran	Yemen, Peoples Democratic Republic
Iceland	United	Iraq	
Liechtenstein	Vatican City	Japan	
	Yugoslavia	Kuwait	

(d) CGS: Credit Guarantee Scheme for small loans

(e) DFF: Development Finance Fund

(f) ICI: Intermediate Credit Institution: any institution which is provided funds by the Bank for on-lending under the RPE programme.

(g) Project Manager: Director Development Finance Department in the Bank of Uganda.

(h) RPE: Rehabilitation of Productive Enterprises

(i) Sub-borrower: an approved loan applicant of the ICI

(j) The Grant: Funds, totalling US $18.2m, made available to the Government of Uganda under the RPE programme.

(k) Uganda Owned: Any enterprise in which Ugandans have a shareholding of not less than fifty one per cent.

ARTICLE II

UTILIZATION OF LOAN FUNDS

Section 2.1 Usage of Credit Funds

(a) Loans out of Grand Funds originating from USAID shall be for financing viable profit making enterprises which are Uganda owned and controlled with their

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principal place of business in Uganda. The enterprises (including cooperatives) shall be in the private sector and be primarily operating in the agricultural sector, either in production or in processing or service activities directly linked to agriculture. The projects must be labour intensive, have clear potential for import substitution or export and provide increased markets, inputs, or service for agricultural production based on locally available inputs.

(b) UCB shall apply the General Operating Principles embodied in its lending manual at the time of signing this Agreement to the funds made available to it under the Gran in so far as they are not inconsistent with the USAID guidelines for lending as contained in the annexture hereto.

(c) In the event that the lending manual is modified during the currency of the Project period, UCB shall provide advance notice to the Bank and USAID. (The Bank shall determine whether the proposed modification shall apply in respect to the funds made available to UCB under the Grant).

Section 2.2 - Lending Criteria

Special consideration shall be given to projects in the war affected areas of Uganda in particular the Luwero triangle, West Nile and the districts of Lira, Masaka and Mbarara. All projects, however, must reflect adequate planning and cost estimation and be environmentally sound and otherwise conform with applicable AID requirements. In addition project proposals shall demonstrate that one or more of the following benefit impacts will occur as the result of the investment:

(1) increased employment of rural or urban poor wage earners (to include on or off-farm employment of small holder family members).

(2) increased income for small holder agricultural producers through (improved markets and better prices) production and/or through reduced cost of production from lower cost farm inputs;

(3) increased availability and lower cost of basic food commodities to rural and urban poor consumers from increased domestic production;

(4) as corollary to (3) above, improved nutrition/ health of rural and/or urban poor as a result of increased availability and/or lower cost of essential food commodities required for adequate diet; (5) increased real wages paid to under-employed/ underpaid workers due to improved enterprise profitability, expanded operations, appropriate technology, etc;

(6) more efficient utilization of family labour (women, children, parents) on the farm or within the household enterprise. This could also include village enterprises in production, processing or provision of agriculturally related goods or services;

(7) increased and/or more effective participation of women in the enterprise financed and economic benefits to be derived

(8) improved economic returns to small producers, processors, or intermediaries from reduced government participation in all portions of the production and marketing chain for given commodities;

(9) improved returns to rural or urban poor cooperative members or enterprise shareholders from improved efficiency and economies of scale, more equitable management and distribution of profits.

ARTICLE III

FINANCING

Section 3.1 - <u>Disbursement of Credit Funds</u>

The Bank agrees to lend to UCB such amounts as UCB may, from time to time, request to supplement the loan funds available to it; provided that there are funds available under the Grant and the DFF established by the Development Finance Fund (Establishment) Instrument 1986 (Statutory Instrument No.6 of 1986).

Section 2.2. - Disbursement of Credit Funds in Foreign Exchange

(a) UCB shall present to the Bank projects qualifying for financing under the Grant, clearly specifying the foreign exchange and Local Currency requirements of the said projects.

(b) The Bank agrees to promptly request USAID to provide the foreign exchange component through establishing letters of commitment or other suitable financial instruments with U.S banks which will give UCB and its clients access to the agreed upon amounts of foreign exchange currencies required by UCB for the approved projects.

(c) The Bank shall submit to USAID promptly any proposed subloans of amounts in excess of $200,000 for financing under the Grant for USAID's prior approval.

