Unclassified

UGANDA: Agricultural Non-Traditional Export Promotion Program (ANEPP) (617-0133)

August 1988

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AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON, D.C. 20523

ACTION MEMORANDUM FOR THE ASSISTANT ADMINISTRATOR FOR AFRICA

FROM: AFR/PD, James Graham James R. Graham

SUBJECT: Uganda: Agricultural Non-traditional Export Promotion Program (617-0113)

Problem: To approve an $14.0 million Uganda Agricultural Non-Traditional Export Promotion Program (ANEPP) consisting of $1.5 million for technical assistance and $12.5 million for a commodity import program. This program will be funded from the Sub-Saharan African Development Assistance (DFA) appropriation. This authorization, covering the $1.5 million LOP project assistance component and $12.5 million LOP in non-project assistance, will be fully obligated in FY 1988.

Background: Uganda's economy in 1962 was among the most vibrant and promising in Sub-Saharan Africa. The agricultural sector, favored by exceptionally good climatic and soil conditions, provided adequate food crops for the population and cash crops for generating foreign exchange. Tea and tobacco had begun to challenge the traditionally dominant export crops of coffee and cotton. The industrial sector supplied the economy with basic inputs and consumer goods and contributed to the country's foreign exchange through exports of textiles and copper. Uganda's internal transport system was regarded as one of the best in Sub-Saharan Africa. Transport linkages to Kenya and Tanzania provided Uganda access to an effective network of railways, ports and airline facilities. During this period, real GDP in Uganda grew by 5.8 percent per annum, the equivalent in per capita terms of a 2 percent increase per annum.

Although political turmoil, economic mismanagement and civil war severely disrupted the country's economy, Uganda proved resilient and has begun to rebound from prolonged economic stagnation. In recent years, economic growth has increased in response to the government's economic policy changes, which are supported by significant donor assistance, including funds from the IBRD and the IMF. These changes included a major depreciation of the Ugandan shilling, the removal of most price controls, and significant real increases in producer prices for export crops and petroleum products. The reforms stimulated agricultural production and exports, and real GDP grew at an average annual rate of 6 percent during the three-year period ending 1984.

Since 1986, the government has taken major steps to reestablish peace and security and rehabilitate the economy. The government formally announced on May 15, 1987 an economic recovery program to: (1) restore price stability and a sustainable balance of payments position; (2) substantially improve capacity utilization in the industrial and agro-industrial sectors; (3) improve producer incentives; (4) restore discipline, accountability and efficiency in the public sector; and (5) improve public sector resource mobilization and allocation.

Discussion: The goal of the ANEPP is to assist the Government of Uganda to increase output, incomes and employment through private sector development. Program financing will be used to purchase inputs needed to increase the production of nontraditional exports and to develop private sector and GOU institutional capacity.

The purpose of the program is to increase the country's non-traditional exports in the long term. The beneficiaries of the program will be those involved in production and trade as well as the consumers and end-users of the imports. Under the planned export and import scheme, the program will: (1) provide the private sector with the necessary incentives for increasing the range and volume of non-traditional exports; and (2) demonstrate through direct involvement in formal export trading activities that the private sector can enhance economic growth in Uganda. The principal beneficiaries of this scheme will be the farmers, marketing agents, exporters and end-users of imports. Through the C.I.P. program, farmers, local industries, and exporters will benefit from the Program.

The $12.5 million CIP component will be disbursed to the Bank of Uganda (BOU) in two tranches. Under this program, agricultural seed, fertilizer, raw jute or jute bags, raw materials for the manufacture of farm implements and packing materials for exported commodities will be eligible for financing. The $1.5 million technical assistance project will finance a long-term trade economist, short-term consultants, office support and other costs for training and conferences. In addition to USAID funding, the GOU will contribute US $5 million of its own funds to the program to increase the amount of foreign exchange available to the private sector. This GOU contribution of hard currency is viewed as a significant indicator of government support for increasing exports in general and this program in particular.

The foreign exchange made available to importers will generate approximately $12.5 million in local currency which will be deposited into a Special Account in the Bank of Uganda. The local funds generated will be programmed jointly by the Ministry of Planning and Economic Development (MPED) and USAID in support of nontraditional agricultural exports. Activities will be funded that promote the following: (1) increased production of existing, or potentially new, nontraditional exports; (2) efficient internal marketing of nontraditional exports; (3) local cost of training and short-term technical assistance to private exporters and trade associations; (4) applied research on high value nontraditional exports; and (5) the first year recurrent expenditure of the Trade Policy Analysis and Monitoring Unit. In addition, local currencies will partially fund USAID operating expenses for FY 1989.

The GOU entities responsible for implementation of the program are: (1) the Ministry of Planning and Economic Development (MPED), the lead GOU entity in the overall implementation of this program; (2) the Ministry of Commerce (MC), responsible for import and export licensing, international trade agreements, barter trade, research and planning and export promotion; (3) the Bank of Uganda (BOU), implementing the Open General License (OGL) system which is supported by foreign exchange under the IBRD Economic Recovery Credit; and (4) the Ministry of Finance (MFIN), responsible for import duties assessed on DFA-financed imports.

The ANEPP is consistent with the Concept Paper submitted by the Uganda Mission in March 1987. The PAAD demonstrates that this export-oriented program is economically, technically and socially sound and administratively feasible. The PAAD also satisfies the requirements of Section 611 (a) of the Foreign Assistance Act of 1961, as amended. In addition, the 25% host country requirement will be met by the planned GOU contribution of $5 million of its own foreign exchange to facilitate private sector importation under the program. The environmental analysis resulted in a categorical exclusion.

Conditions Precedent and Covenants: The Conditions Precedent to Initial Disbursement of the $5 million of foreign exchange require the GOU: (1) to review exchange rate policy in consultation with the IMF to establish an exchange rate regime for stimulating economic growth and for overcoming existing macroeconomic imbalances; (2) to adjust the official exchange rate to create incentives for private sector exports of non-traditional commodities; (3) as an interim measure, to permit the private sector to export non-traditional commodities and, in turn, for them to receive an import license of equivalent value; (4) to establish a USAID Trade Promotion Credit at the Bank of Uganda to finance imported agricultural inputs of producers or imported items required by private sector marketing agents and exporters; and (5) to streamline application and approval procedures for the above program to ensure disbursement of foreign exchange in 4 to 5 months.

For Second Disbursement, the GOU agrees to review with USAID the impact of the adjusted foreign exchange regime on nontraditional exports, the rate of disbursement, and the composition of commodity imports financed under the program. The covenants under this program assure regular review and consolidation of the policy reform effort.

Justification to Congress: A Congressional Notification was sent to the Congress on July 13, 1988. The 15 day waiting period expired on July 28, 1988.

Recommendation: That you approve the attached PAAD facesheet and Project Authorization for the Uganda Agricultural Non-Traditional Export Promotion Program.

Attachments:

1. Project Authorization
2. Program Assistance Approval Document

Clearances:

DAA/AFR:WBollinger	WWB	Date	8/12/88
DAA/AFR:E.L.Saiers		Date	
AFR/PD/EAP:JSchlesinger	draft	Date	8/5/88
AFR/EA:DLundberg		Date	
AFR/PD:JGraham		Date	Aug 12, 88
AFR/DP/PAR:JWolgin	JW	Date	8/11/88
AFR/CONT:RKing	draft	Date	8-10-88
GC/AFR:GBisson		Date	8/5/88
PPC/PDPR:RMaushammer	draft	Date	8/9/88
State/AF/EPS:CFreeman	draft	Date	8/10/88

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CLASSIFICATION:

AGENCY FOR INTERNATIONAL DEVELOPMENT

PROGRAM ASSISTANCE APPROVAL DOCUMENT (PAAD)

1. PAAD Number: 617-0113 /617-T-601

2. Country: UGANDA

3. Category: Uganda Agricultural Non-Traditional Export Promotion Program

4. Date:

5. To: Charles L. Gladson, Assistant Administrator for Africa

6. OYB Change Number: N/A

7. From: Richard Podel
J Graham for

8. OYB Increase: N/A
To be taken from:

9. Approval Requested for Commitment of
$

10. Appropriation Budget Plan Code: GSSA-88-31617-KG32 (814-61-617-00-59-81)

11. Type Funding: ☐ Loan ☐ Grant

12. Local Currency Arrangement: ☐ Informal ☐ Formal ☐ None

13. Estimated Delivery Period:

14. Transaction Eligibility Date:

15. Commodities Financed:

16. Permitted Source		17. Estimated Source	
U.S. only		U.S.	
Limited F.W.		Industrialized Countries	
Free World	$12,500,000	Local	
Cash		Other	

18. Summary Description

The attached PAAD contains justification for, and this facesheet approves, a $12,500,000 CIP component to the Uganda Agricultural Non-Traditional Export Promotion Program (ANEPP). The ANEPP is intended to increase rural incomes by overcoming short-term constraints to exporting non-traditional agricultural products by assisting the Government of Uganda (GOU) in developing and implementing a program for promoting and exporting non-traditional exports.

This program will establish an environment for small farmers to produce and sell crops for export in an open competitive market. Specific policy reforms to be implemented include: (1) adjustment of the exchange rate to make exports competitive, (2) streamlined foreign exchange approval process to ensure that producers have timely access to needed agricultural imports and (3) permitting the private sector to export non-traditional exports. A separately authorized technical assistance component will develop a strategy and program for promoting non-traditional agricultural exports and will establish an organizational structure to implement the strategy. The commodity import component will provide financing to the private sector to import the inputs and intermediate goods needed to increase the production of non-traditional exports and to demonstrate that the private sector has the capacity to export, when stimulated by adequate incentives and support.

19. Clearances	Date
J. Graham, AFR/PD	8/15/88
D. Lundberg, AFR/EA	8/ /88
J. Westley, AFR/DP	8/11/88
G. Bisson, GC/AFR	7/29/88
E. Owens, M/FM	8/11/88
✓ J. Saccheri, SER/OP/COMS	draft 8-12-88
W. Bollinger, DAA/AFR	8/15/88
R. King, AFR/CONT	draft 8-10-88
J. Schlesinger, AFR/PD/EAP	8/5/88

20. Action

☐ APPROVED ☐ DISAPPROVED

Authorized Signature

Date: AUG 15 1988

Title

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Pursuant to provisions in the appropriation heading "Sub-Saharan Africa, Development Assistance" contained in the FY 1988 Continuing Resolution, I hereby approve the two year non-project assistance component described herein. The Program Grant Commodity Import Agreement ("Agreement") will contain the following essential terms and conditions together with such other terms and conditions as A.I.D. may deem appropriate.

Condition Precedent to Initial Disbursement:

Prior to the disbursement of the first $5,000,000 tranche of foreign exchange for the commodity import component, the Grantee shall, except as A.I.D. may otherwise agree in writing, furnish to A.I.D. in form and substance satisfactory to A.I.D.:

(a) evidence that the Grantee will review exchange rate policy in consultation with the IMF to establish an exchange rate regime that will guide the growth of the economy and overcome existing macroeconomic balances and that it will adjust the official exchange rate and/or formulate an exchange rate regime, as required, to create incentives to substantially increase formal, private sector exports of non-traditional commodities in which Uganda has a comparative advantage;

(Note: The signing of the 1988 SAF with the IMF will satisfy this condition.)

(b) as an interim measure and until a new foreign exchange regime has demonstrated that it will enhance formal, private sector exports, evidence that the Grantee will permit the private sector to export non-traditional commodities and, in turn, immediately receive an export license of equivalent value;

(Note: A public announcement in the press of this arrangement in not less than three newspapers (of which one is a Luganda language paper) and on Uganda T.V. will satisfy this condition.)

(c) evidence that the Grantee has established a "USAID Trade Promotion Credit" within the Bank of Uganda to finance under the CIP component imported agricultural inputs in demand by producers of non-traditional exports, and/or the imported items required by the private sector marketing agents and exporters to facilitate efficient procurement assembly and export;

(d) evidence that the Grantee has streamlined its application and approval procedures for the USAID Trade Promotion Credit to ensure that each tranche of foreign exchange is disbursed within 4-5 months.

(Note: the following actions would satisfy this condition: evidence that qualifying private sector importers (including the UCCU) will need only to submit an application for foreign exchange, identify the intended recipients of imported items, describe their capacity to distribute imported inputs to rural areas, and deposit the local currency equivalent to allocated foreign exchange in the ANEPP Special account at the time of receiving an import lincense.

Covenants:

The Grantee shall covenant, unless A.I.D. otherwise agrees in writing, that

(a) to ensure that A.I.D. funds are quick disbursing, the Bank of Uganda shall convene a foreign exchange Allocation Committee every two weeks until the committed and undisbursed ANEPP line of crediting is exhausted;

b) it shall reduce Produce Marketing Board participation in the commercial trade of non-traditional exports to allow the private sector to demonstrate its capacity in export trade, and, if the private sector demonstrates such capacity, it shall eliminate the role of the Produce Marketing Board in commercial export trade;

(c) it will establish and staff a Trade Policy Analysis and Monitoring Unit within the Ministry of Planning and Economic Development with terms of reference satisfactory to A.I.D. within 4 months of signing of this Agreement;

(Note: Reaching an agreement on the Unit's Terms of Reference and a formal request by the Grantee to recruit the long-term trade economist for the Unit will satisfy this covenant.)

(d) within 6 and 12 months from signing of this Agreement, it will review with A.I.D. the impact of the adjusted foreign exchange regime on non-traditional exports, the rate of disbursement and the composition of commodity imports financed under the CIP component of the ANEPP and the operational effectiveness of the Trade Policy and Analysis and Monitoring Unit of the MPED. Based upon these formal program reviews, the Grantee and A.I.D. agree to consider issues and recommendations intended to improve policy and/or the institutional framework to increasingly encourage and promote private sector trade;

(e) it shall allocate $5,000,000 of its own foreign exchange to the ANEPP Trade Promotion Credit, in order to double the quantity of foreign exchange available at the time of the second tranche for private sector importing of eligible items identified in this Agreement to be critical and necessary to increase non-traditional exports;

(Note: This requirement can be satisfied by chanelling other donor resources to the ANEPP Trade Promotion Credit or by a direct Grantee contribution.)

(f) within 12 months of establishing the Trade Policy Analysis and Monitoring Unit in the MEPD, it shall complete the formulation of an integrated production export strategy designed to increase the productivity and trade of non-traditional exports in line with analysis and recommendations of the unit;

(Note: The approval of the PEC or other appropriate Grantee authority of such a strategy will satisfy this covenant.)

(g) within 6 weeks after the completion of each major study by the Trade Policy and Analysis Unit of the MEPD, it shall undertake a joint review with A.I.D. of the study with the aim of implementing recommendations and/or supportive actions as appropriate, designed to increase non-traditional exports.

Condition Precedent to Additional Disbursement

Prior to disbursement of the second $4,500,000 tranche of foreign exchange for the commodity import component, the Grantee shall, except as A.I.D. may otherwise agree in writing, furnish to A.I.D. inform and substance satisfactory to A.I.D.:

(a) evidence that it has reviewed present trade licensing regulations and procedures with the aim toward streamlining the administrative procedures for granting export and import licenses to the private sector, in order to reduce bureaucratic delays and costs involved with acquiring export and import licences; and

(b) evidence that the 6 month review of the ANEPP as described in Covenant (d), above has taken place.

AGENCY FOR INTERNATIONAL DEVELOPMENT

PROJECT DATA SHEET

1. TRANSACTION CODE: [ ] A = Add, C = Change, D = Delete
Amendment Number: ____
DOCUMENT CODE: 3

2. COUNTRY/ENTITY: Uganda

3. PROJECT NUMBER: 617-0113

4. BUREAU/OFFICE: AFR/PD/EAP — 06

5. PROJECT TITLE (maximum 40 characters): Agricultural Non-Traditional Export Promotion Program

6. PROJECT ASSISTANCE COMPLETION DATE (PACD): MM DD YY — 03 30 90

7. ESTIMATED DATE OF OBLIGATION (Under "B." below, enter 1, 2, 3, or 4)
A. Initial FY 88 B. Quarter [ ] C. Final FY 90

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

A. FUNDING SOURCE	FIRST FY 88 B. FX	C. L/C	D. Total	LIFE OF PROJECT E. FX	F. L/C	G. Total
AID Appropriated Total		-				
(Grant)	(1,500)	(-)	(1,500)	(1,500)	(-)	(1,500)
(Loan)	(-)	(-)	( )	(-)	(-)	(-)
Other U.S. 1.						
Other U.S. 2.						
Host Country	5,000	-	5,000	5,000		5,000
Other Donor(s)						
TOTALS	$ 6,500	-	6,500	6,500		$ 6,500

9. SCHEDULE OF AID FUNDING ($000)

A. APPROPRIATION	B. PRIMARY PURPOSE CODE	C. PRIMARY TECH. CODE 1. Grant	C. 2. Loan	D. OBLIGATIONS TO DATE 1. Grant	D. 2. Loan	E. AMOUNT APPROVED THIS ACTION 1. Grant	E. 2. Loan	F. LIFE OF PROJECT 1. Grant	F. 2. Loan
(1)	B224	840	-	-	-	1,500	-	1,500	-
(2)	B734	-	-						
(3)									
(4)									
TOTALS				-	-	1,500	-	1,500	-

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

11. SECONDARY PURPOSE CODE

12. SPECIAL CONCERNS CODES (maximum 7 codes of 4 positions each)
A. Code: BR
B. Amount:

13. PROJECT PURPOSE (maximum 480 characters)

To increase rural incomes by overcoming short-term constraints to exporting non-traditional agricultural porducts by assisting the government of uganda (GOU) in developing and implementing a program for promoting and exporting non-traditional agricultural exports.

14. SCHEDULED EVALUATIONS
Interim MM YY 07 89 | MM YY | Final MM YY 01 90

15. SOURCE/ORIGIN OF GOODS AND SERVICES
[ ] 000 [ ] 941 [ ] Local [ ] Other (Specify) ______

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

17. APPROVED BY
Signature: Charles L. Gladson
Title: Assistant Administrator for Africa
Date Signed: MM DD YY AUG 15 1988

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

AID 1330-4 (8-79)

PROJECT AUTHORIZATION

Country:	Uganda
Project Name:	Agricultural Non-Traditional Export Promotion Program
Project Number:	617-0113

1. Pursuant to provisions in the appropriations heading "Sub-Saharan Africa, Development Assistance" contained in the FY 1988 Continuing Resolution, and the Foreign Assistance Act of 1961, as amended, I hereby authorize the project component of the Uganda Agricultural Non-Traditional Export Promotion Program (ANEPP) for Uganda ("Cooperating Country") involving planned obligations of not to exceed One Million Five Hundred Thousand United States Dollars ($1,500,000) in grant funds ("Grant") over a two year period from the 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 component is two years from the date of intial obligation.

2. The project component will provide long-term technical assistance for the Cooperating Country which will assist in achieving the objectives established under this project component. This project also provides for a CIP component to finance the procurement of agricultural products under the project.

3. The Project Agreement which may be negotiated and executed by the officers 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.

a. Source and Origin of Commidities, Nationality of Suppliers of Services. The nationality for suppliers of services, including ocean transportation services, and the source and origin of commodities financed under the Project component shall be as set forth in the Africa Bureau Instructions on Implementing Special Procurement Policy Rules Governing the Development Fund for Africa (DFA), dated April 4, 1988, as may be from time to time amended.

b. Conditions Precedent to Disbursement. Prior to any disbursement or the issuance of any commitment documents under the project assistance component of the Project Agreement, the

Cooperating Country shall, except as A.I.D. may otherwise agree in writing, furnish in form and substance satisfactory to A.I.D.:

(1) a statement representing and warranting that the named persons (whose specimen signatures certified as to authenticity are included) have authority to act as the representative(s) of the Cooperating Country with respect to:

(a) official correspondence regarding the Grant, and

(b) disbursement of local currency generated under the Grant.

Charles L. Gladson
Assistant Administrator for Africa

8-15-88
Date

JGraham, AFR/EA		Date	Aug 15/88
DLundberg, AFR/EA		Date	8/5/88
JWolgin, AFR/DP		Date	8/11/88
JSchlesinger, AFR/PD		Date	8/5/88
EOwens, M/FM	n/a	Date	
WBollinger, DAA/AFR	WWB	Date	8/12/88
RKing, AFR/CONT	draft	Date	8-10-88

GC/AFR:AAdams/hl 3615J 8/1/88

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VII. IMPLEMENTATION ANALYSIS/ARRANGEMENTS

ANNEXES

I. BACKGROUND AND RATIONALE

A. Background

1. Brief Economic History

At independence (1962) Uganda had one of the strongest and most promising economies in Sub-Saharan Africa. Despite the disadvantage of being a land-locked country, the agricultural sector, with favorable climatic and soil conditions, was able to provide ample food to feed the population, as well as generate foreign exchange. Despite the fact that agricultural exports were dominated by coffee and cotton, rapid progress was being made on developing new export crops, such as tea and tobacco. The industrial sector, although small, supplied the economy with basic inputs and consumer goods, and contributed foreign exchange through exports of textiles and copper. Uganda's transport system was regarded as one of the best in Sub-Saharan Africa, and through common services with Kenya and Tanzania, Uganda shared access to an effective network of railway, port and airline facilities. The initial years after independence clearly demonstrated Uganda's economic potential. Real GDP grew by 5.8 percent per annum from 1963 to 1970, an increase in per capita terms of 2 percent per annum.

Starting in 1971, a decade of political turmoil and gross economic mismanagement radically changed the situation. Many of the best trained personnel fled the country, the parastatal sector became bloated with abandoned or confiscated industries, and professional standards within the sector were seriously eroded.

The Ugandan economy proved to be resilient, however, and its capacity to rebound quickly from prolonged economic contraction occurred during 1981-1984. Economic growth accelerated in response to changes in economic policy, supported with considerable donor assistance, including assistance from the IBRD and the IMF. These changes included a major depreciation of the Ugandan shilling, the removal of most price controls, and significant real increases in producer prices for export crops and petroleum. These measures stimulated agricultural production and exports, so that real GDP grew at an average annual rate of 6 percent during the three-year period ending 1984.

The fragility of this recovery, however, was revealed during 1984. With increasing political and military opposition, military expenditures escalated and fiscal and monetary control weakened. Expenditure overruns were significant, leading to a rise in the budget deficit and an acceleration of inflation. The situation worsened further during 1985 as civil war led to a major disruption of productive activities and a severe shortage of foreign exchange.

2. Economic Status Prior to The 1987 Reforms

At the end of the civil war in January 1986, the economy was in critical condition. Much of the country had been devastated; the Luwero triangle, once among the richest areas, was a wasteland, with infrastructure destroyed. Countrywide, there was a major transport bottleneck; manufacturing plants were either closed or operating at very low capacity; utilities had severely deteriorated. Official foreign exchange reserves were only $ 24 million, equivalent to about two weeks' of "normal" imports, and net foreign reserves were negative to the amount of $ 254 million. The new Government also inherited a considerable external debt burden, equivalent to one half of the FY 84 exports.

Since 1986, the Uganda Government has taken major steps to re-establish peace and security and rehabilitate the economy. The Government has introduced discipline in both the army and in the general administration. Despite limited foreign aid, the Government's emergency relief and rehabilitation program helped to revive economic activities in the war-torn areas. As a result, there was some recovery in real GDP in 1986, particularly during the last half of the year. Unfortunately, the new government had seized-upon increased government spending as the appropriate response for accelerating economic recovery. The strategy quickly led to a large increase in the budget deficit, inflation of 250%, and a severe balance of payments disequilibrium. The speed at which the economy worsened quickly forced the new government to reconsider its strategy. After extensive debate and study, there was broad consensus on the need for and direction of reform. From these concerns an economic recovery program evolved, with the main components being developed in collaboration with the IBRD and IMF.

3. The 1987 Reforms

The objectives of the Economic Recovery Program, formally announced on May 15, 1987, were to: (1) restore price stability and a sustainable balance of payments position; (2) substantially improve capacity utilization in the

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industrial and agro-industrial sectors; (3) improve producer incentives; (5) restore discipline, accountability and efficiency in the public sector; and (6) improve public sector resource mobilization and allocation.

As an important first step towards these goals, the May 15th announcement included specific policy changes, the main elements of which were a 77% devaluation in dollar terms, a 30% currency conversion tax which in one brief month reduced the money supply by a like percentage, an increase in producer prices of major export crops, an increase in petroleum import prices, and the implementation of an open general licensing (OGL) system, for the allocation of foreign exchange. The positive, market-oriented attitude of the new government led donors to pledge at the Paris Consultative Group Meeting $304 million in FY 1987/88.

4. Recent Economic Performance

As the GOU prepares to guide the economy through another year, economic performance over the past 6-9 months reveals mixed but overall positive results. Some progress has been achieved toward reducing inflation. The major reasons for not obtaining greater control over inflation have been the exodus the growth in money supply, a depreciating parallel exchange rate, inadequate control over the budget deficit, high internal transport costs, and a shortfall in selected projected supply responses. As a consequence, the foreign exchange rate has become increasingly overvalued over the past 9 months, currently about 3 times the official rate.