(d) UCB shall utilize such funds for the approved projects and in accordance with USAID rules and regulations applicable for such funding. UCB shall report on the utilization of these funds on a quarterly basis, and as may be required, to the Bank or any other persons designated in that behalf by the Bank.

Section 3.3. - Disbursement of Credit Funds in Local Currency

(a) UCB shall inform the Bank of the amount of local currency projected as required for the approved projects indicating clearly the amount for which refinance facilities will be required from the DFF.

(b) The Bank agrees, subject to Article II Section 2:1 to advance the agreed amount of local currency financing and to disburse such amounts in a timely manner.

(c) UCB shall utilize such funds for the approved projects and in accordance with USAID rules and DFF regulations applicable, to refinance from the DFF. UCB shall report on the utilization of these funds on a quarterly basis, or at such intervals, as the Bank may from time to time determine, to the Bank or other persons designated in that behalf.

(d) UCB shall be eligible for guarantee under the terms of the CGS established by the Credit Guarantee Scheme (Establishment) Instrument, 1986 (Statutory Instrument No.7 of 1986).

ARTICLE IV

REPAYMENT

Section 4.1 - The Repayment of Loan and Interest

(a) UCB shall make repayments of the principal to the Bank within 60 days after the due date of repayment from the Subborrowers after which date the borrowing shall be treated as delinquent and will attract a one percent per annum surchage for the duration the payment remains due unless such delay has been agreed by the Bank in writing.

(b) UCB shall pay interest at the existing statutory commercial rate as set by the Bank less 5%, or such other margin as may be determined from time to time by the Bank, on outstanding balances with a grace period of one year for each loan package, during which time the interest shall be capitalized. Dates for payment of interest shall be 30th June and 31st December, of each year.

(c) UCB shall make loans available to subborrowers at on going commercial rates.

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Section 4.2 Local Resources for the Project

UCB agrees to provide local resources including resources provided on an 'in-kind' basis as counterpart funds to Grant resources. For this purpose UCB may apply for, and the Bank hereby agrees to allow, refinancing facilities from the DFF to augument UCB own resurces.

Section 4.3 - Resources to be provided by Sub-borrowers

Clients who are recipients of credit funds available under the Grant from UCB shall contribute a minimum of twenty-five percent of total resources required for each project including resources provided on an 'in-kind' basis.

Section 4.4 - Delinquency and Default Limits

If at any time, any amounts due and owing by UCB exceed ten percent of the amount for the time being outstanding on loans granted under this agreement, not being amounts due whose non-payment has been condoned by the Bank, UCB shall be deemed to have been delinquent on the loans and shall be suspended from participation under the Grant Fund until such time as UCB corrects such position.

UCB shall, for the purpose of this Agreement, consider its client to have defaulted if any repayment due on interest or principal remains unpaid sixty days after a notice of demand for payment has been served on the sub-borrower. UCB agrees to notify the Bank within thirty days of such defaults giving reasons for the default, if any, and steps being taken to recover the said overdues.

ARTICLE V

COVENANTS

Section 5.1 UCB shall:

(a) Utilize the resources provided under this

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Agreement effectively in order to attain the objectives of the Grant Project;

(b) maintain the accounting and control system, books and accounts and other records adequately to reflect truly and fairly the financial position of UCB and the results of its operations (including progress of disbursement of Grant resources) in conformity with generally accepted accounting principles consistently applied;

(c) release all Rehabilitation of Productive Enterprises (RPE) Project related information which it possesses to the Bank, UsaID or any other person designated in their behalf to allow monitoring of progress towards achieving the Project objectives both in terms of the increase in agricultural investment and UCB institutional growth and development;

(d) periodically review its operating procedures and policies in light of new experiences gained in consultati with the technical assistance contractors and Project Manager and subject to Article II Section 2.1(b), promptl implement any recommendations agreed upon.

Section 4.2 - The Bank shall:

(a) promptly review and forward any requests for Grant funding or reimbursement thereof prepared by UCB to USAID;

(b) provide refinance facilities under the terms of the DFF for counterpart funds for approved projects in a timely manner;

(c) Explore with UCB methods of providing increased credit any any other assistance in that behalf to promote development of agriculture in Uganda;

(d) provide a guarantee under the provisions of the CGS.

ARTICLE VI

REPORTING REQUIREMENT

Section 6.1 UCB shall report to the Bank or its designees with regard to its

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progress and operations by the submission of:

(a) quarterly returns containing at least the following information:

Projected approvals, Commitments, disbursements, delayed repayments, and bad debts (both for the quarter and cumulative and other general information pertinent to the Grant resources

(b) two copies of its audited accounts and balance sheet, including the auditors, and Directors, reports thereon and any other document referred to therein or required by law be attached thereto, within four months of the end of each financial year or within such period as stipulated by UCB enabling by-law, whichever is shorter.

Section 6.2 UCB agrees to maintain all financial records pertaining to the utilization of Project Funds for a period of three years following the Project Assistance Completion Date (September 30, 1989) and disclose such information for review purposes to designated representatives of the Bank and USAID.

UCB also agrees to provide any additional information available concerning Grant funds utilization as is reasonably and justifiably requested by the Bank or USAID.

ARTICLE VII

FORCE MAJEURE

(a) None of the parties shall be considered in default of performance of their obligations hereunder if such performance is prevented or delayed because of war, hostilities, revolution, commotion, strikes, lockouts,

epidemics, accidents, fire, wind, flood, earthquakes or by any sub-division thereof or because of any act of God or for any other cause beyond the reasonable control of the Party affected; provided that notice in writing of any such cause with the necessary evidence that the contract obligation is thereby affected, prevented or delayed, is given within fourteen (14) days of the happening of the event and in case it is not possible to serve the notice within the said fourteen days, then within the shortest possible period without delay.

(b) As soon as the cause of force majeure has been removed the Party whose ability to perform its obligations has been affected shall notify the others of such cessation and inform the other party in such notice the actual delay incurred in such affected activity

ARTICLE VIII

APPLICABLE LAW

This Agreement shall be governed by and construed in accordance with the law of Uganda.

ARTICLE IX

INCONSISTENCIES

Where UCB's lending manual or investment policy is inconsistent with this Agreement the provisions of the Agreement shall prevail.

ARTICLE X

ARBITRATION

All disputes in connection with this Agreement and not covered by the Project Agreement which cannot be settled by mutual agreement of the Parties hereto within a period of two months shall be finally settled by

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Arbitration in accordance with the provisions of the Arbitration Act (cap:55 or any amendment or enactment in substitution thereof for the time being in force in Uganda.

ARTICLE XI

VALIDITY AND ENFORCEABILITY

If any provision of the Agreement is found to be invalid and/or unenforceable, this will not affect the validity and/or enforceability of the other provisions of this Agreement. In case of such invalidity and/or unenforceability the Parties to this Agreement shall amend such provisions so as to be consistent with the other provisions of this Agreement.

ARTICLE XII

NOTIFICATIONS AND COMMUNICATIONS

For the Bank

Mail Address

The Director
Development Finance Department
Bank of Uganda
P O Box 7120
KAMPALA, UGANDA

Cable UGABANK

Telex 61058

For _____

Mail Address:

Chairman/Managing Director
Uganda Commercial Bank
P O Box 973, KAMPALA, Uganda

Cable UGACOMBANK

Telex 61073

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IN WITNESS whereof the Parties hereto have duly executed and delivered this Agreement on the day and year first above written.

The common seal of the Bank of Uganda)
was hereunto affixed in the presence)
of .)

GOVERNOR

SECRETARY

SIGNED BY the Chairman/Managing Director
for and on behalf of
Uganda Commercial Bank

Chairman/Managing Director

in the presence of

Witness

Occupation

Address

Rehabilitation of Productive Enterprises - USAID Project: Guidelines for Lending

All loan proposals to define promptly with USAID (regardless of the amount of loan funds sought) are to be promptly submitted to AID for information and and monitoring purposes.

2 Loans made available under the Project will be payable through ICIS to private enterprises in both foreign exchange and local currency in accordance with the approved loan application submitted by the private enterprise. Repayment of loans at both the ICI and private enterprise level will be entirely in local currency, the amount thereof determined with respect to the foreign exchange loaned, in accordance with the rate of exchange prevailing at the time the foreign exchange is disbursed to or on behalf of the borrower.

3 All ICIs participating in the project shall develop procedures for making sub-loans to enterprises under the project which include environmental analysis and review procedures satisfactory to AID.