Another issue requiring attention is public spending. The budget deficit is running above target. The GOU has resorted to financing the deficit through the banking system. The use of "ways and means" of the Central Bank increases aggregate demand and given widespread shortages in the economy, the "printing of money" has been inflationary.

Uganda is heavily dependent upon coffee for its export earnings and the GOU desires to diversify exports by increasing nontraditional exports. By taking into account historical trade one notes that the country's productive base and trade (formal and informal) was, and is in reality, quite diversified. But today's large informal trade does not formally earn export revenue and the Central Bank is losing potential foreign exchange earnings from such trade. But with

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an overvalued exchange rate there is no incentive for the private sector to export at the official rate. Thus, trade policy requires top level analysis and review with the aim of reforming the countries trade regime. A trade strategy and program linked to production possibilities, comparative advantage and external markets are a top priority if Uganda is to diversify its exports and create the capacity to import. The EPRP is designed to address the requirement to increase formal channel, nontraditional exports.

Aside from the problems in the economy, Uganda has made significant progress over the past two years, particularly in the last 12 months. Internal security has improved measurably, a major economic reform has been implemented and there is increasing confidence in the future. This is reflected in the fact that significant investment, both public and private, is taking place and consequently productive activities are clearly on the up-swing.

For a more comprehensive treatment of the Uganda economy see Annex A, "The Ugandan Economy: Recent Economic History, the Reform Program and Current Status".

B. Rationale

1. For a Trade Reform Focus

Uganda, despite increasing aid resource flows, has insufficient foreign exchange to finance domestic investment, increases in consumption, and external debt. Thus, it is critical to create the capacity to increase output and savings that can be reinvested in the economy to increase foreign exchange earnings, and get off the international dole within the foreseeable future. International trade is the vehicle by which the necessary transformation can be carried out. Increased trade will permit Uganda to reach otherwise unattainable levels of output, technology, efficiency and income within a shorter time frame than under conditions of limited trade.

Role of Imports. The capacity of the economy to generate economic growth is dependent on the volume of imports it can finance. Imports are required for investment in agriculture and industry, to rehabilitate economic infrastructure, and to satisfy the demand for consumer goods that cannot, or in some cases, should not be produced domestically. The capacity to finance imports in turn is dependent on the country's export earnings.

In Uganda, approximately 90 percent of export earnings is generated by coffee sales. During CY 1987 coffee exports were $240 million. Of this, 60 percent went to finance external debt service and petroleum imports. Thus, Uganda's ability to import is severely constrained, limiting economic growth and development despite respectable levels of assistance from the donor community.

Consequently, there is a critical need to expand exports. Coffee production can only be marginally increased as Uganda's coffee exports are capped by the I.C.O. Agreement. Uganda's quota is 4 percent of total international coffee exports.

Role of Export Growth. Uganda's over-dependence on coffee exports to finance recurrent and development expenditures ensures a continued reliance on external assistance, and limited foreign exchange to finance a wide range of imports required to rehabilitate agriculture, industry and economic infrastructure, not to mention debt service payments, invisibles, and consumer goods.

Traditional exports (coffee, cotton and tea) will continue to play a dominant role in the export sector where coffee will be the principal export until production recovers in the cotton and tea sectors. These sectors are increasingly receiving support from the IBRD, EEC and ODA, and one can expect significant expansion in production and exports of cotton and tea as rehabilitation progresses.

Our own analysis, which is fully supported by the GOU and has gained increasing recognition from the donor community, indicates that Uganda's export base can become more diversified if emphasis is placed upon so-called "nontraditional" exports - beans, sesame, maize, hides and skins, selected fruits and vegetables and potentially oil seeds. Thus, removing the impediments to increasing nontraditional exports is an urgent requirement if Uganda is to improve its import capacity and further stimulate economic recovery to achieve sustained economic growth.

Why Focus On Nontraditional Exports Recent coffee prices and the ICO quantity cap effectively constrain Uganda's export earnings and prompt the critical requirement to diversify exports.

Present-day informal trade, with neighboring countries, confirms the fact that Uganda has an exportable surplus beyond traditional exports. Uganda's natural resource base, favorable climate and historical production and export record (see Annex B) substantiate that Ugandan agriculture is quite diversified by African standards, and that the country has a relative comparative advantage in food crop production and a wide range of livestock. These facts taken together with the estimated volume of present-day informal trade, confirm that policy and institutional reforms designed to stimulate formal trade of the nontraditional export sector can achieve far reaching positive effects on the Ugandan economy.

2. <u>In Support of Economic Recovery Program</u>

The AEPRP was designed to provide special recognition to African governments that have or are embarking on major economic reform programs. Underlying that program was the realization that economic reform programs are not costless but require financial support.

This proposed DFA-funded sector assistance grant also requires the identification of additional reforms needed to achieve a desired policy impact in support of an economic recovery program, specifically directed to the private non-traditional export sector.

While macroeconomic policies and a public investment plan are key facets of the GOU's recovery program, expanding trade has not to date been given sufficient attention and funding. The GOU recognizes the need to diversify its export base, (become less dependent upon coffee) but new resources have not been identified to support an increase in exports. Our analysis of Uganda's economic circumstances clearly substantiates the need to expand private sector trade (exports and imports). As our analysis demonstrates, an EPRP with a strong trade focus can contribute significantly to Uganda's Economic Recovery Program.

3. <u>What the ANEPP will Accomplish</u>

The goal of the ANEPP is to increase Uganda's output, incomes and employment through private sector development. The purpose is to increase the country's nontraditional exports in the long term. The program will work to overcome constraints to the achievement of the above purpose for which assistance is herein proposed. There are eight explicit objectives being sought which together should assure accomplishment of the purpose.

a. Technical Assistance funded uder the project will work with the GOU and the Ugandan private sector to: (1) formulate a comprehensive national strategy for promoting increased nontraditional exports; (2) expand the capacity of the Ugandan private sector to implement the strategy and to continue dialogue with the GOU on further policy and institutional improvements; and (3) improve the knowledge of private marketing agents and exporters on the structure and functioning of international markets for Uganda's actual and potential (non-coffee) exports. These will be accomplished through long- and short-term technical assistance and seminars and workshops.

b. The Commodity Import Program will: (1) in the short run, increase the importation of goods needed to stimulate the production of exportables; (2) help establish a continuing mechanism for making foreign exchange resources available for the production of exportables; and (3) demonstrate that the private sector can respond to the challenges of implementing the nontraditional export strategy.

c. Under this program/project, the GOU will providea policy climate conducive to the accomplishment of the purpose. Specifically, the GOU will: (1) work to improve import/export licensing procedures with the objective of having in place a streamlined, virtually automatic licensing process. This is a major constraint at present to the formalization of trade which, in turn, restricts the overall volume of trade and skews its composition; and (2) throughout the program, maintain an exchange rate consistent with the objective of the program. In general, the program/project will help change the structure of the Ugandan economy, especially the rural production and trade sectors.

II. FRAMEWORK FOR FORMALIZING PRESENT-DAY INFORMAL TRADE

A. Background

Present-day informal trade is largely intra-regional trade for border currencies or counter trade for the importation of manufactured consumer goods. While it has not been possible to precisely quantify the volume of informal trade, most observers believe it is very significant. It is estimated that the informal imports amounted to $100 million during CY 1987. There are at least four major reasons for informal trade:

1) border prices (or exchange values in the case of counter trade) are higher than prevailing domestic prices;

2) this fact, coupled with the overvalued official exchange rate, makes informal trade very profitable;

3) given the acute shortage of official foreign exchange, border trade is an attractive means to finance imports which are in short supply in the economy and fetch high prices;

4) cumbersome formal export/import licensing procedures encourage evasion of formal trade arrangements.

B. Benefits of Informal Trade

Although border trade is "illegal" it has clear advantages to the Ugandan economy, which are briefly the following:

- expands the size of the market for the producers of such commodities;

- results in income generation due to the fact that exporters earn greater income when they sell goods at higher external prices than at lower domestic prices;

- producer incentives are improved, stimulating farm level and market investment, and increases in production and marketable surpluses;

- such trade increases the availability of imported commodities, despite the scarcity of official foreign exchange; and

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- reduces demand for the Central Bank's foreign exchange, as informal trade generates either border currency, imports, or foreign exchange savings.

Cost of Informal Trade

On the other hand, the principal disadvantages of informal trade are:

- the government loses export revenue from informal trade since customs duties are evaded;
- economic inefficiency is introduced in the transaction chain, and scarce resources are used up evading the controls.

A fairly wide range of commodities is currently exported in the informal sector. If exporters were "forced" to divert this trade to the formal sector and to trade under terms of an overvalued official exchange rate, export (and production) incentives would be lost and several commodities now informally exported would consequently not be exported. Thus domestic income would be directly reduced and the availability of imported commodities would decline.

D. Capturing Benefits of Informal Trade

The GOU can devise policies and institutional changes to encourage exporters involved in informal trade to export through the formal sector. The two principal reforms would be an adjustment in the official exchange rate, or the exchange rate regime, plus streamlining export/import procedures, to reduce time and cost involved. While these are prerequisites to a sustainable expansion of formal trade there is a policy option which if implemented by the GOU, would in the shortrun greatly expand, not only nontraditional exports, but also formal channel trade.

1. Proposed Policy Reform

There is little doubt that nontraditional exports cannot increase within formal channels when the official exchange rate is significantly overvalued. However, if exporters were permitted to retain earned foreign exchange from formal trade, the incentive to export would be created. However, to ensure that such foreign exchange returned to Uganda and did not turn out to be a mechanism for capital flight it would be necessary to modify present export/import licensing procedures.

If private sector exporters were given an import license of an equivalent value, equal to the foreign exchange value of the item(s) exported, foreign exchange would be returned to Uganda in the form of imports.

There is no doubt that an level of formal imports would increase under such a scheme, since the exporter/importer would no longer be constrained by an overvalued official FX rate and export/import procedures could be greatly simplified. In addition, since imports would be subject to customs duties and eventual sales sales taxes, additional government revenue would be generated.

In the short run, an increase in government revenue would be achieved. This is because the informal imports which would be replaced have not been subject to customs duties. The level of formal imports would increase to the extent that total nontraditional exports (previous informal exports, plus additional, new nontraditional exports directly derived from the new scheme) are increased. It is envisioned that a net increase in nontraditional exports would occur because risk and transaction costs under the new scheme would be less than under a system of illegal, informal trade.

Under the export-import scheme, exporters would not be required to surrender foreign exchange earnings. Instead exporters would have three options. They could use the foreign exchange earned through exports to import items from the country in which they sold their exports; or convert the foreign exchange to a second hard currency and import from a second country source of imports, or they could sell all or part of their earned foreign exchange to the Bank of Uganda. The latter option would however not be exercised until Uganda's foreign exchange rate more closely reflects a market clearing price.

The vast majority of imports that would be financed under the scheme. The imports would help meet the widespread, unsatisfied demand for consumer goods, intermediate goods for industry and agriculture in addition to import requirements necessary for the general rehabilitation and expansion of private businesses.

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Such an export/import arrangement should be closely monitored for the purpose of collecting and analyzing vital trade statistics:

- types and quantities of items exported and subsequently items imported under each export license;

- maintenance of updated international prices for commodities exported and goods imported;

- determination of the implicit prices (terms of trade) included in each export/import transaction.

The "export/import exchange system" as envisioned would be viewed as an interim measure. As foreign exchange availability improves and the exchange rate becomes more in line with the forces of supply and demand, the system would undoubtedly give way to a more conventional trade regime.

2. Prospects for Increasing Agricultural Exports

The significant currency depreciation for nontraditional exports to be derived from the export/import scheme will provide strong incentives for the private sector to export non-traditional agricultural commodities.

It is difficult to estimate the volume of new, formal exports that could occur over the next several years. Current official trade statistics do not provide much guidance since coffee has accounted for between 90-94 percent of total recorded exports (by value) in recent years. On the other hand, export statistics from the 1950's up to the mid-1970's offer better indications of the scope for diversifying export. These data show (see Annex B) that Uganda was in those years actively involved in the export of fish, maize, flour, beans and pulses, animal feed, hides and skins, and oilseeds, in addition to the traditional exports of coffee, tea and cotton.

An examination of Uganda's past export record up to the mid-1970's strongly suggests the potential for a more diversified export regime than what exists today. Perhaps exports of some commodities (e.g., cotton) may never be revived to their former eminence because to today's different domestic and world market conditions. For example, despite the past record, Uganda does not, today, have an exportable surplus of meat products because the country's livestock resources have been devastated by wars and unrest since the 1970's and herd sizes are said to be only a fraction of what they were 20 years ago.

If one considers past exports of non-traditional agricultural exports, products like fish and sugar, mollasses, pepper and pimento, edible oil and animal feeds may have potential. While cotton seed oil was exported in the past, the future edible oil export will likely come from a newly introduced crop--sunflower.

In the past year two new agricultrual exports have emerged. There are fresh pineapples and passion fruit. It is generally believed, given the strong demand for these commodities in both Europe and the Middle East that Uganda could dramatically increase the export of these commodities, as so far exports have only exported to London and Jedda. Other good prospects could include fresh vegetables for the European winter season market and probably fresh flowers to Europe, particularly the more exotic species.

Until the overall collapse of the economy in the late-1970's, Uganda's formal intraregional trade within the East African region was as much as 15 to 19 percent of total recorded Ugandan exports. Today, an unknown volume of exports take place in the informal sector, principally to Kenya and Rwanda. The vast majority of this trade is in the nontraditional, food crop export category, although some coffee and tea cross Ugandan borders unrecorded.

It is anticipated that under the export/import scheme Uganda will be able to capture some of the present-day informal trade. The potential largely rests with food crops owing to the higher population growth rates in neighboring countries and their inability to keep pace with food crop production. In addition, neighboring countries have been more subject to periodic droughts that have devastated the region in recent years. The crops with the greatest potential in neighboring markets would include dried beans, cassava, maize bananas and livestock once the national herd size is increased. Within the Preferential Trade Agreement (PTA) community, aside from Kenya and Tanzania, the export of frozen fish has significant potential.

E. Anticipated Benefits From the ANEPP Grant

1. Introduction

In the past, exports have been discouraged in Uganda by an overvalued exchange rate; the ANEPP Grant's export/import scheme is designed to be responsive to the overvaluation of the currency. Under the scheme, exporters of non-traditional exports at the time they obtain export licenses -- all exports are licensed in Uganda -- will be accorded an import license of equivalent value. The scheme, which amounts to an export surrender requirement of zero, results in an effective depreciation of the Uganda shilling for non-traditional exports equivalent to the current gap between the official exchange rate of shillings 150=$1 and the parallel rate of shillings 400=$1. In the past, all export proceeds had to be (a) collected within four months for goods shipped overseas and within two months for goods exported to neighboring countries or by air to any destination and (b) sold to an authorized bank for Ugandan shillings. The Ugandan bank, in turn, had to surrender the proceeds to the central bank within three business days, failure of which entails payment of interest at a rate of 5 percent above London Interbank Offer Rate (LIBOR).

Most of the gains of the export/import scheme will accrue from commodity exports in the agricultural sector. Economic activity in Uganda focuses on agriculture, a sector in which the country has comparative advantage, and we see little opportunities for enhanced non-agricultural exports at least in the near term.

The economic policy environment for non-traditional exports is improving. In addition to implicit depreciation of the currency associated with the export/import scheme which removes a major market impediment to non-traditional exports,

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price controls already have been largely liberalized. Most prices had been decontrolled in the early 1980s. Export price controls are binding now only for coffee and tea. For those commodities, parastatals which act as both monopsonists and monopolists (The Coffee Marketing Board and Uganda Tea Authority) earn windfalls by driving a wedge between the price they pay producers and the price they receive on external markets. The GOU also had sought to control prices through the Produce Marketing Board (PMB).

Established in 1968 to organize and supervise the marketing of a wide variety of agricultural food crops for domestic consumption and exports, the PMB was given in 1986 the monopoly over the export marketing of five key food crops -- maize, groundnuts, rice, sesame, and soya beans. Farmers were to sell the commodities to the PMB at prices set by the PMB which in turn would market the commodities overseas. However, the PMB has been unable to obtain the commodities at these low, controlled prices and the organization has been effectively by-passed in favor of private traders. The inability to enforce these pricing provisions has been explicitly recognized and the PMB lost its export monopoly. Private traders are now free to compete with the PMB. With the de-facto elimination of the PMB export monopoly, the only export monopolies that remain, in addition to those for the traditional exports of coffee and tea, are hides and skins (Uganda Leather and Tanning Industry) and timber (Uganda Hardware).

On the other hand, export licensing continues to pose a constraint. All exports in Uganda require licenses. It is intended that such licenses will be accorded very liberally under the export/import scheme. Export licenses are issued by the Ministry of Commerce; they had been issued by the Uganda Advisory Board of Trade until its abolition in May 1986. In the past, licensing has not placed an effective limit on the quantity of exports; quantitative restrictions were imposed only when necessary to ensure sufficient supplies for consumption in Uganda. Obstacles to aquiring export licenses have been bureaucratic in nature. As part of the ANEPP grant, the GOU has covenanted to review prior to the second disbursement of the program trade licensing regulations and procedures for granting export licenses to the private sector. The aim would be to reduce bureaucratic delays and costs in securing export licenses.

The Agricultural Nontraditional Export Program grant is to provide the necessary incentives to increase the production and external trade of nontraditional exports. The beneficiaries of the program will be those segments of society that are involved in such production and trade, as well as, the consumers and end-users of the imports that will directly result from an expansion of nontraditional exports and increased foreign exchange earnings available to finance imports. The economic growth of the Ugandan economy is seriously constrained by the level of imports it is presently able to finance. The Scheme will directly permit the economy to increase its capacity to finance imports.

The economic linkages between exports and imports, and between export growth and internal production incentives are strong. In fact, it is expected that the structure of incentives within the rural production and trade sectors could be significantly altered by the Import/Export Scheme. As important segments of the society respond to these new, enhanced incentives it is expected that output, income and employment within the farm, marketing and external trade sectors will significantly increase.

2. <u>Principal Beneficiaries of the Export/Import Scheme</u>

<u>Farmers</u>. The principal beneficiaries of the program will be numerous producers of nontraditional exports in the agricultural sector. The vast majority will be smallholders who are not expected to be concentrated in any particular geographic area. However, until the extensive national road network is fully rehabilitated it is expected that the participating producers will be those with access (financial and physical) to markets located near the major trunk roads so as to minimize transport costs within the marketing system.

Producers of nontraditional exports are going to face improved price incentives to expand their output or become engaged in the production of new export crops. This is expected because a program to enhance nontraditional exports will increase the size of the internal, outward oriented market for such farm output. To the extent that this becomes a reality farm gate prices are expected to increase. As Ugandan exporters identify new, profitable export markets such effective demand will be translated back through internal markets to the producers of such commodities. Price expectations and/or actual prices will tend to stimulate the production of commodities that offer the highest prices (net income) to farmers. Resources at the farm-level are likely to be reallocated to the production of crops which earn producers the highest net incomes. Investment of slack resources (land and labor) and in off-farm inputs are also likely to be a direct result of improved production incentives.

The end result could be a significant expansion of output, income and employment within the export oriented rural sector. The benefits of increased farm-level output, income and employment are obvious, but the ability to, ex-ante, estimate the magnitude of such benefits is not only difficult due to the lack of data, but likely to be a fruitfuless exercise. The important point, however, will be an attempt to capture these anticipated benefits during the monitoring and evaluation of the program (see Section VII, 6).

<u>Marketing Agents</u>. The new structure of incentives envisioned as a result of the Export/Import Scheme will also impact upon internal marketing systems. In fact, the marketing system will become an intregal part of the program to expand nontraditional exports.

Undoubtedly the structure, conduct (competitiveness) and performance of agricultural markets will change as a result of the anticipated increase in farm-level production and the increased demand of exporters for exportable commodities. Marketing agents will be required to procure, grade, assemble, package and transport increasing volumes of marketable surpluses. In order to effectively cope with increasing volumes, both private investment and increased employment can be expected to take place within the marketing system. In fact, empirical evidence supports this contention as studies have shown that as farm-level production and external trade increase in LDC's, employment within the commodity marketing sector normally dramatically increases. Also the rural-urban income distributional aspects of this phenomenon have also been found to be positive

The income benefits that take place within the marketing sector will impact on rural incomes not only through direct employment in the marketing sector, but also via backward linkages to the farm sector through demand and price for marketable output thereby stimulating farm-level production, income and employment (and the demand for imports).

Exporters. Private exporters who will be involved in the Export/Import Scheme will directly benefit. Their principle sources of income will arise from the trading margins on their exports and trading margins on the imports they finance from the foreign exchange earned from their exports. In terms of number of beneficiaries, the number of participating exporters are expected to be relatively few compared to the number of farmers (large numbers) and marketing agents (fewer numbers) that will benefit. However, while this will be the case, the total number of beneficiaries will be in direct relationship to the effectiveness of exporters in seeking out and identify profitable export markets for nontraditional exports. Thus, while the number of participating exporters will be far less than the number of farmers and marketing agents benefiting from the program, exporters will be critical to the success of the program, in terms of magnitude of the total benefits to be realized and the total number of beneficiaries who will in fact benefit from the expansion of nontraditional exports. Again, these benefits cannot realistically be quantified but they will be captured during the monitoring and evaluation of the program grant.

End-users of Imports. Through the Export/Import Scheme, private exporters will earn foreign exchange to finance imports. While it is not possible to specify the nature of specific imports likely to be financed, consumer goods, and intermediate goods for agriculture, industry and the construction trade, plus agricultural inputs will be imported as a direct result of the Scheme. Importers are not likely, at least in the shortrun, to import slow moving or unprofitable items. Rather they will import items in which there is a clear excess effective demand, so they can sell imports quickly to generate local currency to internally procure additional exportables.

Since the level of imports coming into Uganda are far below the requirements of the economy, the export/import business is expected to thrive. Consumers, industrialists, private entrepreneurs, marketing firms and/or agents, not to mention farmers will directly or indirectly benefit from an increased level of imports into the economy. Imports will not only help satisfy consumer needs but also encourage or create

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the means to expand both rural and urban and industrial and agricultural production. An expected upswing in economic activity will be directly attributable to increased imports fed by an expansion in nontraditional exports.

Forward and Backward Linkages. As the above discussion suggests there will be numerous and important forward and backward linkages among the key economic agents directly and indirectly involved in the Export/Import Scheme One need only consider the case of, say, the pineapple exporter who has identified an importer at Covent Garden (London) who wants to import 2000 pineapples from Uganda at an offer price the Ugandan exporter can deliver via air freight and at a price which is profitable to the exporter. The exporter contacts pineapple producers directly or through marketing agents requesting to purchase 2000 pineapples at a price at, or at least equal to the local prevailing price in shillings. The interested pineapple grower sells or delivers his pineapple to the local market, buyer or marketing agent who in turn delivers the pineapple to the exporter. The exporter then assembles and packages the pineapple for export. The exporter in turn makes arrangements with a freight forwarder and/or an international airline directly to airfreight the pineapple to London. In the process, pineapple changes location and form, intermediaries preform several services, employment and income is created along the way and assuming the ultimate transaction is profitable, incentives are created to repeat the process of exporting plus seeking additional external markets for pineapple. This in turn will create incentives (price signals) for pineapple producers to expand output. Exporters will be encouraged to identify markets for other nontraditional export commodities to expand their export business. The cycle will be repeated assuming prices and profits adequately reward the producers, marketing agents and exporters. With time, once the Uganda export community can confirm that Uganda is a reliable source of quality and fair priced commodities, foreign importers seeking selected commodities in demand in their own markets may also be encouraged to contact Ugandan exporters directly.

3. Distribution of Benefits

The export/import scheme, essentially amounting to a depreciation of the currency for non-traditional exports, will hike output, income, and employment. However, considerable uncertainty prevails over the distribution of benefits. To

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what extent will benefits accure to the smallholder? The larger farmer? The Cooperative Societies? Small or large traders? The exporter? To identify beneficiaries and their relative shares, the structure conduct, and performance of the market for each significant non-traditional export will have to be identified and analyzed. Such an analysis will serve as the analytic framework for tracing linkages among exporters, intermediaries, and producers. Marketing studies will constitute a key element of the evaluation plan for the program.

The limited evidence that we have so far suggests that marketing systems vary considerably across not only product but also geographic lines. For a number of agricultural commodities, small middlemen/traders emerge as important marketing agents; commodities are sold by the smallholder to small traders who often serve as intermediaries for larger buyers. Farmers also market produce through Cooperative Societies. The market chain includes agents to grade, package, and transport the produce. The final link in the market chain is the exporter. For their part, livestock and livestock products appear to have their own distinct market channels, including auctions.