4 Participating ICIs shall include the following conditions/covenants in each loan agreement

(a) With respect to proposed activities producing large amounts of organic waste or organic effluents

capable of exceeding the capacity of local sewage treatment plants or activities where toxic wastes or industrial effluents are expected, a covenant whereby the borrower agrees that production operation will not commence until adequate facilities for organic and toxic waste treatment are in place and whereby the borrower agrees to a right of inspection by the representatives of the ICI, Bank of Uganda or AID to ensure compliance with and the adequacy of, any environmental design requirements or environmental production facilities agreed to as part of the loan approval process; and

(b) In the case of large Agrobased Industrial operations which will receive loan funds in increments, a condition precedent to receipt of subsequent increments of loan funding requiring evidence that satisfactory progress has been made an installation of waste treatment facilities and verification (by initial monitoring) that the design of the facilities is adequate.

(a) Except as provided in (b) below, disbursements shall be used exclusively to finance the foreign exchange costs of goods and services required for the Project having, with respect to goods, their source and origin, and with respect to suppliers of goods and services their nationality in countries

included in A.I.D. Geographic Code 941 as in effect at the time orders are placed or contracts entered into for such goods and services except as A.I.D. may otherwise agree in writing and except as provided in the Project Grant Standard Provisions Annex, Section C.1 (b) with respect to marine insurance. Ocean transportation costs will be financed under the Grant only on vessels under the flag registry of the Cooperating Country and countries included in A.I.D. Geographic Code 941, Except as A.I.D. may otherwise agree in writing

(b) Notwithstanding the provision in 8. (a) above, funds may be disbursed under the Grant for the procurement of commodities by sub-borrowers of a value not to exceed US $3,000,000 having their source and origin in countries included in AID Georgraphic Code 899. The figure above is not sacrosant.

ANNEX D

ACTION MEMORANDUM FOR THE ASSISTANT ADMINISTRATOR FOR AFRICA

FROM: AFR/PD, Carol Peasley

SUBJECT: Uganda - Justification for Limited Competition in the Award of a Cooperative Agreement for the Rehabilitation of Productive Enterprises (RPE) (617-0104)

Problem: Your approval is requested to limit competition to six private voluntary organizations (PVOs) identified below to receive a cooperative agreement to assist in the implementation of the Uganda Rehabilitation of Productive Enterprises Project.

Background: The Uganda Rehabilitation of Productive Enterprises Project (RPE) involves two major components, one for credit to purchase foreign exchange inputs for agro-related enterprise rehabilitation, and another for the provision of technical assistance and training to the banking sector as well as the private sector subborrowers. The implementation of the credit component will require knowledge of commercial banking and lending practices by the private sector as well as subtantial monitoring and loan portfolio management by the central bank (the Bank of Uganda) and various participating intermediate credit institutions (ICIs).

Currently in Uganda, and particularly in certain war-damaged areas, there is a great demand for replacement parts for destroyed agro business activities as well as for agricultural implements and inputs. However, supply of these items is severely limited due to unavailability of foreign exchange caused by low domestic production. On the other hand, farmers and private sector agro-business entrepreneurs are unable to increase production. They face a major and costly rehabilitation effort at a time when they have just lost most of their savings as well as their tools, farm machines, and production infrastructure.

Using project funds, the private sector may obtain credit from ICIs for the importation of items from international markets which are necessary to rehabilitate damaged agricultural related activities. Technical assistance and training in loan portfolio management and monitoring is needed due to the expected high number of individual loans. Additionally, assistance will be required by the subborrowers in the development of bankable project proposals and in the efficient utilization of items purchased with these scarce foreign exchange credit funds.

Discussion: Given the management demands of this project, and the pressing demands of on-going projects on USAID/Uganda, we consider it to be most appropriate to enter into a cooperative agreement with a PVO capable of managing the implementation of both the technical assistance and training activities associated with the credit component. This will lighten the administrative burden of the project on USAID/Uganda while nonetheless permitting substantial mission participation during project implementation. Such participation is likely to be necessary given the difficult working environment in Uganda and the resulting need for project adaption.

The six PVOs that the Mission has selected to solicit proposals from are Agricultural Cooperative Development International (ACDI), Cooperative for American Relief Everywhere (CARE), Credit Union of North America (CUNA), Experiment in International Living (EIL), TechnoServe, and Volunteers in Technical Assistance (VITA).

Of these six American PVOs, three (CARE, EIL and ACDI) are now operating in Uganda and two others (TechnoServe and CUNA) have had previous Ugandan experience. All six had been identified as particularly suited to portions of the task, and represent some of the most qualified expertise in their respective fields.