In assessing the distribution of benefits from the export/import scheme, pricing assumes the utmost importance. There is some concern that benefits may accrue primarily to the export community, which may be sufficiently organized and concentrated to garner most of the benefits. If sufficiently concentrated, the export community could act as a monopsonist. On the other hand, if real producer prices were to increase, this would indicate that at least some portion of the gains were filtering down to the farm level.

4. Beneficiaries of the C.I.P.

The ANEPP, in addition to the Export/Import Scheme, will support the expansion of nontraditional exports through the "USAID Trade Promotion Credit" (C.I.P. component) to be administered by the Bank of Uganda.

Twelve and one half million dollars ($12.5 million) will be made available to finance specific eligible imports which are directly or indirectly required to expand the production of nontraditional exports. The items currently eligible for importation by the private sector are improved seeds, fertilizers, jute, steel and export packing materials.

Farmers. Farmers will directly benefit from the increased availability of improved seeds and fertilizers. Both are seasonal inputs required to expand production and/or increase crop yields. It is envisioned that farmers themselves are able to make the best judgements on what types of seeds to purchase and on which crops to apply fertilizer. Such inputs will be applied to nontraditional export commodities if such commodities are the relatively more profitable crops at the farm level. In the final analysis, however, it is the desire to increase farm-level production, income and employment that is our major rationale for financing these inputs. We believe commodity and input markets and farmers own decisions will determine the most suitable enterprise mix and use of inputs.

Local Industry. Both the imported jute and steel will be imported and utilized by local private firms engaged in the production of jute bags (used largely in commodity marketing) and the manufacture of handtools (hoes and cutlasses). Both industries, such as the several manufacturers of handtools do not presently have access to sufficient foreign exchange to operate at a satisfactory level of output (adequate utilization of installed capacity). Both industries have, however, been identified as present or potentially efficient import substitution industries. Their output will directly benefit farmers, the end-users of handtools and jute bags.

Exporters. Export packaging materials will also be eligible items to be imported under the C.I.P. component. Presently cardboard cartons, specialized plastic bags, etc. must be imported. Acquiring access to foreign exchange to import these items will be necessary to facilitate exports, particularly exports airfreighted to European and Middle Eastern markets.

5. Quantifying Expected Benefits

Given the anticipated economy-wide impacts of the Export/Import Scheme and the C.I.P. component, the data requirements necessary to estimate, ex-post, both the size of discrete populations and the quantifiable benefits (income streams) that are expected to be realized are beyond present-day availability of statistical data.

This reality need not become a stumbling block since GOU policy makers and the involved donor are committed through the program grant to: (1) stimulating agricultural output through policy reform and program support; (2) opening the economy to the discipline and opportunities of external markets; (3) increasing the role of the private sector in the economy through the production, marketing and trade sectors; (4) increasing the availability of resources to promote an expansion in exports; and (5) adopting policies, programs and institutional mechanisms that increase the capacity of the economy to significantly increase and sustain import levels.

The objectives and description of the Export/Import Scheme, the USAID Trade Promotion Credit (C.I.P. component) and the Trade Policy Analysis and Monitoring Unit, together, establish the basis and interlocking framework by which the above outputs are expected to be achieved.

Implementing the EPRP grant represents a significant step toward liberalizing the Ugandan economy by increasing the role and importance of markets in the determination of penalties and rewards that will guide the growth and development of economy, and consequently a structure of incentives to which the private sector can and will respond. However, the normative objectives and anticipated positivistic outcomes which we have argued cannot be quantifiably projected, must nonetheless be measured. Consequently they will be measured ex-poste, or as they take place during program implementation, by the Trade Policy Analysis and Monitoring Unit, and USAID, as described by the proposed monitoring and evaluation plan (see VII, D 6).

III. ANALYSIS OF THE NONTRADITIONAL EXPORT SECTOR

A. Definition

Uganda's traditional exports include coffee, tea and cotton. All three are smallholder crops and in recent years coffee has accounted for 90 percent of Uganda's export earnings.

Nontraditional exports would include cash crops such as maize, dried beans, sesame, and selected fruits and vegetables, plus hides and skins. With the exception of the latter, nontraditional exports are commodities traded in the informal sector, and constitute the bulk of present day border trade. In addition, beans and maize have been included in various government to government barter arrangements.

B. Natural Resource Base

Agriculturally Uganda is endowed with some of the best "real estate" in Sub-Saharan Africa. The country consists of a total land area of 214,000 sq.km. Fifty percent of the land area is classified as arable (30%) or pasture land (20%). Current estimates indicate that the area under cultivation may be 56,000 sq.km. Using the 30 percent arable land area (64,200 sq.km.) as a base, there are 8,200 sq.km., or 820 thousand hectares that could be brought under cultivation before the total arable land base (not including pasture land) is exploited.

Uganda has a benign climate with plentiful sunshine, good rainfall (except in the North-east and part of the South-West) and low temperature variability. Most of the country has two rainy seasons, and total rainfall ranges from 500 to 2250mm annually.

This resource limit does not take into account significant potential to intensify land use via yield increasing technology.

C. Cropping Systems

Crops grown depend upon soil types and rainfall. In the south, center and west, where rainfall is significant (900 to 1,500 mm), perennial crops predominate: coffee and tea are produced as cash crops with bananas as the main staple food. Cereals (maize, millet, sorghum), pulses, and oil seeds, however, are becoming an important part of the cropping system.

Climatic and soil conditions have played a decisive role in defining Uganda's patterns of agriculture. Sixty percent of the South has a bimodal rainfall of 1400 mm which encourages perennial crops and continuous cropping; unimodal rainfall of 700-1000 mm in the North followed by a protracted dry season favors only seasonal crops and distinct cropping seasons; mean min/max temperatures in Uganda range from 16-31°C and favor a wide choice of crops; and rich alluvial soils around Lake Victoria and similar good soils further north, favor various types of crop production. Intercropping with food/cash crops is common practice within the smallholder farming system, the sector from which the majority of nontraditional exports will be produced in the immediate years ahead.

D. <u>Factors Determining Short-Term Comparative Advantage</u>

The foregoing provide Uganda with the necessary bio-physical environment to produce, and increase the production of, a wide range of annual and perennial crops, plus livestock. Uganda's favorable man/arable land ratio and several ecological zones guarantee a diversified agricultural economy, albeit with potential specialization within ecological zones.

Historically Uganda has been able to feed itself even through prolonged periods of civil disturbance or economic mismanagement. But relative to its neighbors, who rely on significant food imports (formal and informal) and given their population growth rates, may have to increasingly rely upon food imports, Uganda has the resource base and potential to export food crops. With time Uganda could also export semi or processed foods to regional and non-regional markets.

Uganda's short-run comparative advantage in production and trade is based upon a solid resource base and production costs involving minor import content. At present domestic resource costs (land, labor and home-grown planting materials) dominate the costs of production, due to the unavailability of imported, output increasing inputs in recent years. Despite the low level of technology employed, the quality of Uganda's agricultural produce is relatively high for grains, horticultural crops, fruit, tree crops and livestock.

Uganda cannot fully exploit its comparative advantage in food crop production by exports to European and Middle Eastern markets in the shortrun because of high inland transport costs through Kenya and/or Tanzania to respective ports of exit. To these costs must be added ocean freight. Thus, CIF prices at ports of entry in European markets are excessively high, and limit exports to these markets to a very few high-value crops such as coffee and tea. An exception to this appears to be pineapple and passion fruit which is increasingly airfreighted to Europe.

E. Short-Term Constraints

Uganda cannot fully exploit its environmental and locational advantages in food crop production without addressing critical constraints such as the limited availability of agricultural inputs (fertilizer, seeds, tools) and the cost of domestic marketing. Current transport costs due to deteriorated road conditions, availability of transport services and the costs associated with assembling and export need to be tackled. A great deal of progress is taking place on the rehabilitation of roads with funding from the IBRD, EEC and other donors.

Knowledge about external markets will have to be improved if incentives to production and trade are to be realized. This calls for not only a better understanding of export possibilities and costs, but also improved trading relationships, facilities and policies. In short, a coherent export strategy involving rehabilitation of economic infrastructure, institutional development, improved trade policies and supporting financial arrangements needs to be devised.

F. Food Imports in Neighboring Countries

Africa experiences periodic and severe food and hunger crises. Drought, famine, regional wars, unchecked population growth and declining food production have resulted in massive increases in food imports across the continent. Even former food exporters such as Zimbabwe, Kenya and Tanzania are forced to import large quantities of food. Almost 40 percent of the countries in Sub-Sahara Africa are no longer able to produce enough to feed their own people. In East Africa it appears unlikely that Kenya, Tanzania, Sudan, Somalia and Ethiopia will regain the ability to feed their populations through domestic production before the end of the century. Consequently the recent "Presidential Initiative to End Hunger in Africa."

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Uganda on the other hand has the real potential to return to its 1960s role as a major African food exporter. Its farmers are very productive by African standards and with support could increase their land and labor productivity significantly. The country faces minimal regional competition and food import requirements of neighboring countries give it a trading opportunity which has not been fully exploited.

Uganda is surrounded by 6 countries which imported approximately $420 million of agricultural products from within and outside the region in 1983. All of Uganda's neighbors are facing rapidly rising food import bills, mushrooming population growth and declining agricultural productivity. Yet Uganda remains, despite the civil disturbances over the years, one of the few African states that is not only self-sufficient in basic food crops, but also an exporter of food.

G. Exploiting Location and Transportation Advantages

Despite being a land locked country, Uganda has clear locational advantages in terms of intra-regional markets. Historically, Uganda has always had a trade in food crops in these markets. However, much of this trade has been informal and escaped the formal economy, thus not generating additional official reserves or public revenue.

There are important constraints to formally expanding the export trade. They are not insurmountable, but an explicit trade strategy and program including revised economic policies are needed to encourage and facilitate such trade. Improved production incentives and increased volumes of imported inputs are now required to stimulate agricultural production, particularly in those crops for which new and expanded export markets are identified and developed.

H. Political Implications of Increasing Trade

Increasing East African welfare has strong appeal and political implications. However, the goal cannot be achieved unless individual nation states embark upon economic strategies and policies that increase their individual productive capacities. Uganda can contribute to regional welfare as economic rehabilitation takes place, the reform program continues, and the economy returns to its former production level and growth rate. To achieve this goal, however, Uganda must increase trade; exchange food exports for imports that will permit increases in agricultural productivity, rehabilitation of industry and economic infrastructure, plus increasingly import consumer goods that it cannot produce domestically.

As Uganda continues with its rehabilitation and development program and expands its export base, it can not only achieve increasing economic growth but also contribute to regional welfare.

IV . STRUCTURE OF A TRADE FOCUSED ANEPP IN SUPPORT OF ECONOMIC RECOVERY AND LONG TERM GROWTH

A. Problem

As most developing countries, Uganda finds itself faced with significant balance of payments and international debt difficulties. To establish a self sustaining economy, the country must seek efficient means to increase exports. The current international coffee market assures that growth in exports will not come from Uganda's traditional export crop. For the next several decades at least, Uganda's comparative advantage will lie in agriculture, particularly within the food crop sector. However, the lack of a non-coffee export strategy, inability to finance critically needed imports required to expand non-coffee output, current institutional arrangements and policies which inhibit growth in nontraditional exports, together with an overvalued exchange rate severely limit Uganda's prospects for increased foreign exchange earnings.

B. Program Objectives

To assist the GOU to increase and diversify Uganda's productive and export capacity, USAID proposes to provide foreign exchange to be used to purchase inputs needed to increase the production of nontraditional exports and to develop, at the same time, institutional capacity and capability to formulate and implement a coherent export strategy and program.

The ANEPP grant addresses key constraints to expanding trade, an area currently being given increasing attention by GOU policy makers. Until recently, trade policy focused on Uganda's traditional export and major foreign exchange earner -- coffee. A combination of depressed coffee prices, massive requirements of foreign exchange to rehabilitate a war-torn economy and the recognition that Uganda produces a wide range of food crops which have export potential, has forced the GOU to look to nontraditional exports (food crops) as a potentially large source of foreign exchange earnings.

The ANEPP elements described below in support of expanding Uganda's export base are a commodity import component, requirements for an export strategy and criteria for selection of crops for export promotion.

C. Commodity Imports To Support Exports

1. Background

Despite significant growth in the agricultural sector during 1987, the supply response has not been sufficient to satisfy aggregate demand. The latter is composed of effective demand arising from domestic consumption, present day border trade and various barter trade agreements. Consequently excess demand has created a very high inflationary trend in domestic food prices as reflected in the CPI during 1987, for both low and middle income groups.

Domestic inflation in food prices must be addressed by tackling the underlying supply problem and the budget deficit. It is clear that crop production must increase, as well as the productivity of resources engaged in food crop production.

A comprehensive approach will be required including improving the structure of incentives, or price incentives for individual commodities, increasing farmers' access to major domestic and export markets, increasing the availability of seasonal inputs, plus the provision of market information.

At the present time price incentives, seasonal inputs and access to markets will be the affordable approach to increasing agricultural output. Price incentives should be tackled via an adjustment in the exchange rate and, on efficiency grounds, by increasingly turning over export marketing to the private sector.

Increasing the rural producers' access to commodity markets will require improved farm-to-market transport with heavy reliance on the bicycle in the intermediate term, increasing the size of the private vehicle fleet and continuing the rehabilitation of rural feeder roads and major trunk roads as well as the railroad system so as to contribute to lowering the cost of domestic marketing.

2. Imports

Addressing the problem of inadequate availability of seasonal inputs requires the identification of affordable, output increasing inputs that are within the financial and managerial capacity of large numbers of food crop producers. The initial thrust must be on the provision of quality seeds (higher yielding, disease resistant) as, over the years, the viability of existing germ plasm has deteriorated markedly. In the short-run this may involve simply replacing the existing stock of proven varieties (used by farmers over the past two decades). In the intermediate term such varieties could be replaced by newer varieties presently being screened under local agronomic conditions, to be subsequently multiplied and distributed throughout major food crop production areas. For selected crops, increasing the availability of fertilizer can be cost effective if potentially lower procurement and distribution costs are sought. In the future, hybrid varieties responsive to medium level fertilizer applications, could prove a viable approach to increasing crop yields.

Improved production technology for larger commercial farmers will undoubtedly involve selective mechanization, higher fertilizer applications, greater plant populations and selective use of herbicides and pesticides.

The package of inputs and practices to be supported in a food crop production strategy must be dependent upon what the country can afford in terms of import requirements (foreign exchange dependency), the past experience of both farmers and commercial importers and distributors of imported inputs, and the projected return to their use in financial and economic terms.

3. Supporting a Production Strategy

There are clearly forward and backward linkages between input use and the ability of the agricultural sector to increase exports. The intervening variables have already been mentioned above (i.e., incentives and institutional changes).

The agricultural growth achieved during 1987 was largely due to improved security in the countryside, political stability, and improved price incentives which in turn encouraged farmers to employ their existing, slack resources. Namely, there were un - and/or under-employed resources in the rural sector that were apparently re-engaged in agricultural production. The extent to which slack resources still exist, or the extent to which agricultural incentives are sufficient to draw into production additional resources will be dependent upon the existence of additional underemployed resources and positive agricultural policies.

A sustained increase in agricultural output, particularly in the area of food crop production destined for external markets, will require additional, imported technology. In the shortrun, the major requirement will be for selected seasonal inputs and hand tools at the production level, jute bags and packaging materials at the marketing level, materials necessary to rehabilitate rural market centers to facilitate efficient handling and forwarding of commodities to urban and export markets, and continued rehabilitation of the transport sector (roads and vehicles).

4. Production Inputs to be Imported

Our basic thrust will be to encourage and contribute to the planning and financing of biological and physical inputs which will set the stage for appropriate, future technological advance within the food crop sector. Thus, our program grant would finance known and proven new seed varieties for maize, dried beans and selected horticultural crops (e.g., tomato, pepper, beet, French beans, lettuce, cabbage, eggplant, cucumber, peas, and oil seeds). In addition, the program would finance the procurement of bulk, high analysis fertilizer -- diamonium phosphate (18-46-0) and urea (46-0-0). The greatest proportion of the fertilizer would probably be directed to major maize and bean production areas, but quantities would also likely be distributed to areas of major horticultural crop production. Domestic sugar plantations could also utilize fertilizer imported under the program as sugar is a priority import substitution industry in Uganda. Simple hand tools or steel for the local manufacture of tools (hoes, pangas and ox-plows) will also be eligible for funding. In the final analysis the market (judgment made by private sector importers based upon information obtained from their clients -- farmers) will determine the "highest and best use" of imported inputs financed by the Commodity Import Program component of the grant.

<u>Selection Criteria.</u> The global objective in the selection of items to be imported will be their projected contribution to increased productivity in agricultural production and domestic and external marketing. The criteria to be used when determining if an import application should be approved by the Committee responsible for allocating the funds under the USAID Trade Promotion Credit (C.I.P.) will be the following:

(1) the item has been demonstrated in Uganda to have a positive impact on farm yield, and/or production; improved market efficiency, reduction in marketing losses, or the promotion of a more marketable and/or higher value export product.

(2) the item is price competitive in terms of costs and returns and alternative sources and origin.

(3) the item is a raw material or intermediate input which supports the local manufacture or fabrication of handtools and/or other farm or marketing requisites by efficient import substituting firms.

5. <u>Import Procurement and Distribution</u>

Private Sector importers including the cooperative movement will import and distribute the commodities financed under the C.I.P.

Uganda's total annual agricultural imported input requirement is estimated to be in the neighborhood of $40 million. This does not include imported building materials, nor heavy or specialized tools and equipment for large scale commercial farms. The annual requirement for imported seed, fertilizer, steel for the local manufacture of handtools, jute for manufacture of jute bags and packaging materials for exporters could reach as much as $15-18 million during 1988. The mission's CAAS Project is likely to fund $1.4 million of these requirements over the next year. In addition the project will help increase production, processing, marketing and input distribution capacity. The ANEPP will fund $12.5 million in imported inputs, thus bringing the total of USAID funded commodity imports to $11 million. Thus, by targetting our commodity import resources toward output (and yield) increasing inputs and commodities that can significantly increase production and improve the efficiency of food crop marketing, USAID funds can make a measurable impact toward increasing the volume and income from nontraditional exports. However, this will require co-ordination among donors and the GOU in the area of commodity procurement. In addition, there will be important linkages between procurement activities, food crop production targets and applied research on food crops, including screening trials on improved seed varieties being carried out under the MFAD project.

The GOU recognizes the need to establish policy guidelines for the procurement of agricultural inputs to avoid duplication, achieve some standardization and ensure that legitimate import requirements are procured and distributed on a timely basis. An Input Co-ordination Unit is soon to be established and USAID will work closely with this body to ensure our procurement plans are consistent with national priorities, the GOU's export strategy and within the absorptive capacity of the food crop sector and national input delivery systems.

What falls out of the above is the need for an integrated research, production, processing, marketing, and export strategy in terms of an action plan which addresses goals and objectives, funding and investment priorities, and sequencing of events. This will require high level GOU leadership including assigning roles to the several ministries and private organizations involved in supporting the food crop sector from research through to and including exports. With a coherent GOU agricultural growth strategy and an articulated program involving key government institutions and the private sector it will be possible to promote coordination (partnership) among the government, the donor community and the private sector.

6. <u>Mechanisms of Import Procurement</u>

The ANEPP dollars to be used for the importation of output increasing technology and export marketing requirements will be channelled through a "USAID Trade Promotion Credit", to be operated by the Bank of Uganda. Only private sector importers will qualify for these funds. Included in the definition of the private sector will be the Uganda Central Co-operative Union (UCCU). Approved importers will be required to obtain an import license, which will be automatic, once the BOU Foreign Exchange Allocation Committee has approved the request for foreign exchange.

Import licenses will be automatically approved when the Bank of Uganda confirms that sufficient ANEPP funds remain uncommitted to finance the proposed import of an eligible item by an eligible importer. Upon approval of the import license the private importer will deposit 100% of the local currency equivalent of the dollar value of the transaction in a Special Account which will be maintained by the Bank of Uganda.

Import duties will be assessed on ANEPP financed imports on the basis of the GOU customs duty schedule to ensure ANEPP imports generate government revenue and that qualified importers do not receive an unearned price advantage from the USAID grant. USAID will review the duty schedule with appropriate GOU authorities to confirm that rates do not discourage investment in output increasing technology, or the export trade. Import duties will not be financed by USAID. They will be paid by the private sector importers themselves.

Under a PIL and a commodity procurement instruction, USAID and the GOU will agree to restrictions on the types of commodities to be imported. Approved examples include:

- high analysis, specific nutrient fertilizers to standardize fertilizer imports to the degree practical and to reduce the dollar cost per kilo of nutrient imported;

- non hybrid seed so that farmers can set aside planting material from their own harvests to reduce seed import (foreign exchange) dependence;

- restrict seed imports to cultivars that have been shown to be adaptable to local bio-physical conditions and prevailing agronomic practices and capabilities;

- source and grade of imports such as steel that are proven through previous experience in Uganda to be suitable for the local manufacture of hand tools and building materials;

- jute for the local manufacture of gunny bags for marketing purposes;

- items that other donor agencies and/or the GOU has not already made firm committments to finance or import;

D. Need For An Export Strategy

While the Government wants to diversify exports and promote nontraditional exports, there is not in place an articulated export strategy. The Government has, over the past year or so, placed a great deal of emphasis on barter trade to increase exports. But problems have been experienced, not least of which has been the inability to deliver commodities under existing protocols and agreements. Also, barter deals do not generate foreign exchange but rather, potentially, foreign exchange "savings". But it is not clear if the terms of trade (implicit prices) are in fact always to Uganda's advantage.

The recent enthusiasm for barter deals has, however, diverted attention from the prospects for conventional, commercial trade in nontraditional exports and the requirements for a coherent, operational export strategy. This program attempts to reverse this trend.

E. Requirements of an Export Strategy

A coherent agricultural export strategy requires knowledge of Uganda's productive base and the country's ability to generate exportable surpluses of nontraditional exports. An export strategy also requires knowledge of external markets in terms of quantities, qualities, delivery requirements and prices. To include a potential export in a medium term export strategy requires that the export price covers production and marketing costs and provides sufficient remuneration to producers, marketing agents, and exporters. Incentives must exist or be created and maintained in the production and trade of exportables.

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While trade can link domestic producers with foreign importers, the linkages required by a comprehensive export strategy are more complex. Which crops should be the focus over the medium term? How much increased production must be realized over time to satisfy domestic demands for consumption and trade? Can these requirements be met, and production capacity sufficiently increased to make export promotion viable? What are realistic production targets and what resources (domestic and imported) will be needed to achieve the production targets? What production strategy is consistent with the country's macroeconomic circumstances, and the financial and managerial capabilities (and experience) of present day producers? What policies and investments are required to ensure the marketing system can handle increased volumes in an efficient or cost-effective manner?

An export strategy will require analysis and planning on several fronts in terms of resource requirements, incentives, and policy formulation; identifying and selecting external markets; production targets to satisfy domestic requirements, plus export levels; improvements in marketing capacity and efficiency and improved export procedures and arrangements.

Positive agricultural growth policies can create the environment, or structure of incentives necessary to stimulate efficient increases in production, marketing and export trade. In the final analysis the aim should be to enhance Uganda's comparative advantage in the production of selected agricultural crops, plus improve the country's export competitiveness.

Given current and projected foreign exchange supplies and the country's revenue earning prospects in the intermediate term, the policy framework to support an export strategy should not include subsidies or preferential (below cost) arrangements for either producers, marketing agents or exporters. The Government will, however, have to make continued progress in eliminating present economic distortions -- inflation, an excessive budget deficit, a growth in money supply not supported by output, and the overvalued exchange rate. Unless these imbalances or distortions are greatly reduced, short term increases in agricultural production and formal trade of nontraditional exports cannot be achieved, let alone further expanded and sustained.

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F. Criteria for Selection of Crops for Export Promotion.

Uganda should only include in an export strategy those crops in which it has a comparative advantage in both production and trade. Its comparative advantage will be a function of physical input/output relationships, production and marketing costs and the prices regional and/or international markets have to offer.

To evaluate the returns that can potentially be earned from nontraditional exports we have quantified Uganda's potential "export competitiveness" for four nontraditional exports, plus that of robusta coffee.

1. Analysis of Uganda's Export Competitiveness.

An export competitiveness model was formulated to quantify the tradeable (import) and non-tradable (domestic) costs involved in production and domestic marketing, plus transport costs to the Kenyan port of Mombasa. Present-day average production technology (cost and output structure) is assumed as reflected by crop yield, input useage and labor requirements per hectare. In addition, family labor is valued at its estimated opportunity cost -- what it would earn in the production of the most financially rewarding alternative crop. Export parity prices (the price of the commodity if it were sold in the international market) are used to value outputs.

The model indicates whether or not total revenue from export at international parity prices is sufficient to cover production and marketing costs and to what extent "excess profits" (revenues above costs) can be generated.