Both CARE and EIL have been active in Uganda over the past few years and are currently working together in Uganda in the implementation of an AID-financed project which includes credit, technical assistance, and training. ACDI is also now involved in an AID-financed Uganda project which includes technical assistance and training related to the establishment of a rural credit facility oriented toward cooperatives. It has proven that it can field competent and experienced technical assistants who interact well with Uganda counterparts. Both TechnoServe, which had been active in Uganda up to the Amin Regime, and VITA have a well-established--record of providing technical assistance in various commercial areas including those of credit and assistance to small scale businesses. Their respective overall experience would be extremely useful in the implementation of both project components. Like ACDI, CUNA would be particularly well suited to provide technical assistance for credit given its wealth of experience in that field. CUNA has had a long-standing relationship with the Africa Regional Credit Organization, ACOSCA, and has maintained contact with the Uganda Credit Union movement.

These PVOs have expressed interest in providing this type of technical assistance and selection of one or several in partnership will ensure timely implementation and the provision of the necessary skills.

The life of project funding for the RPE Project is $18.2 million to be funded in three tranches in FY 84, FY 87, and FY 88. The total budget for the PVO cooperative agreement could be up to about $2.0 million.

AID/W authorization of the second phase of project implementation is dependent on the review of an FY 87 Project Paper Supplement submitted to AID/W by Kampala.

Justification: In accordance with AID Handbook 13, Section 1B 2e, the approval of the responsible Assistant Administrator is required when requests for applications are restricted to a limited number of entities.

Because of the immediate recovery and rehabilitation objectives of the project, implementation of phase two activities requires the selection of a capable PVO in as short time as possible. Limiting competition for the cooperative agreement to these six PVOs which have established creditials and which are capable of assuming the necessary management tasks is appropriate.

Recommendation: That you approve the limiting of competition to the six PVOs noted in the selection of a grantee to manage the implementation of the technical assistance and training of the Rehabilitation of Productive Enterprises Project (617-0104).

APPROVED: _____

DISAPPROVED: _____

DATE: _____

Clearances:
AFR/EA, WNorth_____date: _____
GC/AFR, EDragon_____date: _____
DAA/AFR/ESA, LSaiers_____date: _____
AFR/PD/EAP, TLofgren_____date: _____

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ANNEX E

RPE LOANS APPROVED BY THE BANK OF UGANDA AS OF 12/31/86

	BORROWER	TYPE OF ACTIVITY	LENDING ICI	PRE FOREIGN EXCHANGE AMOUNT ($)	SHILLING COUNTERPART AMOUNT ($)	
					BOU	ICI
1.	Acha valley Ranch	Agro Industry	UCB	14,420	-	1,678
2.	Bintu Bizibu Mpagi	Maize Mill	UCB	-	-	7,497
3.	Namutoggo Estates	Poultry	UDB	92,000	-	68,187
4.	Kisekka Babikulya	Dairy	UDB	127,187	-	26,918
5.	Mulindwa Dairy Farm	Dairy	UCB	126,450	-	12,852
6.	Uganda corp Cream Farm	Dairy Farm	UCB	49,650	-	83,110
7.	Eseri Lubega General Merchants	Dairy	UCB	28,200	-	48,980
8.	G. Tibahuna	Dairy	UCB	21,870	-	52,765
9.	F. Katungwe	Diary	UCB	158,500	-	86,965
	TOTAL			$491,090	-	$388,952

ANNEX F

RPE LOANS APPROVED BY THE ICIs AND CURRENTLY UNDER REVIEW BY THE BANK OF UGANDA (AS OF 12/31/86)