Resulting international value added is then estimated (export value less the cost of imported inputs in production and marketing). An Export Competitiveness Coefficient (domestic costs divided by international value added) is calculated. The coefficient indicates the number of shillings required to earn one dollar of export revenue in the production and export of a given crop. Coefficients which are less than or equal to the exchange rate indicate that Uganda has, given assumed cost-price relationships and the prevailing exchange rate, competitiveness in the export of that commodity.

The degree to which a crop is export competitive is measured by an Index of Competitiveness which is the ratio of the current exchange rate to the competitiveness coefficient. Ratios over 100 indicate the degree of export competitiveness, and the extent to which returns over full production and marketing costs are likely to be generated.

2. Export Parity Prices.

We have used Uganda's traditional export crop, coffee, as a baseline model to compare the country's potential competitiveness in nontraditional exports.

The coffee model illustrates that Uganda achieves not only export competitiveness from its traditional export but earns a great deal of export tax revenue. At the new producer price (announced in February 1988), of Ush 54 per kilo, and a FOB Mombasa price of $2.30 per kilo, the government, through the Coffee Marketing Board, earns a tax revenue of Ush 58 shillings per kilo for the Treasury.

3. Prices Prevailing in Selected Regional Markets.

The export competitiveness models for the five illustrative nontraditional export crops demonstrate that none are competitive at current international prices (measured in terms of export parity) and at the present overvalued exchange rate. As Table 1 shows, sesame and beans are most competitive while the current exchange rate and/or world prices would have to change greatly for maize and groundnuts to be competitive at current per hectare yields. With only a moderate adjustment in the exchange rate sesame and beans could become competitive exports.

For maize and groundnuts to be competitive, the export parity price would have to be $0.36/Kg and $0.70/Kg respectively at the present exchange rate which is two to three times the current world price. On the other hand, at present world prices the exchange rates required to achieve export competitiveness would have to be Ush.925 and Ush.268, respectively. For maize and groundnuts to achieve export competitiveness clearly both production and marketing efficiency will need to be improved.

4. Need for Ongoing Analysis.

Export competitiveness is dependent upon the following variables -- export price, cost and returns (efficiency) at the production and marketing levels, the exchange rate and the underlying production function (technology) involved in production.

In terms of production technology the analysis clearly illustrates the need to identify profitable output (yield) increasing technology which can result in decreasing costs per unit of output, and increasing international value added per unit of output. As explained in another section we believe these results can be achieved by appropriate imported inputs coupled with improved institutional support and price policies.

Another conclusion that can be drawn from the analysis is the short term requirement to direct exports to markets that can offer the highest prices. It should be kept in mind that our analysis has forced Uganda to pay freight costs to Mombasa -- relevant for Middle Eastern and European markets if commodities are sold FOB Mombasa. However, in the case of regional markets (Eastern Zaire, Western Kenya and Kigali, Rwanda for example) export prices are higher as a function of prevailing supply and demand and conditions and higher C.I.F. costs reflected by alternative imports through, say, Mombasa to those destinations.

It is an established fact that Ugandan beans have an excellent market in Rwanda. Also, the market price of groundnuts in Kigali makes this uncompetitive product in the world market potentially competitive on a regional basis. The same could hold for maize as the prevailing market price in Kigali is $0.40/Kg. Thus, in the short to intermediate term we believe intraregional trade (regional markets) will offer Uganda the most attractive export prices for many nontraditional exports.

It is also clear, however, that an adjustment in the exchange rate will be required to achieve export competitiveness of nontraditional exports. Since the GOU established a fixed exchange rate which is periodically adjusted, the next adjustment must take into account the rate of domestic inflation if export competitiveness is to be sustained for any length of time without frequent adjustments in the exchange rate. Of course the underlying macroeconomic imbalances responsible for strong inflationary pressures in the economy must also be addressed to sustain an adjusted exchange rate, and bring inflation under control. However, the proposed Export/Import Scheme described in Section II-D overcomes in the shortrun the constraint imposed by the present overvalued exchange rate.

5. Export Competitiveness Calculations

An overview of how the model was developed and the individual crop export competitiveness models are presented in Annex B.

PROGRAM ELEMENTS

A. Introduction

The program elements described below in support of expanding Uganda's export base are: (1) a technical assistance project component; (2) a Commodity Import Component; and (3) the generation and programing of local currency. A proposed policy oriented Export/Import Scheme to stimulate private sector, formal channel exports has been described in Section II.

B. Technical Assistance Project Component

1. Background

There is little if any trade policy analysis and planning being carried out within the Government. A comprehensive, medium-term trade strategy and program to support nontraditional exports does not exist. Since the public sector is presently the dominant exporter and the Government of Uganda desires to increasingly involve the private sector in the non-coffee export trade, USAID proposes to focus TA resources on assisting the private sector to directly and indirectly expand its role in the export of nontraditional crops. In addition, the country's trade regime requires diversification and direction on the export side, and streamlining of administrative arrangements to encourage greater private sector trade through formal channels.

2. Institutional Strengthening

Several public sector entities are involved in trade resulting in not only a chaotic set of arrangements, but an unnecessarily bureaucratic process of approvals for foreign exchange and trade licenses.

To achieve a simplified, incentive oriented trade regime it is imperative that an evaluation be undertaken of the current process and that recommendations for both policy and institutional reform be made in the near future. In addition, it is also clear that an export strategy and program are required supported by analysis, policy reform and appropriate institutional change.

It is proposed that part of the ANEPP foreign exchange and local currency generations be used to fund technical assistance to strengthen institutional and private sector capabilities in the area of export trade analysis and promotion. More specifically, it is proposed that USAID assist the GOU in the following areas:

(1) Establish within 4 months an Export Trade Policy Analysis and Monitoring Unit within the Ministry of Planning and Economic Development (MPED), headed by a senior Ugandan Economist and staff of not less than two other economists and two statisticians, supported by a program funded trade economist;

(2) Undertake within the immediate future an analysis of export opportunities to identify markets for nontraditional exports within the East African region and high potential European and Middle Eastern markets;

(3) Assist the GOU in the formulation of an Export Strategy and supporting program to increase private sector, nontraditional exports based upon the analysis of export markets, export competitiveness and requirements for domestic consumption;

(4) Devise within 12 months of establishing the Export Trade Policy Analysis and Monitoring Unit, based on production possibilities, export competitiveness and external market demand, a strategy to increase the production and marketing of selected nontraditional export crops, including applied agronomic research priorities over the intermediate term; and

(5) Estimate the annual requirements for imported inputs for production and export of targeted nontraditional exports (in terms of items, quantities and foreign exchange requirements).

3. Export Promotion

Before a meaningful and operational export strategy can be formulated, policy makers and private sector exporters need to know more about (a) potential export markets and their requirements; (b) the degree to which Uganda has and can increase export surpluses; and (c) the extent and for which crops Uganda can export competitively. Thus, analytical studies will be required in the following areas:

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- identification of national consumption requirements and projected export surpluses on a crop-by-crop basis;

- potential and strategy to increase the production of competitive, nontraditional exports;

- level of demand for selected nontraditional exports in regional and international markets including prevailing and projected prices in the importing country;

- estimated export competitiveness (profitability) on a crop-by-crop basis, including the projected dynamics;

- definition of the policy environment necessary to create financial incentives to stimulate the production, internal marketing and export of selected targeted exportables;

- costs and benefits, including net FX earnings, that can be realized by the private sector over the intermediate term under a nontraditional export strategy;

In addition, since the private sector has not been involved in the formal export trade (as opposed to informal border trade) there is a need to provide assistance to improve its operational effectiveness in markets outside the East African region. Planned areas of assistance include:

- effective means to operate in noneregional export markets;

- techniques to publicize Ugandan exports;

- methods to test export markets in terms of receptive to Ugandan products, marketing standards and price offers;

- marketing requirements in terms of packaging, standards and product presentation in selected high potential export markets;

- knowledge of seasonal demand and variations in prevailing prices in European and Middle Eastern markets, and how to take advantage of seasonality in the export trade.

4. Technical Assistance

a) Long-term

We envision the need to finance a long term (over two years) agricultural trade economist to be assigned to the Trade Policy Analysis and Monitoring Unit within MPED to assist the Unit to undertake trade policy analysis and formulate a comprehensive export strategy and program for increasing private sector nontraditional exports. The strategy will identify and justify exports to be promoted, and the external markets that should be focused upon in the short and intermediate term. The trade economist in collaboration with Ugandan economists and policy makers, and with the assistance of short-term technical assistance, will review and analyze the current export regime with the aim of formulating proposed trade policy reforms and recommendations for simplifying export and import procedures

The trade economist will also professionally interact with the Ugandan Export Promotion Council and other private sector trade and business associations to acquire knowledge of internal and export trade practices and functional constraints with the aim to identify types of short-term technical assistance and training to be provided under the ANEPP grant to improve capabilities within the private trade. This interaction will also serve a useful role in assessing trade policies and arrangements with the objective of formulating and proposing trade policy reforms and/or adjustments in regulations that could facilitate increasing nontraditional exports by the private sector.

b) Short-term Consultancies and Training

Funds will be provided by the ANEPP grant to provide short-term technical assistance and training to private sector exporters and importers. It is envisioned that most of the short-term technical assistance and training funds will be used to support private sector exporters. The type of support envisioned would include:

- market surveys to identify major external markets, including within each, demand, price, grades and standards, seasonal prices, variations, etc.;

- collection and dissemination of market/trade intelligence data;

- seminars and workshops on opportunities in selected export markets, export procedures and requirements, and methods to publicize and promote Ugandan exports;

- advisory services on packaging, quality control, export pricing and financing; and

- specialized technical assistance as may be required to break into new export markets, and/or the specialized requirements for the export of high value, perishable commodities.

C. <u>Import Financing</u>

1. <u>Background</u>

It is proposed that the ANEPP will finance $12.5 million of imports through the Bank of Uganda as a USAID Export Promotion Credit. The USAID grant will increase the private sector's access to foreign exchange, and ensure greater availability of foreign exchange to finance critically needed imports to support the increased production and marketable surpluses of agricultural commodities which will lead to increases in nontraditional exports.

2. <u>Commodity Import Program</u>

The case for a C.I.P. is threefold. First, It is a mechanism to make foreign exchange available for the expansion of nontraditional exports by providing foreign exchange to finance selected imports to stimulate agricultural production. Second, a Commodity Import Program will not greatly increase the management burden of A.I.D. since it largely transfers foreign exchange allocation and commodity procurement responsibilities to Ugandan entities, thereby institutionalizing this component of the program and helping to ensure sustainability. And third, a C.I.P. will increase the availability of foreign exchange to the private sector for productive uses, in line with the goals and objectives of the GOU's Rehabilitation and Development Plan (recovery program).

The procedures to be followed by the private sector to access the foreign exchange will be similar to that used by the Bank of Uganda under the (limited) Open General License System (OGL). The OGL, for which the IBRD provides the foreign exchange under an existing Structural Adjustment Loan (policy based credit), is presently restricted to twenty-two industrial firms. Eligible firms apply to the BOU for foreign exchange to import raw materials, intermediate goods, equipment and/or spare parts required to increase firm output. The application for foreign exchange is reviewed by the BOU and if approved the applying firm is automatically granted an import license by the Ministry of Commerce (MC). Once the importer receives an import license, the importer arranges for the necessary Letter of Credit from its bank, deposits local cover and then follows normal commercial banking procedures to finance eligible imports.

The same administrative procedure will be adopted under the USAID Trade Promotion Unit to expedite foreign exchange allocation, issuance of import licenses and to undertake normal commercial banking procedures required to finance eligible imports. The USAID Trade Promotion Credit (dollars) will not be co-mingled with the OGL. Rather administrative procedures to be followed will operate along side the OGL which has been operational since January 1988. A IBRD TA Team has recently evaluated operational procedures under the OGL, and as a result of the evaluation, the IBRD has agreed to disburse, through the OGL, the second tranche of its foreign exchange credit.

3. Private Sector Importers

The private sector will have exclusive access to the USAID Trade Promotion Credit. Included are firms or individuals registered as "importers" by the Ministry of Commerce, including the Ugandan Central Cooperative Union (UCCU). UCCU is to be included as an eligible importer as it is the major distributor of agricultural inputs in Uganda today.

4. Approved Uses

To be eligible for the A.I.D. financed line of credit, importers must import seasonal inputs (seeds, fertilizers) in demand by farmers; intermediate goods such as steel for domestic manufacturer of farm tools, jute for the local manufacture of jute bags, and/or packaging materials used by marketing and export agents and/or firms.

D. Local Currency Generations

1. Programing Principles

The foreign exchange made available to importers (approx. $12.5 million) will generate Uganda Shillings at the highest legal exchange rate prevailing in the economy at the time import licenses are issued. The local currency will be deposited into a Special Account in the Bank of Uganda.

All local currency generated by the ANEPP grant will be mutually programed by the Ministry of Planning and Economic Development (MPED) and USAID in support of the Non-traditional Agricultural Export Sector. The following principles will guide the programing of the generated funds. Projects and/or activities will be funded that promote:

- increased production of existing, or potentially new, nontraditional exports;

- efficient internal marketing of nontraditional exports;

- local cost of training and short-term technical assistance to private exporters and trade associations organized to promote increased nontraditional exports;

- applied research on high value (including perishable) nontraditional exports, not excluding fresh fruits and vegetables and flowers;

- the first year recurrent expenditure of the Trade Policy Analysis and Monitoring Unit;

- partial funding of USAID operating expenses for FY 1989.

2. Management of Local Currency Generations

ANEPP local currency generations, like other local currency funding by USAID/Kampala, will be dispensed by projects. Many of the local currency projects to be funded are underway and relate to increasing agricultural production and nontraditional exports. New projects to be funded will be directed to the same aim. For ANEPP generations, as is the case for current local currency programing each project will be approved by the MPED (after being reviewed by its economists) and by USAID (after being reviewed by the appropriate technical officers, the TCN Local Currency Accountant and the Program Officer). Due to the current rate of inflation, project LOP is limited to one year; i.e., the local currency generated by the ANEPP grant will also be disbursed well within 12 months after initial receipt of funds. As is the case with other USAID local currency programing, the shillings generated under this program will be made available to individual projects on a quarterly basis after quarterly implementation reports are reviewed by both the MPED and USAID. The quarterly report process has proven very effective in accounting for local currency and project progress. After the initial tranche of funds, a project bank statement is required before subsequent tranches are disbursed. During implementation, the TCN Accountant periodically inspects book-keeping methods and efficiency for each project receiving local currency funding. The Program Officer and the USAID technical Officers (in the case of ANEPP, the Project Development Officer, USAID economists, and/or the Agricultural Officer as appropriate) will visit project sites to assess and compare work actually completed with that reported to have been accomplished in the project quarterly report.

Since the expenditure of local currency will be focused towards projects and activities, many of which are on-going but which require additional local currency funding, USAID does not believe that managing and monitoring them will place an undue burden on the USAID staff.

3. Local Currency Budget

A local currency budget reflecting the above programing principles will be developed within three months of signing the ANEPP agreement.

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4. Other Considerations

Aside from funding USAID projects and secondly other donor projects or activities that are consistent with the above mentioned programing principles USAID will, as appropriate, consider supporting discrete line items in the GOU Rehabilitation and Development Plan (and consequently the budget) that are directly related to public sector activities which foster the production and marketing of nontraditional exports.

USAID will through a formal Project Implementation Letter establish in collaboration with the MPED, the programing principles to be followed during the mutual programing of shillings generated by the C.I.P. program.

E. Projected Dollar Budget

A. Technical Assistance Project:	YR-1	YR-2	TOTAL
Long-term Trade Economist (Salary, benefits, allowances travel & transportation backstopping & overhead)	221,875	228,590	430,465
Short-term Consultants (16 person months)	264,375	160,775	390,150
Office Support (vehicle, computers office equipment, expendable supplies)	32,050	32,300	74,350
Audit/Evaluation	-	90,000	90,000
Other Costs (Training, Conferences, Housing Costs)	265,000	170,000	400,000
Inflation & Contingency	76,700	38,335	115,035
Subtotal	900,000	600,000	1,500,000
B. Commodity Import Program:	12,500,000	-	12,500,000
C. TOTAL	13,400,000	600,000	14,000,000

For a more detailed dollar budget see Annex E.

VI. CONDITIONALITY AND COVENANTS

A. Introduction

DFA-funded non project assistance requires the identification and description of the policy and institutional constraints that inhibit the attainment of program policy objectives, and of the reforms needed to achieve the desired outcome. The latter become the conditionality associated with the ANEPP grant to the GOU.

B. Commodity Import Program

The CIP component will the GOU facilitate and support specific policy reforms to enhance private sector trade -- incentives to increase formal nontraditional exports, and will increase availability of foreign exchange to finance imported inputs required to . substantially increase the production of crops in which Uganda has both a comparative advantage and demonstrated export competitiveness.

On export-side, conditionality addresses current constraints associated with the exchange rate regime, private sector exports and institutional constraints associated with export licensing procedures.

On import-side, conditionality addresses the problems associated with the private sector's limited access to foreign exchange, plus bureaucratic delays associated with foreign exchange approval and import licensing procedures.

The proposed specific policy and institutional reforms necessary to increase formal trade in nontraditional exports and the import requirements to support agricultural growth are outlined below as the conditionality associated with the program. It is proposed that the CIP component be disbursed via two distinct tranches of $4.5 million and $8.0 million based upon policy actions undertaken by the GOU.

(1). Condition Precedent to Initial Disbursement:

Prior to the disbursement of the first $5,000,000 tranche of foreign exchange for the commodity import component, the grantee shall provide to A.I.D. in form and substance satisfactory to A.I.D.

(a) evidence that the Grantee will review exchange rate policy in consultation with the IMF to establish an exchange rate regime that will guide the growth of the economy and overcome existing macroeconomic balances and that it will adjust the official exchange rate and/or formulate an exchange rate regime, as required, to create incentives to substantially increase formal, private sector exports of non-traditional commodities in which Uganda has a comparative advantage;

(Note: The signing of the 1988 SAF with the IMF will satisfy this condition.)

(b) as an interim measure and until a new foreign exchange regime has demonstrated that it will enhance formal, private sector exports, evidence that the Grantee will permit the private sector to export non-traditional commodities and, in turn, immediately receive an export license of equivalent value;

(Note: A public announcement in the press of this arrangement in not less than three newspapers (of which one is a Luganda language paper) and on Uganda T.V. will satisfy this condition.)

(c) evidence that the Grantee has established a "USAID Trade Promotion Credit" within the Bank of Uganda to finance import agricultural inputs under the CIP Component in demand by producers of non-traditional exports, and/or the imported items required by the private sector marketing agents and exporters to facilitate efficient procurement assembly and export;

(d) evidence that the Grantee has streamlined it application and approval procedures for the USAID Trade Promotion Credit to ensure that each tranche of foreign exchange is disbursed within 4-5 months.

(Note: the following actions would satisfy this condition: evidence that qualifying private sector importers (including the UCCU) will need only to submit an application for foreign exchange, identify the intended recipients of imported items, describe their capacity to distribute imported inputs to rural areas, deposit the local currency equivalent to allocated foreign exchange in the ANEPP Special account at the time of receiving an import lincense.

(2). Covenants:

The grantee shall covenant, unless A.I.D. otherwise agrees in writing, that

(a) to ensure that A.I.D. funds are quick disbursing, the Bank of Uganda shall convene a foreign exchange Allocation Committee every two weeks until the committed and undisbursed ANEPP line of crediting is exhausted;

(b) it shall reduce Produce Marketing Board participation in the commercial trade of non-traditional exports to allow the private sector to demonstrate its capacity in export trade, and, if the private sector demonstrates such capacity, it shall eliminate the role of the Produce Marketing Board in commercial export trade.

C. Negotiating Status

Conceptually the proposed ANEPP trade initiative dates back to the GOU's first Policy Framework Paper (PFP) when the government stated its intention to expand "nontraditional exports". This was a goal statement not supported with a strategy and program to achieve the desired aim. The recognition of this fact led USAID to carve out trade policy as a new area of potential involvement. Initial discussions with senior GOU officials supported this interest and we were encouraged to develop a proposal. This led to the initial program proposal -- the AEPRP Program Assistance Identification Document (PAIP) submitted to AID/W on September 25, 1987.

The ECPR and a subsequent visit to Kampala by the Africa Bureau's Senior Economist reshaped our thrust. Mainly, a move away from linking the program with the Preferential Trade Area, plus more focused attention to the macro-economic distortions impeding external trade.

Subsequent policy dialogue coupled with our own more indepth analysis led to a program design and policy reform matrix as reflected in this Program Assistance Approval Document (PAAD). The ultimate design was undertaken in close consultation with Senior GOU officials -- the Permanent Secretary of Planning, the Minister of Finance and ultimately the Minister of Planning and Economic Development.

Between the submission of the PAIP and the ultimate design of the PAAD, extensive policy dialogue was undertaken with key GOU officials. Two key USAID proposals, the opening up of nontraditional exports to the private sector combined with the "Export-Import Scheme", were debated over several months at the Ministerial level and accepted. The retention of export earnings for imports by the private sector is so significant a policy change it had to be cleared by the President -- and was so approved. The GOU is currently in the process of fully implementing the scheme. The significance of such a new GOU trade policy is quite far-reaching. In brief, it is an important recognition of the need to liberalize the trade regime by giving the private sector, as opposed to government parastatals, the major role in external trade. It also is a direct recognition that exports, government revenue and imports cannot be increased with a overvalued exchange rate and an economy which operates at the parallel rate.

The proposed conditionally for both the first and second disbursement of ANEPP funds have been fully discussed, negotiated and accepted by the Minister of Finance -- the most senior GOU official responsible for economic policy and policy reform in the government today. It should be noted that the commitment of the Minister to add $5 million of the GOU's foreign exchange to the program is both a clear signal of the importance given to our trade proposals, and also the seriousness of the GOU in supporting the Program. We know of no other donor activity which is similarly co-financed by the Government.

VII. IMPLEMENTATION ANALYSES/ARRANGEMENTS

A. GOU Implementing Entities

1. Introduction

The program consists of three types of activities including the enactment and implementation of trade policy reforms and development of an improved trade regime including new organizational arrangements, the importation of agricultural inputs and intermediate goods, and the use of local currency generations to stimulate private sector investment in expanding the production, marketing and e port of nontraditional export crops. Within the GOU the authorized representative for the program will be the Minister of Planning and Economic Development, or his designee.

2. Ministry of Planning and Economic Development (MPED)

The Ministry of Planning and Economic Development will be the lead GOU entity in the overall implementation of this program. The Director of the Trade Policy Analysis and Monitoring Unit will report directly to the Permanent Secretary of Planning. This Unit will consist of, at a minimum, the following MPED staff: 1 senior economist (Director), 2 staff economists, 2 statisticians, and 2 secretaries.

In addition, the Unit will obtain the long-term technical assistance of a Trade Economist (two person years) who in collaboration with Ugandan professional staff will undertake specific studies and analyses to evaluate present trade policy, export market opportunities, exportable supplies and export competitiveness with the aim to formulate and recommend policies, strategies and programs which will support and encourage increased nontraditional exports within the short to intermediate term.

The trade advisor will report directly to the Director of the Unit who will be the official spokesperson for the GOU in its contacts with AID and in the implementation of the program.

There is within MPED sufficient space to house the new Trade Unit. Also, the MPED currently has, or can recruit within the civil service, well trained economists, statisticians and secretaries to establish an operationally effective trade policy analysis capability.

The Unit will require commodity support including office desks (9) and chairs (18), computers/word processors (4), printers (2), copy machine (1), file cabinets (4), conference table and chairs (12), one intercity sedan (1) , as well as office supplies such as paper, computer paper, toner, computer disks, pens, etc. Equipment and office supplies will be financed with AID grant funds, or counterpart funds depending upon relative costs and local availability.

3. Ministry of Commerce (MC)

Within the Ministry of Commerce, the Commissioner for External Trade is responsible for import and export licensing, international trade agreements, barter trade, research and planning and export promotion. A R&D Division has to date not been established, and no department has been set-up to deal with export promotion. The ministry is also responsible for Barter Trade arrangements, and supervising parastatals involved in exports.

4. Bank of Uganda (BOU)

The Bank of Uganda, implements the Open General License (OGL) system. The OGL is supported by foreign exchange under the IBRD Economic Recovery Credit. The BOU allocates foreign exchange to private sector importers who through application have substantiated a foreign exchange requirement and have satisfied the conditions required by the OGL. The BOU does not set OGL policy, nor does it issue import licenses (the Ministry of Commerces' role). The BOU receives applications for foreign exchange under the OGL from eligible private sector entities, to date twenty-two industrial firms.

While there was initially slow disbursement under the OGL due to attempts of the BOU to 'micro-manage' foreign exchange applicants the problem now appears to have been resolved. As a result of a recent assessment of the OGL by the IBRD, the second tranche under the Structural Adjustment Loan has been released.

The ANEPP CIP component, the "USAID Trade Promotion Credit", will be administered by the Foreign Exchange Allocation Committee of the BOU.

5. Ministry of Finance (MFIN)

The Ministry of Finances' role will be to receive the import duties assessed on EPRP financed imports. In addition, local currency generations mutually programmed with the MPED for development activities will be included as line items in the GOU Development Budget by the Ministry of Finance (MFIN).

B. Private Sector Importers

Under the ANEPP C.I.P. component all participating importers must be wholly owned private sector entities. This includes the private sector cooperative movement, but not the Ministry of Cooperatives. These entities must be registered as importers with the Ministry of Commerce and must have demonstrated individual capacity to effectively import and efficiently sell or distribute agricultural inputs. Each participating importer will be required to deposit into the NEAPP Special Account maintained by the Bank of Uganda, an amount in shillings equivalent to the dollar amount requested for importation, under the USAID Trade Promotion Credit.

At the present time, there are a number of private sector importers that can meet the above mentioned criteria. In fact, in 1986 about 20 of these firms imported approximately $ 15 million worth of agricultural commodities. These same importers could have handled significantly larger imported volumes had larger sums of foreign exchange been available through the banking system.

The market will determine how much of each item will be imported and ultimately distributed within the country. The agricultural input needs of farmers who produce nontraditional export crops are provided in the list of eligible items to be financed by an ANEPP C.I.P. Private sector importers will decide the type and quantities of eligible items to be imported under the program. Since the C.I.P. will not specify amounts of money allotted to each commodity-type, the qualifying importers may select any qualifying item in any amount. It is thus envisioned that there will be several importers importing a given qualifying item. The relationship between the importer/wholesaler and the potential buyer will dictate where and to whom the imported items are sold.

It is probable that the Uganda Cooperative Union (UCCU) will be the principle importer of seeds and fertilizers, however, other importers will be encouraged to import under the program, to create competition with the UCCU and possibly to provide a wider geographic distribution of imported agricultural inputs. To the extent that jute and steel are imported by the local firms manufacturing bags and hand tools, the local firms will be direct importers.

U.S.A.I.D.

1. Program Economist

After a 2-3 month start-up period, the Program Economist will turnover program management responsibilities to the designated PDO, expected to arrive at post July 1, 1988.

The Program Economist will, however, be responsible for substantive professional inputs during the implementation of the EPRP. Among such responsibilities, he will actively participate in the six- and twelve-month program reviews jointly conducted by the GOU and A.I.D. as required by covenant. In addition, he participates in the GOU/A.I.D. reviews of the studies carried out by the Trade Policy Analysis and Monitoring Unit (TPAMU).

2. Project Development Officer

The overall program implementation and monitoring responsibility within USAID will be assigned to the Project Development Officer (PDO). The Project Development Officer will liaise with the Director of the Trade Policy Analysis and Monitoring Unit. The PDO will (1) review documentation submitted by GOU agencies to satisfy conditions precedent and covenants, (2) draft appropriate responses, (3) obtain clearance of appropriate AID staff including the RLA, (4) draft appropriate communications for the signature of the USAID Director, and (5) undertake final distribution to GOU, RLA, and AID/W. This individual will also manage the process to obtain and support long and short term technical assistance, including the drafting, issuing of a PIO/T's, request for proposals, announcements for publications, coordinating the selection team in the selection of an institutional contract, and finally serving as AID's liaison officer with the technical assistance team.

For implementation of the C.I.P. component of the program the PDO will have the assistance of the REDSO Regional Commodity Management Officer to draft PIL's, commodity procurement instructions, financing requests, other program documentation and to provide advice to importers, commercial banks, and the Bank of Uganda.

3. Program Officer

The overall monitoring of the status of local currency

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financed development activities identified in this document will be the responsibility of the USAID Program Officer. Utilizing the selection, processing, and monitoring system established for the USAID FY 87 PL 480 Title II program, the Program Officer in collaboration with the Chief of Donor Coordination, MPED will receive, review and approve individual shilling proposals that meet the guidelines given in this PAAD. In addition, the Program Officer will review all quarterly reports by users of the local currency development funds.

The accounting for the use of local currencies will be the responsibility of a USAID PSC Accountant under the supervision of the Program Officer. This individual has already set up and is using an AID approved accounting system to monitor PL 480 local currency uses as well as for local currencies generated under two on-going projects (617-0102 Food Production and Support and 617-0108 Rural Economic Recovery). The Accountant will prepare monthly balance sheets showing NEAPP shilling generations and draw-downs by activity.

D. Implementation Plan

1. Conditions Precedent to disbursement for the Technical Assistance component ($ 1.5 million).

As currently planned this PAAD will be forwarded to AID/W by the first week of May, 1988. Assuming AID Washington review and approval by May 30, 1988 and a simultaneous CN expiration date and receipt of allotment of funds by June 30, the Mission anticipates that the ANEPP Agreement could be signed with the GOU as early as July 15, 1988. The GOU will be given 15 calendar days to meet the initial Conditions Precedent to disbursement (i.e authorized signatures and legal opinion). This short time frame should be sufficient since the AID Program Economist will work together with the two responsible GOU agencies prior to the signing of the agreement. It is anticipated that the Mission and the RLA can approve these two CPs within a two-week time frame.

Once the two initial CPs have been met, the process for contracting technical assistance and logistical support for the Trade Policy Analysis and Monitoring Unit can begin in earnest. However, even prior to signing the ANEPP Agreement a draft PIO/T for an institutional contract to provide all necessary long and short term technical assistance, and all commodities necessary to establish and operate the Trade Policy Analysis and Monitoring Unit in the MPED will be prepared. Based on the PIO/T, a RFP will be prepared and a notice will be placed in the CBD of USAID/Kampala's intent to contract, subject to availability of funds, requiring all interested parties to provide USAID/Kampala with an expression of interest. The request for a CBD notice will be sent to AID/W when the PAAD is approved (May 30, 1988) and all expressions of interest would be received by the date the GOU meets the initial conditions precedent to disbursement (July 15, 1988). After satisfying the CP's, the Mission will send finalized RFPs to the interested firms as well as announce the issuance of the RFP in the CBD. Within 45 calendar days (by September 1, 1988) all proposals must be received by AID/Kampala and a proposed ranking and final selection by AID and the GOU would be made by September 15, 1988. At this point, the Regional Contracts Officer in Nairobi will begin the negotiation process with the top firms in the competitive range, hopefully signing a contract, by October 1, 1988 with the aim to have the long term trade advisor in country during November 1988, the imported office support commodities to arrive during January or February 1989.

In accordance with a proposed covenant, the Ministry of Planning and Economic Development must set up a Trade Policy Analysis and Monitoring Unit within its Ministry within four months of signing the Agreement, or by November 15, 1988. This action will include the selection of a Director, two economists, two statisticians, and two secretaries. Also, the MPED must locate and prepare adequate office space for this Unit consisting of separate offices for the Director and the Trade Economist, adequate space for two additional economists, two statisticians and computer facilities, space for two secretaries and photo-copying facilities, sufficient space for a combined modest library and conference/meeting room. The arrangements to locate appropriate office space will initiated out of the Permanent Secretary's office.

2. <u>Conditions Precedent to First Disbursement of the C.I.P. Component</u>.

The $ 12.5 million C.I.P. Component will be disbursed to the Central Bank in two tranches; the first being $ 4.5 million and the second one $ 5.0 million. In order to obtain the disbursement of the first tranche, the GOU must meet five conditions precedent. The Central Bank and the Ministry of Finance must each satisfy one condition and the Ministry of Commerce must address the other three. The time for meeting all five of these conditions will be sixty days from the signing of the agreement, or September 15, 1988. Although this is normally a very short time frame to satisfy conditions precedent, AID through its Program Economist will work closely with the appropriate GOU entities to insure that the conditions are met in a timely fashion.

a. Bank of Uganda: The central bank must establish a special account for the shilling deposits by the private sector importers wishing to utilize the EPRP foreign exchange. This is a standard type of action which the bank has undertaken for various other AID projects. Therefore, the Central Bank can open the required special account within 30 days.

b. Ministry of Finance: In order to meet a proposed condition precedent, the GOU must have reached agreement with IMF on a 1988 SAF. It is the Mission's understanding that the IMF will hold consultations on a Structural Adjustment Facility in May. It is anticipated that the consultations will result in a signed agreement in June or July of 1988. This being the case, the Minister of Finance will, on behalf of the GOU, meet the condition precedent within the 60 day time frame, or by September 15, 1988.

c. Ministry of Commerce: The Ministry of Commerce must satisfy three conditions within the stipulated sixty-day time frame. The three proposed conditions require the Ministry of Commerce to modify the current procedures and regulations governing exports and imports. These three changes include: (1) permit private sector to export nontraditional exports and immediately receive import licenses of equivalent value: (2) announce and implement the USAID Trade Promotion Credit which includes imported agricultural inputs and specified intermediate goods in demand by the producers of nontraditional exports and local manufacturing firms and/or imported items required by private sector marketing agents and exporters to facilitate efficient procurement, assembly and export trade, and 3) agreement to streamline foreign exchange approval operations within the BOU such that private sector importers need only submit along with their application information on intended recipients, a description of their capacity to distribute imported inputs to rural areas, plus deposit local cover in the EPRP special account at the time of receiving an import license. All conditions can be met by the Ministry of Commerce by officially publishing approved regulations and procedures associated with the C.I.P. component and export-import trade scheme. The approval authority lies with the Minister of Commerce and official publication can be an open letter from the Ministry of Commerce stating these changes in not less than two major English, and one major Luganda language newspaper, plus being announced on Television. Although an official national gazette does exist, it is an ineffective method of publishing these required changes since it may take up to a year to get the changed regulations printed.

3. <u>Conditions Precedent to the Second Disbursement of the C.I.P. Component</u>

Within six months after signing of the Agreement, the MPED must hold an initial formal meeting with AID to review the impact of the adjusted foreign exchange regime on nontraditional exports, the rate of disbursement and composition of financed commodity imports, and the operational effectiveness of the Trade Policy Analysis and Monitoring Unit (TPAMU).

4. <u>The Trade Policy Analysis and Monitoring Unit (TPAMU)</u>

Per proposed covenant, the Ministry of Planning and Economic Development must establish the TPAMU by November 15, 1988 in time for the arrival of the ANEPP financed Trade Economist. As its name implies, the Unit will have two basic tasks 1) trade policy analysis; and 2) program monitoring. Within the program implementation plan, the TPAMU will have overall responsibility for monitoring the use of the ANEPP funds. This Unit will receive monthly reports from both the central bank and the Ministry of Commerce regarding foreign exchange approvals, import license approvals, draw downs on the central bank's EPRP funds, record of imports financed, name of importers and shilling deposits into the ANEPP Special Account. AID will also receive on the same date reports on deposits into the special account.

The TPAMU will set up a computerized tracking network to identify the location of program resources, at any given time, and the quantity and types of commodities actually imported. It will also track compliance with AID Regulation 1 requirements (procurement is generally limited to free world sources under the DFA). This information will be provided to the Project Development Officer at USAID on a monthly basis in order to allow AID to monitor the C.I.P. component of program.

5. <u>Counterpart Contribution (local currency generations)</u>

The first tranche of dollar funds is estimated to be

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available for disbursement at the bank chosen by the BOU in the United States (via an A.I.D. Direct Letter of Commitment) around October 15, 1988. Ugandan private sector importers under the program must deposit an equivalent amount in Shillings with the central bank a the time an import license is issued. The exchange rate will be the highest legal rate prevailing at the time. The BOU will place these shillings into a special ANEPP account. This account will give first priority to financing local costs of development activities within the GOU budget to promote the purposes of this program as mutually agreed between the MPED and USAID. The local costs of the project and a share of USAID's local operating expenses will also be funded, the latter through deposit of not less than 10 percent of the L/C generations in the USAID Trust Fund account.

6. Monitoring and Evaluation Plan

a) Summary

USAID will monitor five types of program activities that will arise from this program grant. They include 1) enactment of trade policy reforms and other policy and institutional adjustments that are expected to impact on the trade of nontraditional exports; 2) the drawdown of ANEPP foreign exchange; 3) Shilling payments into the Special Account by importers taking advantage of the USAID Trade Promotion Credit within the Bank of Uganda; 4) the impact of Export/Import Scheme on the producers and marketing agents facilitating the planned increased volume of nontraditional exports; and 5) use of and impact from local currency generations.

b) Trade Policy Reforms

Through high level AID/GOU discussions USAID will keep abreast of GOU policies, programs, and institutional arrangements, including reforms, which impede or stimulate increases in nontraditional agricultural exports. Two semi-annual meetings have been formally scheduled to review trade policies, analysis undertaken by the Trade Policy Analysis and Monitoring Unit (TPAMU) and program status (see condition precedent to the second C.I.P. tranche). In addition, the Program Economist and/or the Mission Director may call for formal or informal discussions on the subject as appropriate with senior GOU policy makers in Ministry of Planning, Finance, Commerce and/or the Central Bank.

All such institutional and/or policy changes affecting trade will be recorded as program documentation. As appropriate, the Monitoring and Evaluation Plan will be adjusted to determine the impact of such changes on the production and trade of nontraditional exports.

c) Drawdown of ANEPP Foreign Exchange

The USAID Project Development Officer will monitor imports financed through the USAID Trade Promotion Credit (C.I.P.) administered by the Bank of Uganda. He/she will acquire monthly information on applications for foreign exchange, the issuance of import licenses, including the name and address of the importer, type and quantity of items imported, date of arrival of imports and the amount of duty collected by the Customs and Revenue Department. The data base from which this information will be generated will be collected, assembled and reported to USAID and relevant GOU departments by the Trade Policy Analysis and Monitoring Unit.

d) Shilling Payments into the Special Account

All importers participating in the USAID Trade Promotion Credit (C.I.P.) will be required upon issuance of an import license, to deposit into the Special Account maintained by the Bank of Uganda, the Shilling equivalent of 100% of the C.I.F. dollar value of the items to be imported. The Bank of Uganda will submit monthly statements of the Special Account to the TPAMU and USAID for the purpose of monitoring deposits. In addition, USAID and the MPED will mutually program the use of local currency generations (see VII, E, 5 Local Currency Generations).

e) Overall Economic Impact of Export/Import Scheme

The overall impact of the private sector Export/Import Scheme is expected to be both far reaching and somewhat complex. Consequently, it will be important to collect specific types of data to measure the impact of the Scheme on the important segments of society that are expected to directly benefit. The types of information to be collected in order to monitor and evaluate the Scheme are briefly described below.

(1) Measuring New Exports

Upon the introduction of the Export/Import Scheme, all export licenses will be recorded by the TPAMU. The increase in formal non-traditional export trade could come from two sources; (a) shifts in trade from the informal to the formal sector and (b) new exports. The primary objective of the program is to enhance new exports. Hence, to assess the full impact of the program, a baseline study of current informal trade would be highly desirable. An attempt will be made, via a pilot survey, to determine if a reliable study of informal trade can be undertaken. If the results warrant a fuller investigation such a study will be undertaken.

The record of nontraditional exports will be computerized by the TPAMU to include such information as the export license number, the date of export, (item(s) and quantity of the commodities exported, destination(s) of the export and the FOB and CIF value of the export item.

Such a record, maintained and up-dated at least monthly by the TPAMU, will be a precise record of the expansion of nontraditional exports and their importance in generating foreign exchange to finance imports. It will, with time, give a strong indication of the nature of Uganda's export markets, including external demand and the relative prices Ugandan exporters can receive on a commodity by commodity basis.

(2) Measuring Imports

As in the case of exports, the TPAMU will also collect, assemble and report on import licenses, which are issued and tied to export licenses. This will permit the TPAMU to determine directly the value and nature of imports financed by the Export/Import Scheme. Detailed information to be collected on imports will include the type of import, quantity imported, country source of the import and the number of the export license financing the import(s).

(3) Measuring Public Revenue

The TPAMU will also collect, against each import license and commodity imported, the custom duties assessed and paid by the importer in order to measure the extent to which the Export/Import Scheme generates revenue for the national Treasury.

(4) Measuring Impact On Farmers

The Export/Import Scheme is expected to create substantial incentives for private exporters and importers. An increasing volume of nontraditional exports will increase the demand for exportables within the agricultural sector and will consequently alter the structure of incentives in the rural sector. As marketing agents and exporters seekout and bid for exportable produce, farm gate prices can be expected to improve, increasing the incentives to produce such commodities for which exporters are finding profitable external markets. While important economic linkages are envisioned and various farm-level responses are expected to take place, it will be important to measure them (e.g., increasing effective demand generated by exporters, translated through rural markets, reflected in farm level prices, resulting in increased production and exports).

It will be important to attempt to measure the output, employment and income generaticn impacts of the Export/Import Scheme at the farm level. Once it becomes known what exports are being enhanced by the Scheme, in which geographic centers of production, it should be possible to conduct rapid rural appraisal surveys (or a similar, low cost survey methodology) to measure such effects. In addition, it should be possible to encourage the Agricultural Secretariat through the GOU Agricultural Policy Committee to collect data via ongoing rural survey work which will generate the type of time series data required to directly or indirectly measure the impact of increased nontraditional exports on farm level production, income and employment.

(5) Measuring Impacts on Internal Markets

Clearly as private sector exports increase, the structure, conduct and performance of rural markets can be expected to change. As marketable surpluses increase, as a result of increased demand for exports, marketing constraints will undoubtedly become apparent and new ones may develop. It will be important to monitor such conditions and developments and identify the most serious constraints to be tackled if incentives to increase production, marketing activities and exports are to be improved and sustained. Therefore, during the first year of the project, one key decision to be undertaken by the TPAMU will be to determine a cost-effective approach to monitor, identify and analyze marketing problems and issues with the view to identifying constraints and means to solve the problems that exist and are likely to arise in the internal marketing of nontraditional export commodities.

a) Use and Impact of Local Currency Generations

The USAID Program Officer will be the principle USAID Officer responsible for mutual programing, with the Ministry of Planning and Economic Development, of the local currency generations under this program. The Program Officer will monitor the uses and impact of local currency generations and will be assisted by USAID's PSC Accountant in carrying out these functions.

As is the case with other local currency generations, prior to receiving quarterly shilling allotments, sub-project grantees will submit quarterly reports to document project implementation progress and use of funds. The use of shilling funds will be tranched by the USAID/Kampala Program and Accounting Offices, and projects will receive spot check visits from the Program Officer.

b) Monitoring by the GOU

The GOU will also monitor the progress of the program. The Permanent Secretary within the Ministry of Planning and Economic Development will receive information from the TPAMU and the MPED Foreign Donor Coordination Department which will provide appropriate information and analysis for his discussions with USAID. The monitoring process within the TPAMU has been previously described.

A joint USAID/GOU program review prior to the disbursement of the second C.I.P. tranche serves as a formal evaluation tool. This internal evaluation will provide the basis for appropriate mid-course corrections. This review is currently scheduled for January 15, 1989 with a second review on July 15, 1989. Within a year following this formal review, a second and final program evaluation will be scheduled to verify the impact of the program.

6. <u>USAID Management and Staffing Implications</u>:

As stated previously, the USAID Project Development Officer will be the Program Manager of the ANEPP and will, in addition, specifically monitor the activities of the Trade Policy Analysis Unit and the disbursement and use of EPRP funds to finance imports. The Program Officer will be responsible for the selection and monitoring of local currency activities. A USAID Accountant will be responsible to provide cash flow tracking information.

In addition to reviewing analytical studies undertaken by the Trade Policy Analysis Unit and participating in the six month reviews of the program with the GOU the Assistant Director, who also serves as the Mission's Program Economist will keep abreast of the implementation of the ANEPP by holding monthly meetings with the PDO and Program Officer. These in-house sessions will permit appropriate oversight of the various aspects of the program and help to insure coordination among the four major components of the program.

Commodities for support of the technical assistance component of the program will be included in the PIO/T thereby greatly lessening the need to burden the Mission's executive office and GSO with providing support for additional long term staff.

7. <u>Audit</u>

The project will make provision for an end-of-project audit. Through an Indefinite Quantity Contract, the Regional Inspector General (RIG) in REDSO/ESA will arrange for an independent audit firm to carry out a comprehensive examination of the project costs. If warranted, during the course of the project, REDSO/ESA may invite an independent audit firm to examine the contractor procedures and internal financial controls relating to project expenditures.

8. Methods of Implementation and Financing

COMPONENT	CONTRACTING METHOD	FINANCING METHOD	AMOUNT ($000)
SECTOR COMPONENT			
Commodity Import Program	CIP	Bank Letters of Commitment	$12,500
TA/TRNG			
L/T TA	Direct AID Contract	Direct Payment	431
S/T TA	Direct AID Contract	Direct Payment	390
S/T TRNG.	Direct AID Contract	Direct Payment	400
COMMODITIES	Direct AID Contract	Direct Payment	74
AUDIT/ EVALUATIONS	Direct AID Contract	Direct Payment	90
CONTINGENCIES/ INFLATION			115
TOTAL			$14,000

E. C.I.P. Procurement Plan

1. Responsible Agencies

All commodity procurements financed under the Commodity Import Program will be subject to the provisions of A.I.D. Regulation 1. Only private sector firms will be eligible importers under the Program. The primary government implementing agency for the CIP will be the Bank of Uganda (BOU). Importers will apply for allocations of foreign exchange to the Bank of Uganda specifying that they wish to use the ANEPP facility to finance their transaction. The Bank of Uganda will review applications using the simplified procedures of the Open General Licensing System. Approved allocations will be forwarded to the Ministry of Commerce for issuance of the Import License. The BOU will also be responsible for selecting the U.S. bank to be the recipient of the A.I.D. letter(s) of commitment under which exporters will be paid, for corresponding with that U.S. bank to confirm letters of credit opened on behalf of the importers by commercial banks in Uganda (or to direct the opening of letters of credit directly by the U.S. Bank to the chosen suppliers), for assisting importers with import licensing requirements, and for corresponding with and reporting to A.I.D. on the implementation of the C.I.P.

With the advice/help of the REDSO, USAID will assist importers to identify potential (particularly U.S.) sources of supply and with information. Through implementation letters and otherwise, USAID will also assist the Bank of Uganda to comply with the administrative and regulatory requirements of A.I.D. Regulation i.

2. Procurement Entities/Procedures:

The commercial commodity import element of the Program will be governed by the provisions of A.I.D. Regulation 1. Over the life of the Program, $12.5 million of foreign exchange will be made available to finance the importation of an approved list of commodities by approved private sector applicants. A general advertisement will be placed in the A.I.D.-financed Export Opportunities Bulletin listing potential importers and the goods that they wish to import and requesting U.S. exporters to contact the Ugandan importers directly. After importers select their suppliers, importers will send applications for allocations of the FX to the Bank of Uganda. The simplified procedures adopted for the Open General Licensing System will be used to review and approve/reject applications for foreign exchange and for the automatic subsequent issuance of the import license by the Ministry of Commerce. After obtaining the import license, the importer will deposit 100% of the Uganda Shillings equivalent at the official exchange rate of the FX value of the transaction to the Special Account maintained by the Bank of Uganda (or through his commercial bank to the Special Account) and will request his commercial bank to issue a Letter of Credit (L/C) in favor of the selected supplier. The commercial bank will request the Bank of Uganda to correspond with the U.S. bank holding the A.I.D. Letter of Commitment to confirm the payment of the L/C by the U.S. correspondent bank. A list of identified imported requirements which are required to support increased production of nontraditional agricultural crops for export is included in Annex C. The list below is illustrative of the commodities and importers and amounts which at present USAID foresees financing under this program. It obviously represents only a fraction of total import requirements necessary to increase the production and marketing of nontraditional export commodities. Actual importers and amounts allocated to importers and to commodities will be determined by the allocation system. However, only agricultural seed, fertilizer, raw jute or jute bags, raw materials for the manufacture of farm implements and packing materials for exported commodities will be eligible for financing under the Program.

Table: Commodity Import Program Financing

Commodity	Potential Importer	Possible Funding
Fertilizer	UCCU	$1,500,000
Seeds	UCCU	$1,500,000
Jute or Jute Bags	Uganda Jute	$2,500,000
Raw materials for making hand agricultural tools	Sembule Steel, Chillington Steel	$4,000,000
Packaging Materials	Various	$3,000,000
Total		$12,500,000

3. Source/Origin

Because funds for this program will be from the Development Fund for Africa, the generally authorized Source/Origin for commodities and and rationality for commodity related services for the project is A.I.D. Geographic Code 935. However, in keeping with the policy directives of State 105351, importers will be encouraged to procure goods to the extent possible/practical from the United States. An advertisement in the AID-financed Export Opportunities Bulletin will advise potential U.S. suppliers of the names of potential Ugandan importers and of the commodities these importers wish to procure. Where procurement of specified items in STATE 105351 from the United States is impractical, a written record approving procurement from developed free world (Code 935) sources will be executed by the USAID/Kampala Mission Director.