	BORROWER	TYPE OF ACTIVITY	LENDING ICI	RPE FOREIGN EXCHANGE AMOUNT ($)	SHILLING COUNTER PART AMOUNT ($)	
					BOU	ICI
1.	Nakabiri Estate	Dairy & Cropping	UDB	158,922	-	28,917
2.	Kasala Dairy Farm	Dairy	UDB	87,000	-	-
3.	Ngampomu United Farming	Poultry/Mixed Crops	UDB	80,314	-	49,980
4.	Gersin Onya Farm	Mixed Crops	UDB	83,679	-	-
5.	Omega International Agency	Mixed Crops	UDB	64,149	-	14,351
6.	Wills International Ltd	Hatchery	UCB	122,822	-	-
7.	Kabasekende Farm	Ranching	UCB	72,000	-	74,470
8.	Nyipir Grain Millers Ltd.	Produce Processing	UCB	258,708	-	-
9.	B.M.S. Industrial Group	Meat & Pork Processing	UCB	76,000	-	-
10.	Bukoto Farmers & General Mechandise	Banana Evacalyptus Plantation	UCB	18,150	-	110,813
11.	Dr. Nekemiya Lubuuka	Hatchery	UCB	65,474	-	112,115
12.	Kizito Enterprises	Poultry	UCB	29,895	-	2,200
		TOTAL		$1,117,113	-	392,846
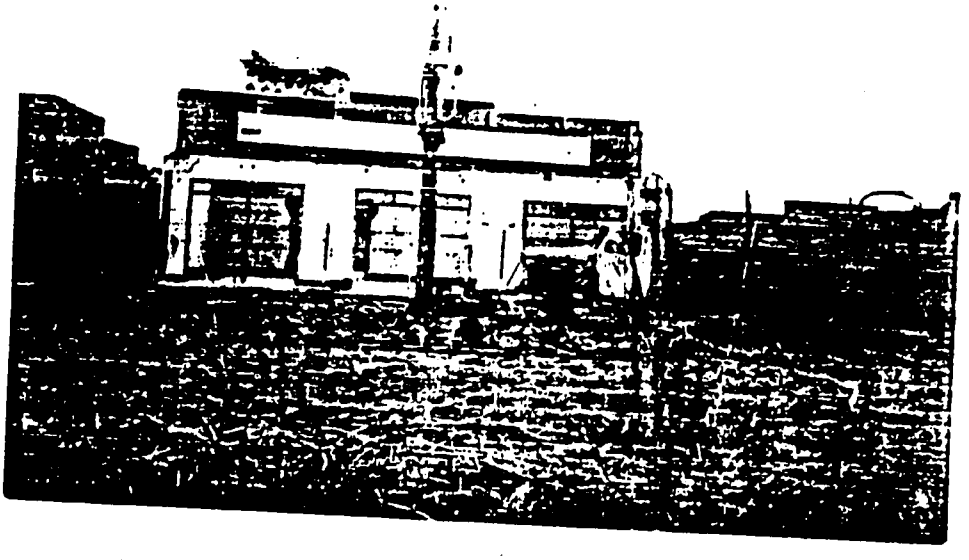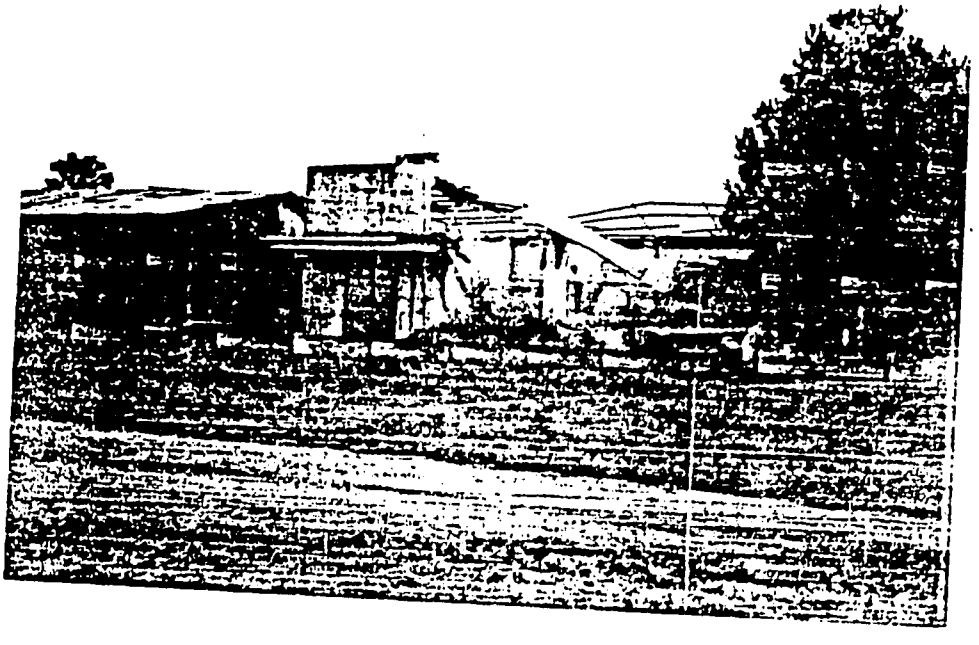
Photo Exhibit of War Damaged Agrobusiness
(Stores providing agricultural business)