For U.S. source items, Form 11 review and approval as well as normal post audit function will be handled by SER/OP/COMS. For non-U.S. source items, Form 11 review and approval will be handled by the Africa Bureau through REDSO/ESA and/or USAID/Kampala. Post audit review to assure compliance with AID Regulation 1 will be handled by USAID/Kampala.

4. Financing of Commodities

Commodities purchased under the C.I.P. component will be financed by letters of credit issued by commercial banks in Uganda and confirmed by a U.S. bank to be chosen by the Bank of Uganda under an A.I.D. Letter of Commitment issued by AID/W FM. Four commercial banks in Kampala have been identified by potential importers and have agreed to issue the required L/C's upon presentation of the proper documentation. These banks are Barclays Bank of Uganda Ltd, Standard and Chartered Bank of Uganda Ltd, Grindlays Bank of Uganda Ltd, and the Uganda Commercial Bank.

5. Local Currency Generations

Local currency will be generated by the commodity import program element. All importers will be required to deposit 100% of the Uganda Shilling equivalent of the foreign exchange value of their letter of credit at the time of the establishment of the L/C. Local currency thus generated will be jointly programmed by USAID and the Government of Uganda in support of the Non-traditional Agricultural Export Sector. A portion of the local currency will also be used to cover the FY 1989 operating expense of USAID/Uganda.

6. Avoidance of Windfall Profits

Windfall profits may be problematic for both the export/import scheme and the commodity import program.

With respect to the export/import scheme, there is concern that the export traders may be sufficiently small in number and as well organized that they will expropriate a substantial portion of the rents from the implicit currency depreciation for non-traditional exports. In effect, the export trade community could hold down the prices they pay to the smallholders whose production they buy for export. Larger producers have a greater chance of negotiating higher prices from the traders and, in any case, are more likely to have access to other channels of commercialization of their products.

Another concern stems from the windfall profits associated with the CIP. Under the proposed CIP, foreign exchange would not be allocated by a competitive market process. This almost guarantees both that the allocation will not be efficient from an economic standpoint and that there will be a run on CIP resources. At the current overvalued exchange rate of Uganda shillings USh 150=$1, the CIP will constitute a very cheap source of foreign exchange compared with the parallel rate, now roughly USh 400=$1. Those able to secure foreign exchange at USh 150=1 will secure significant windfalls. In effect, they will be subsidized. Relying on cheap foreign exchange, they could be rendered uncompetitive if the source of cheap foreign exchange were to dry up.

To eliminate the windfall and ensure a more economically efficient use of the foreign exchange, we considered a number of options. In the best of all worlds, the preferred option would be an auction of foreign exchange. The GOU, however, was opposed to the auction concept because it would result in more expensive foreign exchange. Another possibility is to bring in the production inputs and auction them off, an option that we vetoed. Holding an auction would be exceedingly Mission staff intensive and administratively costly. We also do not have the requisite information to identify those inputs whose provision would have greatest economic impact. Still another option is the imposition of an import surcharge. However, the IMF would object on the grounds that it would constitute a multiple currency practice. Even better would be a significant further real adjustment of the exchange rate.

Pending a resolution, the least we can do is to assure that our CIP foreign exchange is distributed fairly and equitably. CIP foreign exchange will be allocated utilizing administrative procedures similar to those employed by the country's central bank under the (limited) Open General License System that has been operational since January 1988 with World Bank support and IMF tacit approval. Those procedures provide clear and precise guidelines on how decisions are reached regarding selection of recipients and the amounts of foreign exchange they are to receive. The aim is to codify allocation procedures as much as possible, keeping discretion to a minimum.

7. Marking

Commodities imported by private sectors importers under the C.I.P. project element will not be marked; however, shipping containers in which these goods are transported to Uganda will be marked as required by A.I.D Regulation 1.

ANNEXES

A. The Uganda Economy: Recent History, The Reform Program and Current Status

B. Uganda's Historical Trade Pattern

C. The Model and Calculations for Uganda's Export Competitiveness in Nontradiiional Export Crops

D. History and Use of Agricultural Inputs

E. Uganda ANEPP Dollar Budget

F. ECPR Guidance Cable

G. Statutory Checklists

H. Request for Assistance

I. Initial Environmental Examination (IIE)

A. The Uganda Economy: Recent History, The Reform Program and Current Status

THE UGANDA ECONOMY: RECENT ECONOMIC HISTORY THE REFORM PROGRAM AND CURRENT STATUS

A. Brief Economic History

At independence (1962) Uganda had one of the strongest and most promising economies in Sub-Saharan Africa. Despite the disadvantage of being a land-locked country, the agricultural sector, with favorable climatic and soil conditions, was able to provide ample food to feed the population, as well as generate foreign exchange. Despite the fact that agricultural exports were dominated by coffee and cotton, rapid progress was being made on developing new export crops, such as tea and tobacco. The industrial sector, although small, supplied the economy with basic inputs and consumer goods, and contributed foreign exchange through exports of textiles and copper. Uganda's transport system was regarded as one of the best in Sub-Saharan Africa, and through common services with Kenya and Tanzania, Uganda shared access to an effective network of railway, port and airline facilities. The country was also blessed with abundant potential for hydro-electric development, a potential which was being harnessed. Although school enrollment was low, the country had developed quality education at all levels.

The initial years after independence clearly demonstrated Uganda's economic potential. Real GDP grew by 5.8 percent per annum from 1963 to 1970, an increase in per capita terms of 2 percent per annum. The country also maintained a reasonable savings rate, averaging 15 percent of GDP, which permitted the implementation of a respectable investment program without undue pressure on domestic prices or the balance of payments. Although Uganda's export volumes grew slowly, at 3.5 percent per annum, export earnings were more than adequate to cover import requirements and the country maintained a current account surplus in most years. The Government's budgetary position was also basically sound.

Starting in 1971, a decade of political turmoil and gross economic mismanagement radically changed the situation. Many of the best trained personnel fled the country, the parastatal sector became bloated with abandoned or confiscated industries, and professional standards within the sector were seriously eroded. In addition, the Ugandan economy was shaken by a series of external shocks: sharp rise in petroleum prices after 1973, and the breakup of the East African Community in 1977. As a result real GDP declined by about 20 percent during the 1972-1978 period. This era of extensive economic, social and political destruction culminated in a war in 1979 to overthrow the regime, entailing further destruction and economic decline.

The Ugandan economy proved to be resilient, however, and its capacity to rebound quickly from prolonged economic contraction was demonstrated during 1981-1984. Economic growth accelerated in response to changes in economic policy, supported with considerable donor assistance, including the IBRD and the IMF. These changes included a major depreciation of the Ugandan shilling, the removal of most price controls, and significant real increases for producer prices for export crops and petroleum. These measures stimulated agricultural production and exports, so that real GDP grew at an average annual rate of 6 percent during the three-year period ending 1984. The rate of inflation declined sharply, from an an ual rate of more than 100 percent in 1980 to 30 percent by early 1984. There was a significant turnaround in budgetary performance, with the overall budget deficit falling from 9 percent of GDP during FY 81 to 3 percent in FY 83. There was also an improvement in the external accounts. In addition, the overall balance of payments was in surplus, and by mid-1984 foreign exchange reserves had reached the equivalent of three months of imports.

The fragility of this recovery, however, was revealed during 1984. With increasing political and military opposition, military expenditures escalated and fiscal and monetary control weakened. Expenditure overruns were significant, leading to a rise in the budget deficit and an acceleration of inflation. The exchange rate became significantly overvalued as the authorities intervened in the foreign exchange auction to slow the depreciation of the shilling. As a result, economic growth turned abruptly negative in 1984. The situation worsened further during 1985 as civil war led to a major disruption of productive activities and a severe shortage of foreign exchange. A resurgence of inflation sharply reduced the producer prices in real terms.

B. Economic Status Prior to the 1987 Reforms

At the end of the civil war in January 1986, the economy was in a critical condition. Much of the country had been devastated; the Luwero triangle, once among the richest areas, was a wasteland, with infrastructure destroyed. Countrywide, there was a major transport bottleneck; manufacturing plants were either closed or operating at very low capacity; utilities had severely deteriorated. Official foreign exchange was only $ 24 million, equivalent to about two weeks' of "normal" imports, and net foreign reserves were negative to the amount of $ 254 million. The new Government also inherited a considerable external debt burden. Taking into account the debt to the IMF, the total debt service scheduled for 1986 was equivalent to one half of the FY 84 exports.

Since 1986, the Uganda Government has taken major steps to re-establish peace and security and rehabilitate the economy. The Government has introduced discipline in both the army and in the general administration. Despite limited foreign aid, the Government's emergency relief and rehabilitation program helped to revive economic activities in the war-torn areas. As a result, there was some recovery in real GDP in 1986, particularly during the last half of the year. There was a significant improvement in value added from the non-monetary agricultural sector, and some increase in cash crop production. Commercial activity achieved limited recovery, although transport services remained weak. Manufacturing output only demonstrated minimal recovery, as the lack of foreign exchange sharply limited supplies of spare parts and imported intermediate inputs. The shortage of foreign exchange constituted a major constraint to economic recovery during 1986 as the overnment had to use one half of its limited foreign exchange earnings to import fuels and basic essential commodities, and the other half to finance debt service.

Fiscal and monetary performance deteriorated in 1986. The budget for FY 86 sought to accelerate the country's recovery effort by doubling budgetary outlays over those of the previous year. With a smaller increase in projected revenues, the budget deficit increased with most of the financing coming from the banking sector. However, the actual deficit was much larger than projected, due mainly to shortfalls in the government revenue. This arose primarily as a result of the overvalued exchange rate which severely penalized producers while at the same time reduced revenues from coffee exports.

The Government significantly increased the producer price of coffee in May 1986. In real terms, the new price was 45 percent above the average for FY 83, a peak year for coffee deliveries to the marketing board. However, by April 1987, the real producer price dropped to 58 percent below the FY 83 average. Despite the acceleration in inflation, the nominal exchange rate remained fixed, and international coffee prices fell by 29 percent. A reduced export volume compounded the loss in revenue. Altogether, the average real value of total coffee export taxes in FY 86 fell to about 20 percent of the value in the previous year. Additional shortfalls resulted from depressed manufacturing output, which reduced revenues from sales taxes and excise duties and compressed import levels which in turn reduced import duties and sales taxes.

Despite a cut in average real expenditures to nearly two-thirds of the level in FY 86, the budget deficit increased to 6.2 percent of GDP. To finance the deficit, the government borrowed heavily from the banking system. During FY 86, net domestic credit to the government rose by 230 percent. These developments, together with a rapid depreciation of the parallel market rate, led to an acceleration of inflation. By mid 1987, the average rate of inflation approached 250 percent.

In 1986, the balance of payments situation worsened. The shortage of transportation equipment severely hampered exports, particularly coffee, which accounted for 95 percent of total export earnings. As a result, Uganda was unable to reap full benefit from the boom in coffee prices and from the suspension of the ICO country quotas in February 1986. During the year, however, imports increased by around 30 percent from the very low level of 1985. The Government gave high priority to the importation of raw materials, spare parts, and transportation equipment urgently required to restore productive capacity and facilitate the movement of goods. With the fall in international petroleum prices, the value of petroleum imports decreased. Meanwhile, imports of key consumer goods such as sugar and salt increased significantly. Despite this increase the huge pent-up demand for imports could not be met, exerting considerable pressure on the parallel market. After a bri f return to a dual exchange rate between June and August 1986, with rates of USh 1,400 and USh 5,000 per US dollar, the exchange rate was unified at USh 1,400 per US dollar, an adjustment in the wrong direction. By early 1987, the parallel market rate for the Ugandan shilling exceeded eight times the official exchange rate, and by early May the parallel rate was fourteen times the official rate.

However, worsening economic conditions throughout 1986 made it clear to the Government that a major reversal in economic policies was required. After extensive debate and study there was broad consensus on the need for and direction of reform.

C. <u>Outline of The 1987 Reform Program</u>

The policy agenda of the Government's Rehabilitation and Development Plan (Economic Recovery Program) entailed measures designed to restore stability in the economy, and policies to revitalize the economic recovery process and set the stage for sustained growth. The main components of the program were developed in collaboration with the IBRD and IMF in the context of a Policy Framework Paper (PFP).

The objectives of the Economic Recovery Program, formally announced on May 15, 1987, were to: (1) restore price stability and a sustainable balance of payments position; (2) substantially improve capacity utilization in the industrial and agro-industrial sectors; (3) improve producer incentives; (5) restore discipline, accountability and efficiency in the public sector; and (6) improve public sector resource mobilization and allocation.

As an important first step towards these goals, the May 15th announcement included:

(1) A currency reform under which one new Uganda shilling would be equivalent to 100 old shillings;

(2) A 77 percent devaluation, on foreign currency terms, of the Uganda shilling from old USh 1,400 to dollar, USh 60 to one US dollar;

(3) A 30 percent currency conversion tax applicable to all cash holdings by the public; including demand,

savings and time deposits of households and business; all treasury bills and Government stocks held by the public; and commercial banks cash balances with the Central Bank;

(4) An increase of 182 percent in the producer prices for robusta coffee, 158 percent for arabica coffee, 375 percent for seed cotton, 280 percent for flue cured tobacco, 257 percent for fire cured tobacco, and 257 percent for green leaf tea;

(5) Subsequent increases in producer prices of the five foodcrops targeted for export, ranging between 130 to 230 percent for beans, maize, sesame, groundnut and soy beans;

(6) An immediate increase in petroleum prices to establish parity with neighboring countries while providing net revenues to the Treasury;

(7) A doubling of the civil service wage bill effective June 1, 1987.

In addition to these actions, the announcement included measures that where to be taken in the coming months: the setting up of an Open General Licensing (OGL) system for foreign exchange allocations, a credit facility for local cover for imports, as well as implementing fiscal and monetary policies consistent with the objective of stabilization.

The policies announced by the Government were designed to achieve a rapid return to economic stability. An objective of Government was to reduce the rate of inflation quickly to enable markets and prices to play their allocative roles. To sustain stability and achieve recovery, policies were implemented to restrain and control demand coupled with measures to stimulate the supplyside. In the short run, the Government expected a supply response from a combination of improved producer prices in the agricultural sector, increased capacity utilization in industry, and larger numbers of transport vehicles within the marketing sector. Experience from the 1981-1984 period, when the economy rebounded from prolonged contraction, supported this expectation. To sustain the expected recovery, the rehabilitation of basic infrastructure, as well as the rehabilitation of productive capacity, particularly within agriculture and selected industries was viewed as essential .

D. Macroeconomic Policies

Macroeconomic policy in Uganda is dominated by short-term problems of stabilization. Stabilization is recognized as a necessary first step towards the creation of a policy environment conducive to rapid growth with an equitable distribution of benefits. The Government's reform initiatives.

and the complementary policies to be pursued, were aimed at stabilizing the economy over the next 18 months. The plan restricts the expansion in broad money supply to control the growth in nominal aggregate demand. The plan also attempts to restore the revenue base for public spending and in so doing goes beyond a reduction in the public sector's borrowing requirements. The recovery in revenues was designed to finance a net repayment of outstanding debts to the banking system. The aim was to release resources for the expansion of non-government sectors without a parallel expansion in total cre it. Revenues were expected to increase as a result of the substantial devaluation, producing two main outcomes. First, an increase in the "implicit" tax on coffee exports, the main source of public revenues. Second, with the price incentives given to producers, the devaluation was expected to lead to an increase in exports, hence in the tax base and in follow-on import capacity. But it is clear that increased and targetted imports are the key to achieve a short-run agricultural supply response. It is an anticipated supply response from agriculture that forms the basis for a sustained, non-inflationary recovery in output.

Fiscal Policies. The restoration of financial discipline with price stability in Uganda depends crucially on fiscal performance. To curb inflation not only must the fiscal deficit be reduced, but the financing of the deficit must avoid recourse to monetary expansion. For the FY 87 budget, the Government has agreed with the IMF, in the context of the SAF program, that the overall deficit of the Central Government is to be limited to 4.5 percent of GDP, compared with 6.2 percent of GDP in FY 87. The deficit target requires a 38 percent decrease in net bank credit to the Government. The SAF arrangement establishes quarterly benchmarks for the reduction in net Government credit. With this, the Government's share of total domestic credit will fall from 56 percent as of June 1987 to a projected 31 percent by June 1988.

The planned deficit reduction will be achieved primarily through an expansion in tax revenues. During FY 87 most of the increase was expected to come from a sharp rise in coffee export duties, reflecting the large depreciation in the exchange rate.

Despite a real increase in the coffee producer price of 130 percent between April and June 1987, the average tax duty rate is expected to increase from 27 percent of export receipts in FY 86 to 51 percent of export receipts in FY 87 (it averaged 52 percent in the period 1982-1984). The real value of tax revenues from coffee exports is expected to increase by 4.5 times the value in FY 86. Supplementing this increase is an expected improvement in tax collection and administration designed to remedy the widespread noncompliance with most other taxes. From a drop to about 3.5 percent of GDP in FY 86, government tax revenues (not including the currency conversion tax) will recover to 8.2 percent of GDP in FY 87 and stabilize thereafter to approximately 9 percent of GDP. This trend reflects the increased revenue from export and import duties and, later, the growth in proceeds from sales and income taxes.

The Government is aware of the problems caused by the overwhelming dependence of the budget on the coffee export tax (nearly 60 percent of total revenue and more than 65 percent of tax revenue). However, before introducing additional taxes, the Government planned to assess the impact of the new measures and to revitalize the administration and collection of taxes prescribed by the existing laws. A study by the IMF in 1984 concluded that, from a revenue standpoint, Uganda had an adequate tax structure. The main weaknesses have been the breakdown in collection, the fiscal drag due to high and accelerating inflation, and the fall in real taxable domestic income.

Contributing to the deficit reduction target was a planned decline in the share of recurrent expenditure to GDP; from 7.3 percent in FY 86 to 6.9 percent in FY 87. This was to occur because of the projected recovery in the growth of real GDP, as real government recurrent expenditures were to be maintained at present levels. The composition of government expenditure has changed markedly, however. The Government has announced a two-fold increase in the nominal wage bill. This increases the share of wages in recurrent expenditures from about 9 percent in 1985 to an estimated 15 percent in 1987.

The Government was committed to reducing defense expenditure in real terms in the FY 87 budget. Expenditure on subsidies and transfers, specially to parastatals, were to be scrutinized for possible reductions. In the context of the SAF program the government has agreed to quarterly benchmarks on total recurrent expenditure with a cumulative total of USh 14.2 billion by the end of June 1988.

Recurrent revenues including grants were expected to grow more rapidly than recurrent expenditures, reversing the trend of net negative savings by the public sector. In fiscal year 1987 a surplus of recurrent revenue over recurrent expenditures was expected to approach 4 percent of GDP, before reaching 5 percent of GDP in FY 88. Part of this planned surplus was to be used as repayment of the Treasury's debt to the banking system. However, a significant share of it is expected to go to defray substantial increases in governmental development outlays. Development expenditures are expected to increase to 8.3 percent of GDP in FY 87, up from 3.3 percent a year earlier. They are projected to expand to 8.7 percent of GDP by FY 89, growing in real terms by 8 percent annually following a period of substantial recovery in FY 87.

<u>Monetary and Credit Policies</u>. Reducing inflation while increasing output is a fundamental goal of Uganda's short-run economic policy. Inflation was expected to decline from an average annual rate of 250 percent in FY 86 to about 90 percent

in FY 87 and to less than 30 percent in FY 88. Thus the immediate objective is to reduce monetary expansion without undue restraint on credit to productive activities. This is to be accomplished by reducing in real terms the overall level of credit while shifting access to credit from Government to the private and parastatal enterprises. The magnitude of this shift is to be such that credit to the private and parastatal sectors is to increase in real terms.

The Government was committed to contain the nominal expansion in the money supply to about 40 percent in FY 87. This planned expansion is consistent with the planned reduction in inflation and with the target for nominal GDP growth. The reduction in liquidity will be sharper in the initial months of the program but is expected to be sustained by the shift in budgetary financing away from direct borrowing from the Central Bank. To monitor monetary developments during FY 87, quarterly benchmarks on the cumulative change in net domestic credit and in net bank credit to the Government have been established under the SAF program. A mid year review of performance under the first year of the SAF arrangement took place in October, 1987.

Devaluation and increases in domestic petroleum prices exerted some upward pressure on prices. While it was difficult to predict to what extent the reduction in liquidity would counteract the inflationary pressures created by devaluation, there were reasons for expecting a significant fall in inflation. In the recent past, except for the price of petroleum products, prices of imported goods were effectively set at the parallel market rate of exchange which was considerably higher than the new devalued official rate. The expected greater availability of goods through official channels, and an increased efficiency in the allocation of imports brought about by changes in the trade regime, were expected to lead to import price stability. On balance, there were strong reasons to expect a significant reduction in the rate of inflation, at the outset of the program.

Current commercial interest rates are negative in real terms. This discourages time deposits and shifts the structure of loans towards short-term, practically risk-free loans. It is the Government's intention to move quickly to positive, market determined, real interest rates and to maintain real rates over the medium term. With the anticipated fall in inflation, it was expected that current nominal interest rates would yield positive returns for deposits by the end of 1987. This has not proved to be the case albeit that the rate of inflation has apparently declined.

Exchange Rate and Trade Policies. Establishing and maintaining a realistic exchange rate for the Uganda shilling is a high priority in the Economic Recovery Program. The real effective exchange rate had appreciated by 133 percent between the second quarter of 1984, when the foreign exchange auction was operating without interference,and the first quarter of 1987. After considering the options, the Government decided to maintain a fixed exchange rate, albeit at a more realistic level, to be reviewed and revised periodically. The exchange rate system was to be anchored on appropriate monetary policies with strict fiscal discipline. However, over the past five months the official exchange rate has become increasingly overvalued.

Uganda faces very high levels of demand for consumer and intermediate goods, and a short-run speculative demand for imports. Pressure on import demand was expected to decrease with the substantial increase in import prices, the expected rise in foreign capital inflows, and a slowdown in monetary expansion as a result of the May 1987 reform program.

The last devaluation was expected to lead to a significant and immediate increase in government revenues, essential for achieving fiscal balance. It was also intended to restore price incentives for the production of exports and to help bring the trade account into balance. Monetary policy was expected to play a key role in maintaining the competitiveness of the exchange rate. Nevertheless, it was recognized that monetary discipline alone would not be sufficient to support the new exchange rate. The Government in principle was committed to maintain an active exchange rate policy to avoid future imbalances in the external sector and to maintain appropriate price incentives for exports.

As a result of the implementation of the reform program the Government (and the IBRD and the IMF) expected foreign exchange supplies to increase substantially. This coupled with reduced liquidity in the economy was expected to maintain a competitive exchange rate throughout the second half of 1987. However, quick disbursing balance of payments support pledged in Paris in July, 1987 was slow to come on stream. Recent developments indicate that additional, major adjustments in monetary and fiscal policy are required now if Uganda is to return to a competitive echange rate regime and again control inflation..

Open General Licensing System. The Government has introduced a limited OGL system, under which import licenses and foreign exchange are to be provided "freely upon request" at the official exchange rate. The OGL was expected to be in place during the last quarter of 1987, but was not implemented until January, 1988. The OGL system, once fully operative, should speed the allocation of foreign exchange among eligible importers. Given the scarcity of foreign exchange, the OGL will be introduced in stages. Initially, it will operate alongside the current administrative allocations system and will cover only the import of intermediate inputs and spare parts required to increase production and capacity utilization in 22 identified industries. Preliminary estimates indicate that the system will cover about 20 percent of merchandise imports and one-half of non-petroleum, non-aid related imports. The Government plans to conduct regular reviews of the system with the aim of expanding the OGL as increasing foreign exchange becomes available.

E. Sector Policies:

The measures announced on May 15, 1987, and the other macroeconomic policies agreed under the PFP and the Fund's SAF program, were expected to establish the necessary conditions for the recovery of the economy. The IBRD Africa Facility Credit supports these policies, but its main focus is on supply-side policies designed to affect the performance of the productive sectors and public sector management. The PFP calls for action on a wide range of issues. However, the Government's program had not been fully developed when the PFP was completed. The IBRD's ongoing economic and sector analysis was expected to contribute to the further development of the reform program over the past year.

Agricultural Policies. Much needs to be done towards the rehabilitation of the agricultural sector to realize its full potential. To encourage production and improve efficiency in the short term, pricing, marketing, and credit issues are being addressed under the present program. In the medium to longer term, issues concerning input distribution, research, training, extension, and veterinary services, will be addressed. However, we believe, in addition, trade policies need to be tackled in the near term if the overall structure of incentives in agriculture are to be linked and directed toward reaping Uganda's comparative advantage and export growth potential.

Producer prices of export crops are a crucial issue addressed under the Economic Recovery Program. Price incentives to increase farm output, including the traditional exports of coffee, tea, and cotton sharply deteriorated during the last two years. A substantial increase in producer prices was needed to restore incentives to increase output and maintain real producer incomes. Such increases, were announced on May 15, 1987. The Government is committed to maintaining, and, if necessary, increasing returns to producers. It has been agreed that producer prices are to be reviewed twice a year; once prior to planting and a second time in the harvesting and marketing season. The Government followed-up with another round of producer price increases (minimum prices) in mid-January of this year.

In general, the level of government intervention in agriculture is substantially less than in other African countries. This is particularly true for agricultural products consumed domestically. However, the marketing activities of the major export crops -- coffee, cotton, tea -- are handled by government export monopolies. Until very recently this was also true for food crops.

Uganda has the demonstrated ability to produce a wide range of foodcrops over and above its domestic requirements, but procedures for obtaining export licenses and some restrictions on the internal movement of foodcrops have discouraged production. The government's declared policy called for the licensing of traders of five foodcrops with export potential (maize, beans, sesame, groundnuts and soy beans). Licenses were to be liberally issued and the licensees free to sell to the Produce Marketing Board (PMB) or other buyers anywhere within the country. However, in practice, restrictions have been imposed on free movement of foodcrops in certain districts, particularly in border areas. With improving economic conditions the government announced policy was to allow the private sector to participate in the export trade. Recent actions are now being taken to permit the private sector to export nontraditional export commodities.

Industrial Sector Policies. The macroeconomic policies announced by the government, particularly the establishment of a new exchange rate, were expected to substantially improve the policy environment for the industrial sector. Emphasis has to date been given to the provision of intermediate inputs to rehabilitate the industrial sector, largely financed by the IBRD supported OGL system.

The government's policy has been to permit domestic prices to be market determined. However, under the extraordinary conditions that have prevailed in Uganda, including the existence of acute shortages of some basic necessities, the government exercised temporary controls on prices or profit margins for certain items, mainly imports, and in some cases, assumed their marketing. There are no laws and regulations that call for administrative approval of price changes, and currently the government does not exercise formal controls, except on the prices of sugar, soap, salt, and petroleum.

The government's commitment to a policy free from price controls was evidenced during 1987 by the fact that despite temporary confusion resulting from the implementation of the May, 1987 currency reform and devaluation, the government did not interfere with market determined prices.

Transport Sector. Inadequate transport is a serious bottleneck hindering rapid economic recovery. There has been a shortage of vehicles to transport exports and imports and foodstuffs to urban markets, thus driving-up transport costs and food prices. This situation has been compounded by periodic shortages of fuel which has further aggravated both the availability of transport and transport rates.

Another very important factor limiting both the efficient movement of commodities and production inputs, not to mention the transmission of price signals (production incentives) to producers, is the general state of trunk and feeder roads. With donor support, major efforts are currently underway to improve road conditions and maintenance capacity. A Transport Needs Assessment has been completed by the IBRD and has been discussed with the government and donors. The study identifies emergency needs of the sector and provides the basis for a coordinated donor effort to improve road conditions. It is expected the assessment will provide the basis for designing an investment strategy for the transport sector.

F. Current Economic Performance

Performance over the past six months reveals mixed results. Some progress has been achieved toward reducing inflation over the past year. At the close of 1986 inflation was raging at an annual rate of 250 percent; at the end of 1987 at about 160 percent.

The reasons for not obtaining greater control over inflation can be summarized as follows. First, there are shortages of a wide range of goods in the economy (particularly manufactured consumer goods) and the breath and magnitude of some supply responses anticipated during 1987 fell short of expectations. Second, while the rate of growth in money supply was initially brought under control, the GOU has printed money over the past 6-9 months due to revenue shortfalls; for example, so the Coffee Marketing Board could pay coffee producers upon delivery, and to finance unplanned expenditures associated with the recent P.T.A. Conference. Third, while Government expenditures were less than projected the revenue shortfall has been even greater resulting in an increasing budget deficit by year ending. The revenue short fall was a result of the declining coffee price and less than projected export levels for other crops. As a consequence, the GOU has periodically resorted to Central Bank financing of the deficit. A fourth factor contributing to inflation has been high transport costs due to a combination of very poor road conditions, shortages of transport to move food from production centers to urban markets, plus periodic shortages of fuel. And fifth, over the past 6-9 months the depreciating parallel exchange rate has also contributed to inflation. This influence is caused by a combination of limited official foreign exchange and the consequent demand of private traders for higher priced parallel market dollars to finance the import of inputs, spare parts and goods not available locally. This fact, coupled with the financing of imports via counter trade (primarily with Kenya) transacted at the Kibanda rate has increased transaction costs which are passed on to wholesale and retail prices.

The official foreign exchange rate has become increasingly overvalued in the past 6 months; the parallel rate is, as of April 1988, 6-7 times the official rate reflecting both the demand for foreign exchange in the economy and the scarcity of foreign exchange. Without an adjustment in the exchange rate in the very near term the price received by producers of commodities which are exported at the official rate will continue to erode. This will either reduce the incentive to produce such export crops, or exporters will increasingly engage in illicit border trade, given the more favorable foreign exchange rate involved. Thus, the exchange rate is a major price distortion requiring immediate and significant adjustment.

Another problem is public spending. The national budget deficit is running above target. This was in part due to increased military (security) expenditures, but also due to revenue short falls mentioned above. The use of "ways and means" of the Central Bank to finance the budget deficit increases aggregate demand and given widespread shortages in the economy, the "printing of money" has been inflationary. While the Government must take the necessary steps to increase revenues it is also clear that measures must be taken over the year to reduce the size of the public sector. Such action could include reducing the size of the civil service and the GOU taking the necessary actions to step-up its plan to divest itself of unproductive public enterprises.

Uganda is heavily dependent upon coffee for its export earnings and the GOU recognizes there is a clear need to diversify exports. If one takes into account historical and present day informal trade with neighboring countries one learns that the country's productive base and trade (formal and informal) is, in reality, quite diversified. But informal trade does not earn export revenue and the Central Bank is losing potential foreign exchange earnings from such trade. With an overvalued official exchange rate there is little if any incentive for the private sector to export inf formal channels. Thus, to increase exports, top level analysis and review of the country's trade policies and trading relationships is required. A trade strategy linked to production capabilities, comparative advantage and external market requirements and demand is a top priority if Uganda is to diversify its exports and increase revenues and foreign exchange earnings.

Aside from persisting problems in the economy, Uganda has made significant progress over the past two years, particularly in the last year. Internal security has improved measureably, a major economic reform has been implemented and there is among Ugandans an increasing confidence in the future. This is reflected in the fact that significant investment, both public and private, is taking place and consequently productive activities are clearly on the up-swing.

However, the GOU's reform program requires immediate mid-course corrections if continued progress is to be achieved and sustained. And clearly more effort toward tackling the interlinking problems of inflation, growth in money supply, the budget deficit, the overvalued exchange rate, and the size of the public sector are required. Economic performance during 1988 will depend on the actions taken in these areas in the immediate months ahead.

The GOU will be undertaking consultations with the IBRD and IMF over the next six weeks on the formulation of the GOU's second PFP. We believe there is a clear committment to get the reform program back on track.

Aside from tackling these macroeconomic policies, it is equally clear that the reform of trade policy is a high priority if Uganda is to increase foreign exchange earnings, import capacity, stimulate the supply-side of the economy, and eventually get-off the international dole. As a result of our initial and on-going analysis and policy dialogue the Ugandan government, IBRD and Fund all agree that trade policy is a critical area to be tackled in the GOU's on-going reform program.

B. Uganda's Historical Trade Pattern

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UGANDA's HISTORICAL TRADE PATTERN

Looking back over the past 30 years, Uganda's trade regime has been based almost exclusively on its agricultural sector. From the 1950's up to the mid-1970's this country was actively involved in trading fish and fish products, maize and maize flour, beans and pulses, coffee, cotton, tea, animal feed stuffs, hides and skins, oilseeds--nuts, kernals and oil, as well as a few mineral products (mainly copper)--see Table 1. Until the mid-1950's, cotton was king, generating over 50 percent of Uganda's export earnings. But after 1955 coffee exports picked up and within seven years in 1962, coffee supplanted cotton as the dominant export crop when coffee exports began contributing 50 percent or more of Uganda's total export earnings. After the cotton industry peaked in 1972 and collasped shortly thereafter, coffee has become even more important, now generating as much as 95 percent of total export earnings. In Tables 4 and 5, one can see that non-traditional (formal) exports have become negligable over the past several years.

However, on examination of Uganda's past export record up to the mid-1970's strongly suggests the potential for a more diversified export regime than what exits today. Perhaps exports of some commodities such as cotton may never be revived to their former eminance because different domestic and world conditions exit today. Also it will be imperative that supply studies of nontraditional exports be undertaken to identify those commodities in which Uganda has or will soon have exportable surpluses. For example, despite the past, Uganda does not, today, have an exportable surplus of meat products because Uganda's livestock resources have been devasted by wars and unrest since the 1970's and herd sizes are said to be only a fraction of what they were 20 years ago.

If one considers past exports of non-traditional foods and live animals as indicative of future potential exports, products like fish and maize products, beans, peas, lentils, sugar, mollases, pepper and pimento, and animal feed stuffs may have potential. In the crude inedible materials category, the products to be consider are hides and skins; oilseeds--nuts and kernals; and crude papain. Edible oil is another product with much potential--not cottonseed oil which was important in the past, but sunflower and perhaps soybean oil. Sunflower is a relatively new crop in Uganda and does well in the cotton production areas. The emergence of this new crop points to the possibility of some agricultural products that were not previously exported becoming important export revenue earners in the future. Pinapples and passion fruit are two examples that would fall into this category.

Until the overall collasp of the economy, formal intraregional trade within East Africa had been as much as 15 to almost 20 percent of total Ugandan exports. Nearly all of Uganda's processed or manufactured exports were to these markets and included such products as biscuits, confectionery sugar, margarine and shortening, cigarettes, soaps, cotton fabrics and cottonseed oil, electricity, superphospates, asbestos products, iron and steel products, plus a few raw products like unrefined sugar and unmanufactured tobacco (see Table 2). Uganda and Kenya were each other's principle African trading partner up until 1970 when Uganda supplyed 60 percent of Kenya's imports from Africa in the peak year of 1968. Ugandan exports fell off sharply after 1972 and were less than 10 percent of Kenyan imports from Africa by 1985. It is important to note that these figures encompass only the level of formal trade which does not reflect the true magnitude of trade since much of the trade across Uganda's boarders in recent years has takne place informally.

LIST OF TABLES

Table 1

UGANDA'S DOMESTIC EXPORTS

PRINCIPAL COMMODITIES BY VALUE: 1952-1965

('000 Pounds)

COMMODITY	1952	1953	1954	1955	1956	1957	1958	1959	1960	1961	1962	1963	1964	1965	TOTAL	% of Total
Fish, Fresh or simply preserved	309	228	218	189	240	293	268	303	309	210	113	11	18	13	2,722	0.4%
Maize and maize flour	-	-	738	740	120	19	-	-	73	11	167	149	25	42	2,084	0.3%
Beans and Pulses	267	119	86	18	5	5	21	45	99	76	19	42	28	23	853	0.1%
Coffee, not roasted	12,345	11,543	13,478	20,134	15,721	21,587	20,827	18,688	16,987	13,979	20,174	27,181	35,378	30,421	278,443	43.9%
Tea	281	356	950	1,062	891	1,081	979	1,186	1,453	1,472	1,997	2,041	2,212	2,388	18,349	2.9%
Animal Feeding Stuffs	687	833	1,593	1,424	1,588	1,244	1,104	1,654	1,677	1,425	874	1,602	1,641	1,944	19,290	3.0%
Hides and Skins	723	819	752	674	782	562	765	941	1,146	816	1,176	1,044	1,083	1,258	12,541	2.0%
Oilseeds, Nuts and Kernels	1,578	1,609	977	734	1,034	888	539	329	684	704	539	354	385	157	10,511	1.7%
Raw Cotton	29,943	16,793	20,877	16,386	19,285	17,476	18,141	15,428	14,930	16,716	8,260	14,330	15,857	16,762	241,184	38.0%
Sisal Fibre and Tow	118	83	32	35	40	20	23	38	52	43	37	45	31	11	608	0.1%
Walfram	206	156	121	122	136	162	6	3	31	73		1		38	1,055	0.2%
Cottonseed Oil	200	326	299	29	278	433	239	265	12	28	7	88	164	119	2,487	0.4%
Copper and Alloys, Unwrought	-	-	-	-	-	1,626	2,065	2,781	3,689	2,961	3,617	3,612	6,192	7,994	34,537	5.4%
All other Commodities	567	514	454	353	298	462	431	430	446	681	655	973	1,415	1,544	9,223	1.5%
TOTAL	47,224	33,379	40,575	41,900	40,418	45,858	45,408	42,091	41,588	39,195	37,635	51,473	64,429	62,714	633,887	100.0%

Source: East African Statistical Department - Uganda Unit, Statistical Abstract, 1960, p. 21. and
Ministry of Planning & Econ Development, Statistical Abstract, 1966, p. 19.

Table 2

INTER-COMMUNITY TRADE - Uganda's Principle Commodities Exported to Kenya: 1961-1970

(USh '000)

COMMODITY	1961	1962	1963	1964	1965	1966	1967	1968	1969	1970 :	TOTAL	% of Total
Meat & Meat Preparations	3,755	3,261	1,503	1,436	89	8	463	71	55	658 :	11,299	0.8%
Fish-fresh (simply prepared)	1,041	1,198	1,058	734	890	1,373	1,530	1,926	2,704	1,743 :	14,197	1.0%
Cereals (unlimited)	602	822	1,891	2,471	1,849	2,464	1,499	1,061	957	1,153 :	14,769	1.0%
Biscuits	770	649	698	782	2,298	2,791	1,770	1,374	828	75 :	12,035	0.8%
Beans,Peas & Lentils	521	899	343	1,018	1,397	2,013	4,596	1,030	500	2,027 :	14,344	1.0%
Sugar (unrefined)	31,622	32,542	36,726	39,207	16,689	4,399	24,709	26,041	15,348	14,494 :	241,777	16.4%
Confectionery	928	736	844	1,700	2,434	2,492	3,390	2,560	2,312	3,504 :	20,900	1.4%
Tea	2,606	1,778	1,299	876	661	354	1,196	1,150	469	397 :	10,786	0.7%
Feeding stuffs (animal)	1,590	1,074	1,090	1,269	2,583	2,010	2,485	1,803	2,053	1,804 :	17,761	1.2%
Margarine & Shortening	4,018	3,005	2,982	6,264	9,811	11,149	17,759	13,842	8,550	13,772 :	91,152	6.2%
Beer	142	70	357	125	550	3,141	2,567	663	304	3,260 :	11,179	0.8%
Tobacco (unmanuf.)	3,234	6,672	7,012	9,512	16,171	8,131	19,153	12,801	2,771	11,305 :	96,762	6.6%
Cigarettes	5,861	9,514	13,337	10,319	3,532	667	1,018	21	-	8 :	44,277	3.0%
Oilseeds, Nuts, Kernals	64	259	210	138	535	1,017	1,416	2,962	3,390	5,636 :	15,627	1.1%
Electricity	5,803	6,357	6,977	8,120	8,362	8,797	11,065	9,953	8,472	9,318 :	83,224	5.6%
Cotton Seed Oil	15,217	10,486	13,167	14,813	19,486	13,525	16,133	13,168	9,583	14,751 :	140,329	9.5%
Soaps	1,453	1,621	3,051	4,566	6,110	6,897	5,246	3,410	3,869	2,101 :	38,324	2.6%
Fertilizers	-	-	699	61	4,093	7,241	4,874	3,777	6,313	7,814 :	34,872	2.4%
Cotton Fabrics	16,767	18,978	20,602	25,782	25,214	38,104	46,279	35,171	42,887	54,495 :	324,279	22.0%
Bars & Rods of Iron/Steel	-	-	702	3,660	3,710	6,875	7,896	7,121	10,832	10,567 :	51,363	3.5%
Enamelled Holloware	993	946	1,572	1,282	1,230	1,583	1,216	884	661	1,504 :	11,871	0.8%
All Other Commodities	6,044	6,844	8,850	10,748	15,076	21,049	27,049	2,209	33,196	41,005 :	172,070	11.7%
TOTAL	103,031	107,711	124,970	144,883	142,770	146,080	203,309	142,998	156,054	201,391 :	1,473,197	100.0%

Source: Bank of Uganda, Annual Report, 1970-71, Consolidated Printers Ltd., p. 84

Table 3
INTER-COMMUNITY TRADE - Uganda's Principle Commodities Exported to Tanzania: 1961-1970
(USh '000)

COMMODITY	1961	1962	1963	1964	1965	1966	1967	1968	1969	1970 :	TOTAL	% of Total
Cereals (unlimited)	3,231	2,066	4,771	1,198	134	3,323	61	189	854	2,231 :	18,058	4.2%
Biscuits	757	736	1,032	982	1,691	1,957	735	58	31	35 :	8,014	1.9%
Banana,Peas & Lentils	633	536	200	299	543	751	1,432	536	484	2,121 :	7,535	1.7%
Confectionery	659	425	462	730	356	59	46	311	305	534 :	3,887	0.9%
Margarine & Shortening	242	272	370	560	482	152	272	991	89	101 :	3,531	0.8%
Beer	874	1,553	1,048	517	496	201	-	-	-	- :	4,689	1.1%
Tobacco (unmanuf.)	676	578	1,972	4,606	4,370	3,167	4,440	76	-	57 :	19,942	4.6%
Cigarettes	8,596	4,717	4,516	3,840	951	456	428	19	-	1 :	23,524	5.4%
Cotton Seed Oil	3,547	1,753	1,892	1,885	1,403	1,020	2,208	3,992	8,481	9,448 :	35,629	8.2%
Soaps	1,111	744	1,803	4,533	2,363	305	66	104	26	6 :	11,061	2.6%
Fertilizers	-	-	66	-	2,775	305	65	154	31	109 :	3,505	0.8%
Bicycle Tires & Tubes	7	20	56	41	1,692	1,934	2,650	2,107	2,365	2,169 :	13,041	3.0%
Cotton Fabrics	9,138	15,156	16,793	19,307	22,801	31,373	16,434	10,060	2,818	1,414 :	145,294	33.6%
Blding Materials & Asbestos	3	6	796	1,855	1,641	2,184	2,054	1,185	1,200	1,989 :	12,913	3.0%
Bars & Rods of Iron/Steel	-	9	42	2,138	3,082	4,303	5,913	5,837	6,870	6,916 :	35,110	8.1%
Enamelled Holloware	203	428	538	420	427	418	218	470	313	359 :	3,794	0.9%
Footwear	16	30	40	754	606	553	372	969	256	941 :	4,537	1.0%
Matches	-	-	-	-	69	2,085	1,737	1,074	147	- :	5,112	1.2%
All Other Commodities	4,382	4,342	3,460	4,404	5,951	7,861	9,508	12,447	9,991	11,464 :	73,810	17.0%
TOTAL	34,075	33,371	39,857	48,069	51,833	62,407	48,639	40,579	34,261	39,895 :	432,986	100.0%

Source: Bank of Uganda, Annual Report, 1970-71, Consolidated Printers Ltd., p. 84

TABLE 4
UGANDA'S MERCHINDISE EXPORTS (Shillings): 1966-1980

ITEM	1966	1967	1968	1969	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	Total	% of Total
VOLUME ('000 TONS)																	
COFFEE (1)	167.1	159.5	151.6	180.6	191.2	174.6	214.2	192.4	187.2	176.6	153.1	113.4	113.4	143.5	110.0	1,769.6	73.8%
COTTON (2)	69.8	72.0	61.7	52.9	78.1	68.7	66.1	64.7	36.2	25.6	19.2	9.9	11.8	3.5	2.3	386.1	16.1%
TEA (3)	9.0	9.6	11.4	15.9	15.1	15.3	20.7	19.2	16.7	17.1	11.7	8.8	8.7	1.4	0.5	135.2	5.6%
COPPER	15.8	15.0	15.6	16.6	16.4	16.8	14.1	9.7	9.0	7.8	5.4	2.5	7.1	4.4	-	93.2	3.9%
TOBACCO (UNM'FACT'ED)	2.5	2.9	2.1	2.4	2.0	2.2	2.5	1.5	1.1	1.3	1.8	1.2	0.4	-	-	14.0	0.6%
VALUE (U SHS MILLION)																	
COFFEE (1)	695.7	692.0	714.6	780.0	1,014.5	982.3	1,128.3	1,247.6	1,567.8	1,398.1	2,487.0	4,536.0	2,419.4	3,179.5	2,523.9	22,484.4	79.2%
COTTON (2)	306.9	303.2	295.7	251.0	351.3	352.1	370.7	336.0	272.3	213.2	182.0	126.4	152.3	56.2	31.5	2,444.0	8.6%
TEA (3)	63.7	70.9	75.4	93.5	95.0	95.2	125.5	110.0	109.6	120.8	89.2	103.0	66.8	10.6	2.4	928.1	3.3%
COPPER	115.1	109.3	111.5	120.3	165.5	137.7	112.8	109.5	120.7	69.5	59.2	23.7	24.1	9.4	24.4	856.5	3.0%
TOBACCO (UNM'FACT'ED)	13.9	24.3	15.3	19.8	18.3	21.3	18.9	13.9	9.4	15.9	15.9	29.0	13.9	6.9	24.4	187.8	0.7%
OTHER EXPORTS	332.1	345.0	310.5	323.4	336.7	260.4	252.7	207.6	165.7	83.8	85.0	46.9	14.4	16.7	336.7	1,806.6	6.4%
RE-EXPORTS	23.7	18.1	17.5	14.2	13.3	8.2	9.7	4.6	3.3	4.8	1.7	0.3	-	-	-	-	-
CUSTOMS TOTAL	1,551.1	1,562.8	1,540.5	1602.2	1,994.3	1,857.2	2,018.6	2,029.2	2,248.8	1,906.1	2,920.0	4,865.6	2,687.9	3,279.3	2,582.2	28,389.2	100.0%
ERRORS AND OMISSIONS	0.4	0.6	12.3	61.6	18.6	-	-0.1	0.5	-	-2.8	-1.1	-1.7	0.5	-82.3	-	-68.4	
ADJUSTMENTS FOR:																	
VALUATION	-75.1	-72.6	-83.4	-86.7	-107.5	-105.4	-117.6	-92.6	-128.3	-106.8	-130.9	-306.3	-166.7	-198.2	-173.0	-1633.3	
COVERAGE	-1.4	-0.7	-0.2	-0.4	-0.3	-0.8	-0.2	-5.6	-19.7	-38.2	-30.2	-29.6	-37.6	-32.2	-39.5	-233.9	
TIMING	-4.4	6.1	22.2	0.9	-36.6	-8.7	-16.3	-	-	-	-	-	-	-	-	-61.6	
TOTAL EXPORTS	1,470.6	1,496.2	1,491.4	1,577.6	1,868.5	1,742.3	1,884.4	1,931.5	2,100.8	1,758.3	2,757.8	4,528.0	2,484.1	2,966.6	2,369.7	26,392.0	

(1) Data from 1973 Coffee Marketing Board
(2) Data from 1977 Lint Marketing Board
(3) Data from 1977 Uganda Tea Authority
Source: Ministry of Planning and Economic Development, Background to the Bduget 1982-83.

Table 5
UGANDA'S MERCHANDISE EXPORTS (Dollars) 1978-1985

	1970	1975	1978	1979	1980	1981	1982	1983	1984	1985	TOTAL	% of Total
VOLUME--'000 TONS												
COFFEE	191.2	176.6	113.7	143.1	110.1	128.3	174.7	144.3	133.2	151.5	1,098.9	94.3%
COTTON	76.1	25.6	11.7	3.6	2.6	1.2	1.8	7.0	6.7	9.6	44.2	3.8%
TEA	15.0	17.1	8.7	1.4	0.5	0.5	1.2	1.3	2.5	1.2	17.3	1.5%
TOBACCO	2.0	1.3	1.2	0.4	0.3	-	-	0.7	0.7	0.3	3.6	0.3%
MAIZE			-	-	-	-	0.4	0.4	0.3	0.3	1.4	0.1%
COPPER	16.5	7.8	6.2	4.4								
UNIT VALUE--US $/KG												
COFFEE	0.7	0.8	2.8	3.0	3.1	1.9	1.8	1.6	1.8	1.4	17.4	36.5%
COTTON	0.6	0.9	1.7	1.8	1.8	1.9	1.8	1.6	1.8	1.4	13.8	28.9%
TEA	0.9	0.7	1.0	1.0	0.6	0.6	0.7	0.9	1.3	0.8	6.9	14.5%
TOBACCO	1.3	1.3	1.5	2.3	1.0	-	-	1.3	2.1	0.3	8.5	17.8%
MAIZE			-	-	-	-	-	0.4	0.4	0.3	1.1	2.3%
COPPER	1.5	0.9	0.3	0.1								
VALUE (US $ Mill)												
COFFEE	142.0	144.6	312.7	425.9	338.7	241.6	341.0	339.7	359.0	355.0	2,713.6	97.4%
COTTON	49.1	22.1	19.9	6.5	4.7	2.3	3.2	11.2	12.1	13.4	73.3	2.6%
TEA	13.3	12.5	8.7	1.4	0.3	0.3	0.8	1.2	3.3	1.0	16.9	0.6%
TOBACCO	2.6	1.7	1.8	0.9	0.3	0.0	0.0	0.9	1.5	0.1	5.5	0.2%
MAIZE	-	-	-	-	-	-	-	0.2	0.1	0.1	0.4	.0%
COPPER	23.2	7.2	1.9	0.5	-	-	-	-	-	-	2.4	0.1%
OTHER EXPORTS	47.1	8.7	10.6	5.1	2.2	2.5	0.7	2.1	6.6	4.3	34.1	1.2%
RE-EXPORTS	1.9	0.6	-	-	-	-	-	-	-	-		
UNADJUSTED TOTAL	279.2	197.4	353.2	440.3	345.8	246.6	346.4	306.8	392.8	378.3	2,709.6	97.2%
ERRORS & OMMISSIONS	2.5	-0.4	-	-	-	-	-	-	-	-		
ADJUSTMENTS (1)	-20.1	-19.6	-30.3	-42.5	-26.7	-1.1	0.7	0.9	15.1	0.7	-83.2	-3.0%
TOTAL EXPORTS	261.6	177.4	322.9	397.2	319.1	245.5	347.1	367.7	407.9	379.0	2,786.4	100.0%

(1) After 1978, errors & ommissions are included.

Source: Ministry of Planning and Economic Development, Background to the Budget 1986-87.

Table 6
USANDA'S DIRECTION OF TRADE: 1974 - 78
E X P O R T S
(Mill $)

COUNTRY/REGION	1974	1975	1976	1977	1978	TOTAL	Percent of Total
INDUSTRIAL COUNTRIES	245.91	207.36	319.19	482.76	288.63	1,543.85	
NON-OIL DEV'ING COUNTRIES	49.93	51.66	26.59	62.52	63.79	254.49	100.0%
AFRICA	19.56	22.77	10.17	15.19	19.04	86.73	34.1%
Burundi	0.04	0.03	0.41	-	0.01	0.49	0.2%
Ethiopia	-	0.02	0.07	0.05	-	0.14	0.1%
Ghana	0.01	-	-	-	-	0.01	.0%
Kenya	10.64	5.13	1.80	2.46	4.65	24.68	9.7%
Nigeria	0.01	-	-	-	0.02	0.03	.0%
Rwanda	0.53	0.22	0.85	0.01	1.08	2.69	1.1%
Seychelles	-	-	-	0.24	0.48	0.72	0.3%
Somalia	0.65	0.93	0.63	0.52	1.00	3.73	1.5%
Sudan	7.17	6.97	5.76	6.11	11.15	37.16	14.6%
Tanzania	0.03	-	-	0.01	-	0.04	.0%
Zaire	0.32	0.35	0.47	-	-	1.14	0.4%
Zambia	0.05	-	-	-	-	0.05	.0%
Africa Unspecified	0.13	9.12	0.19	5.79	-	15.23	6.0%
ASIA	13.40	12.96	7.89	5.77	12.01	52.03	
OIL EXPORTING COUNTRIES	0.70	5.00	1.50	12.40	20.00	39.60	
EUROPE	12.58	8.65	4.70	23.38	30.53	79.92	
MIDDLE EAST	4.35	7.24	3.74	18.81	2.19	36.36	
WESTERN HEMISPHERE	0.02	0.01	0.01	-	0.01	0.05	
USSR, EASTERN EUROPE, etc.	28.36	13.10	12.62	6.92	2.26	63.26	
Country /area unspecified	0.61	0.28	0.03	0.13	-	1.05	
Special Categories	0.02	0.02	0.02	-	-	0.06	
WORLD TOTAL	342.51	293.32	368.48	606.92	407.41	2,018.64	
MEMORANDUM ITEMS:							
EEC	110.08	98.93	152.30	201.64	136.36	699.31	
Oil Exporting Countries	0.20	1.80	0.40	2.20	5.30	9.90	
Non Oil-exporting c'tries	15.30	18.60	7.40	11.10	17.00	69.40	
PERCENT DISTRIBUTION							
Industrial Countries	71.8%	70.7%	86.6%	79.5%	70.8%	76.5%	
Non-Oil Dev'ing Countries	14.6%	17.6%	7.2%	10.3%	15.7%	12.6%	
Africa	5.7%	7.8%	2.8%	2.5%	4.7%	4.3%	
Asia	3.9%	4.4%	2.1%	1.0%	2.9%	2.6%	
Europe	3.7%	2.9%	1.3%	3.9%	7.5%	4.0%	
Middle East	1.3%	2.5%	1.0%	3.1%	0.5%	1.8%	
Western Hemisphere	.0%	.0%	.0%	0.0%	.0%	.0%	
USSR, Eastern Europe	8.3%	4.5%	3.4%	1.1%	0.6%	3.1%	
Oil Exporting Countries	4.5%	6.3%	2.0%	1.8%	4.2%	3.4%	

Source: International Monetary Fund, Direction of Trade Statistics YrBk 1961, Pages: 373-374.

Table 7
UGANDA'S DIRECTION OF TRADE: 1979 - 85
E X P O R T S
(Mill $)

COUNTRY/REGION	1979	1980	1981	1982	1983	1984	1985	TOTAL	Percent of Total
INDUSTRIAL COUNTRIES	364.44	403.93	236.38	325.11	299.37	350.77	332.63	2,312.63	
NON-OIL DEV'ING COUNTRIES	47.09	55.33	43.03	52.01	50.38	58.32	62.78	368.94	100.0%
AFRICA	21.63	29.02	28.65	27.36	28.86	37.52	27.58	200.62	54.4%
Algeria	0.02	-	-	4.85	-	-	-	4.87	1.3%
Burundi	-	-	-	-	-	-	-	0.00	0.0%
Ethiopia	0.02	-	-	-	-	-	-	0.02	.0%
Ghana	-	0.01	0.01	0.01	0.01	0.01	0.01	0.06	.0%
Kenya	1.95	2.96	1.61	1.45	1.59	1.67	1.59	12.82	3.5%
Liberia	-	0.01	-	-	-	-	-	0.01	.0%
Rwanda	1.06	1.63	0.64	0.61	0.79	1.14	1.09	6.96	1.9%
Somalia	1.48	0.01	0.01	0.01	0.01	0.01	0.01	1.54	0.4%
Sudan	-	1.70	3.68	-	0.07	0.08	0.07	5.60	1.5%
Tanzania	0.09	0.09	0.09	0.07	3.96	11.10	2.46	17.86	4.8%
Tunisia	-	-	-	-	-	-	0.01	0.01	.0%
Zambia	-	-	-	0.02	0.02	-	-	0.04	.0%
Zimbabwe	-	-	-	-	0.01	0.01	0.01	0.03	.0%
Africa Unspecified	17.00	22.61	22.61	20.35	22.38	23.50	22.33	150.78	40.9%
ASIA	9.52	8.71	4.44	10.16	11.24	7.66	24.54	76.27	
EUROPE	9.21	4.18	2.16	3.74	2.78	5.89	4.66	32.62	
MIDDLE EAST	6.73	13.42	7.77	10.74	7.28	7.01	5.71	58.66	
WESTERN HEMISPHERE	-	0.01	0.01	-	0.22	0.23	0.28	0.75	
MEMORANDUM ITEMS:									
EEC	222.86	231.03	113.47	141.81	173.42	221.28	204.74	1,308.61	
Oil Exporting Countries	3.85	11.02	7.53	13.35	7.18	6.55	5.24	54.72	
Non Oil-exporting c'tries	43.24	44.31	35.50	38.66	43.19	51.77	57.54	314.21	
WORLD TOTAL	427.47	476.87	289.35	391.60	360.03	422.22	406.06	2,773.60	
PERCENT DISTRIBUTION									
Industrial Countries	85.3%	84.7%	81.7%	83.0%	83.2%	83.1%	81.9%	83.4%	
Non-Oil Dev'ing Countries	11.0%	11.6%	14.9%	13.3%	14.0%	13.8%	15.5%	13.3%	
Africa	5.1%	6.1%	9.9%	7.0%	8.0%	8.9%	6.8%	7.2%	
Asia	2.2%	1.8%	1.5%	2.6%	3.1%	1.8%	6.0%	2.7%	
Europe	2.2%	0.9%	0.7%	1.0%	0.8%	1.4%	1.1%	1.2%	
Middle East	1.6%	2.8%	2.7%	2.7%	2.0%	1.7%	1.4%	2.1%	
Western Hemisphere	-	.0%	.0%	-	0.1%	0.1%	0.1%	.0%	
Oil Exporting Countries	10.1%	9.3%	12.3%	9.9%	12.0%	12.3%	14.2%	11.3%	

Source: International Monetary Fund, Direction of Trade Statistics YrBk
1986, Pages: 392-393.

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Table 8
UGANDA'S DIRECTION OF TRADE: 1974-78
I M P O R T S
(Mill $)

COUNTRY/REGION	1974	1975	1976	1977	1978	TOTAL	Percent of Total
INDUSTRIAL COUNTRIES	104.97	96.72	69.41	82.43	174.33	527.86	
NON-OIL DEV'ING COUNTRIES	104.13	88.20	87.49	156.74	41.96	478.52	
AFRICA	81.30	67.68	80.92	141.88	22.04	393.82	100.0%
Burundi	-	-	0.02	0.15	-	0.17	.0%
Ethiopia	-	-	0.01	-	-	0.01	.0%
Ghana	-	-	-	0.02	0.04	0.06	.0%
Kenya	77.33	66.54	79.35	140.03	19.07	382.32	97.1%
Malawi	-	-	0.03	-	0.11	0.14	.0%
Rwanda	-	-	0.09	0.11	0.04	0.24	0.1%
Seychelles	-	-	-	0.01	0.01	0.02	.0%
Somalia	-	0.02	0.06	0.40	-	0.48	0.1%
Sudan	0.01	0.18	0.40	-	-	0.59	0.1%
Swaziland	0.09	-	0.04	0.23	0.41	0.77	0.2%
Tanzania	3.07	0.76	0.86	0.26	0.21	5.16	1.3%
Zaire	-	0.02	0.01	0.58	1.15	1.76	0.4%
Zambia	0.21	0.14	0.04	-	-	0.39	0.1%
Africa Unspecified	-	-	-	0.05	-	0.05	.0%
British Africans	-	0.02	-	0.05	-	0.07	.0%
ASIA	15.16	15.96	5.34	8.78	14.57	59.81	
EUROPE	3.18	2.74	0.70	0.39	4.35	11.36	
MIDDLE EAST	0.65	0.74	0.33	0.30	0.58	2.60	
WESTERN HEMISPHERE	3.85	0.49	0.20	5.38	0.45	10.37	
USSR, EASTERN EUROPE, etc.	4.18	12.46	3.77	8.14	6.02	34.57	
OIL EXPORING COUNTRIES	0.54	1.24	0.44	0.49	2.62	5.33	
COUNTRIES NOT SPECIFIED	0.01	0.02	0.03	5.74	-	5.80	
TOTAL	213.83	198.03	161.11	247.79	224.96	1,045.72	
MEMORANDUM ITEMS:							
EEC	76.14	67.88	51.69	69.08	147.95	412.74	
PERCENT DISTRIBUTION							
Industrial Countries	49.1%	48.8%	43.1%	33.3%	77.5%	50.5%	
Oil Exporting Countries	0.3%	0.6%	0.3%	0.2%	1.2%	0.5%	
Non-Oil Dev'ing Countries	48.7%	44.5%	54.3%	63.3%	18.7%	45.8%	
Africa	38.0%	34.2%	50.2%	57.3%	9.8%	37.7%	
Asia	7.1%	8.1%	3.3%	3.5%	6.5%	5.7%	
Europe	1.5%	1.4%	0.4%	0.2%	1.9%	1.1%	
Middle East	0.3%	0.4%	0.2%	0.1%	0.3%	0.2%	
Western Hemisphere	1.8%	0.2%	0.1%	2.2%	0.2%	1.0%	
USSR,Eastern Europe	2.0%	6.3%	2.3%	3.3%	2.7%	3.3%	

Source: International Monetary Fund, Direction of Trade Statistics
Yearebook, 1986, IMF,Pages 231-232.

Table 9
UGANDA'S DIRECTION OF TRADE: 1979-85
I M P O R T S
($'000)

COUNTRY/REGION	1979	1980	1981	1982	1983	1984	1985	TOTAL	Percent of Total
INDUSTRIAL COUNTRIES	90.10	219.83	156.19	173.63	148.86	145.91	154.82	1,089.3	
DEVELOPING COUNTRIES	142.60	245.96	170.05	196.44	156.25	174.64	158.43	1,244.37	
AFRICA	129.82	215.22	140.29	117.74	130.69	138.40	130.28	1,002.4	100.0%
Burundi	-	-	-	-	0.01	0.44	0.58	1.0	0.1%
Ghana	0.01	-	-	-	-	-	-	.0	.0%
Kenya	112.59	196.80	127.95	115.16	126.67	133.00	126.35	938.5	93.6%
Liberia	-	0.20	-	-	-	-	-	0.2	.0%
Malawi	1.66	0.46	-	0.21	-	0.02	0.02	2.4	0.2%
Mauritius	-	-	-	0.02	-	-	-	.0	.0%
Nigeria	-	0.01	-	-	-	-	-	.0	.0%
Rwanda	-	-	0.30	0.35	-	0.17	0.16	1.0	0.1%
Somalia	-	0.01	0.01	0.01	0.01	0.02	0.01	0.1	.0%
Swaziland	0.59	0.77	0.77	0.70	0.76	0.80	0.76	5.2	0.5%
Tanzania	14.68	16.58	10.82	0.94	2.84	3.48	1.99	51.3	5.1%
Tunisia	-	-	-	-	-	0.03	-	.0	.0%
Zambia	-	-	-	-	-	0.01	0.01	.0	.0%
Zimbabwe	-	-	0.05	-	0.02	0.03	0.02	0.1	.0%
Africa Unspecified	0.14	0.19	0.19	0.17	0.19	0.20	0.19	1.3	0.1%
British Africans	0.15	0.20	0.20	0.18	0.19	0.20	0.19	1.3	0.1%
ASIA	12.78	30.74	29.76	78.70	25.56	36.24	28.15	241.9	
EUROPE	0.37	13.24	0.17	0.94	0.33	0.44	0.57	16.1	
MIDDLE EAST	1.10	3.46	4.87	15.44	10.63	8.51	7.69	51.7	
WESTERN HEMISPHERE	0.01	0.1	0.05	0.67	1	0.79	0.47	3.1	
WORLD TOTAL	234.2	482.6	331.3	387.1	317.1	330.3	322.0	2,404.6	
MEMORANDUM ITEMS									
EEC	74.77	179.28	133.84	140.41	117.85	112.45	120.80	879.4	
Oil Exporting Countries	1.04	3.42	4.82	10.70	8.71	7.73	6.94	43.4	
Non-Oil Developing Countries	143.03	259.16	170.30	143.07	159.44	176.62	160.40	1,212.0	
PERCENT DISTRIBUTION									
Industrial Countries	38.5%	45.6%	47.1%	44.9%	46.9%	44.2%	48.1%	45.3%	
Developing Countries	60.9%	51.0%	51.3%	50.7%	49.3%	52.9%	49.2%	51.8%	
Africa	55.4%	44.6%	42.3%	30.4%	41.2%	41.9%	40.5%	41.7%	
Asia	5.5%	6.4%	9.0%	20.3%	8.1%	11.0%	8.7%	10.1%	
Europe	0.2%	2.7%	0.1%	0.2%	0.1%	0.1%	0.2%	0.7%	
Middle East	0.5%	0.7%	1.5%	4.0%	3.4%	2.6%	2.4%	2.2%	
Western Hemisphere	.0%	.0%	.0%	0.2%	0.3%	0.2%	0.1%	0.1%	

Source: International Monetary Fund, Direction of Trade Statistics Yearbook, 1966, IMF, pp 392-393.

C. The Model and Calculations for Uganda's Export Competitiveness in Nontraditional Export Crops

MODEL AND CALCULATIONS FOR UGANDA'S EXPORT COMPETITIVENESS IN NON-TRADITIONAL EXPORT CROPS

A. Introduction

An important aspect of Uganda's trade potential is the competitiveness of its agricultural products in regional and/or world markets. Therefore an export competitiveness analysis of Ugandan agricultural exports for the 1987/88 crop year was undertaken for robusta coffee, the main traditional export crop, and for five of the most important non-traditional export crops for which the necessary data exits--beans, maize, groundnuts, soybeans and simsim. The analysis assessed the impact of the exchange rate as well as production and marketing costs on the export competitiveness of these crops, given present day production and marketing costs.

B. Development of Farm-Level Enterprise Budgets

Using survey data from the Agricultural Secretariat, a model was developed for each crop where the foreign and domestic costs of production and marketing per hectare were identified and quantified. Starting with a farm level partial budget of each crop enterprise, all tradable (imported) and non-tradable (domestic) input costs were specified and valued. Then the number of family and hired labor man-days required to complete the various production tasks were specified and costed. Labor costs were computed on the basis of the opportunity cost of family labor, assuming they were engaged in producing the next best competing crop in the production area. In the case of food crops, this was an average of 54 USh per man-day and for coffee it was 83 USh per man-day. Hired labor costs were calculated on the basis of 75 USh/man-day. The estimated cost of transporting farm output to the nearest market was also included as a farm-level cost.

Gross returns per hectare were calculated on the basis of the official price offered by the Produce Marketing Board (PMB), a marketing parastatal. Subtracting total cash expenditures from gross returns gave the gross margin (net farm income). The imputed cost of family labor was deducted from the gross margin, giving returns to capital and management. Returns to family labor was derived by dividing the returns to capital and management by the number of family labor man-days used in production of the crop.

C. Accounting for Marketing Costs

Data on average domestic marketing costs plus export related costs incurred by private marketing agents and the PMB were also obtained from the Agricultural Secretariat. From this data, foreign and domestic costs at every stage of the marketing system were identified and totaled.

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D. Calculating Export Competitiveness

The above costs for one hectare of output were incorporated in an export competitiveness analysis by specifying the cost of tradeables and nontradeables involved in production and marketing as well as factor renumeration (family and hired labor). Prevailing export parity prices (F.O.B. Mombasa) were used to value output.

In the model, total input costs are subtracted from the export value of one hectare of production. The result is the amount of excess profits generated by the production and marketing system which could be captured by more efficient producers, marketing agents or exporters. International value added is determined by subtracting the cost of tradable inputs involved in production and marketing, from the export value of the commodity. Domestic resource costs are determined by summing all domestic input costs and factor renumeration (all labor costs).

A competitive coefficient is calculated by dividing domestic resource costs by the international value added (in dollar terms). The resulting coefficient is the shilling production costs required to earn one dollar of export revenue. For a crop to be competitive, this coefficient must be less than the exchange rate used to value agricultural inputs and exports. The degree to which a crop is competitive was also measured by an index of competitiveness which is the ratio of the exchange rate to the competitiveness coefficient. The extent to which this index is greater than 1.00 (or 100 percent) is a measure of the crop's relative competitiveness (the productive enterprise is above the breakeven point and excess profits are positive). The results of the models are summarized in Table 1.

E. Uganda's Export Competitiveness in Robusta Coffee

At an export price of $2.30 per kilo and at the official exchange rate of USh 60:$1, the robusta coffee sub-sector is very competitive and generates considerable excess profits. Under present pricing policies all such excess profits are taxed by the GOU which is the single largest source of revenue for the GOU. Thus, to maximize budgetary tax revenue, the government decided in February 1988 to pay farmers USh 53.7 per kilo (under 40% of the export price) and to hold down some cost allocations to the Coffee Marketing Board (such as a lower profit margin). As a result, the GOU presently realizes about 58 shillings per kilo in tax revenue, an effective tax rate of 42%.

F. Uganda's Potential Export Competitiveness for Selected Non-Traditional Exports

Under existing production and marketing conditions (levels of technology and cost), the export competitiveness of the five food crops included in our analysis are all negative, given current export parity prices (international, but not border prices) and the current official exchange rate. As Table 2 shows, simsim (sesame) and beans are relatively more competitive than maize and groundnuts. With only a moderate change in the exchange rate simsim and beans would become competitive at current world prices. However, the models indicate that much higher exchange rates or export prices are necessary to make maize and groundnuts competitive given current production technologies and marketing conditions.

As shown in Table 2, for maize to be competitive either the exchange rate would have to increase substantially to USh 925:$1 at the present export parity price, or the export parity price would have to triple from $0.12 to $0.36/Kg at the current official exchange rate. The situation regarding groundnuts and soybeans is also similar.

G. Role of Production and Marketing Costs

Production and marketing costs are also important determinants of a crop's export competitiveness. As an illustration, maize and groundnuts are two crops that are not competitive under current production and marketing conditions. For groundnuts and maize, domestic production costs are well above the export value (see Table 4 and Graph 1). This suggests that crop yields are low and costs per unit of output are relatively high for these two crops. These facts are as important as the export parity price and the exchange rate in explaining the lack of competitiveness of maize and groundnuts in international markets.

H. Role of Output Increasing Technology

Uganda's limited share of the world supply of crops under consideration is such that Uganda is a "price taker". This points to the need to find strategies to increase agricultural output and reduce production and marketing costs per unit of output which is critical if Uganda is to improve its export competitiveness. Output can be increased and on-farm cost reductions can be achieved through agricultural research and by introducing readily available output increasing technology such as higher yielding crop varieties, improved agronomic practices, etc.

I. Importance of Transport Costs

Another factor having an important bearing on marketing costs and export competitiveness in Uganda is high transport costs. For the crops included in our analysis, transport costs were 30-47 percent of total export costs. Since Uganda is a land locked country, roughly half of these costs are related to transporting a commodity to the port of Mombasa. But shorter distances to regional markets may reduce this cost factor and efforts to improve the transport infrastructure will also contribute to increasing Uganda's export competitiveness.

J. Advantages of Regional Markets

Prevailing prices in regional markets tend to be significantly higher than world market prices, offering short-run export potential for those crops shown to be presently non-competitive on the world market because of price. For example, the price of maize in Dar es Salaam is $0.35/kg (see Table 3) which is close to the export competitive price of $0.36/kg that is required for maize to achieve export competitiveness according to our model (see Table 2). The same can be said for groundnuts where the price in Kigali is $1.20/kg which is considerably higher than the export parity price of $0.21/kg used in the model. Of course, the cost of transport to regional markets would have to be properly factored in but prevailing regional prices illustrate that more favorable regional prices can significantly improve Uganda's export competitiveness in the short-run until output increasing technology is introduced and marketing costs are lowered (e.g. via improved road conditions).

TABLE 1: COST STRUCTURE, EXPORT COMPETITIVENESS AND RETURNS TO FARMER (1987/88)

	UNIT	R. COFFEE[1]	SIMSIM	BEANS	SOYBEANS	GROUNDNUT	MAIZE
1. Output Parameters:							
a. Export Parity Price[2]	$/Kg	$2.31	$0.76	$0.55	$0.22	$0.21	$0.12
b. Yield	Kg/Ha	1,500	400	700	1,000	800	1,500
2. Export Value[3]	USh/Ha	112,266	18,144	23,100	13,200	10,080	10,800
3. Input Costs:							
a. Traded Inputs	USh/Ha	14,379	2,684	4,426	6,780	3,452	9,323
b. Nontraded Inputs	USh/Ha	24,446	5,360	9,548	9,276	15,099	11,678
c. Factor Renumeration	USh/Ha	36,270	11,100	10,455	10,935	14,550	11,100
Total Input Costs	USh/Ha	75,095	19,144	24,429	26,990	33,102	32,100
4. Excess Profits	USh/Ha	37,171	(1,000)	(1,329)	(13,790)	(23,022)	(21,300)
5. International Value Added							
a. In Ugandan Shillings	USh/Ha	97,887	15,460	18,674	6,421	6,628	1,478
b. In U.S. Dollars	$/Ha	$1,631	$258	$311	$107	$110	$25
6. Domestic Resource Cost	USh/Ha	60,716	16,460	20,003	20,211	29,649	22,778
7. COMPETITIVE COEFFICIENT	USh/$	37.2	63.9	64.3	188.9	268.4	925.0
8. INDEX OF COMPETIVENESS		1.61	0.94	0.93	0.32	0.22	0.06
9. Farm Production Cost	USh/Kg	34.2	31.1	20.5	13.2	29.7	8.8
10. GOU Floor Price	USh/Kg	29.0	35.0	20.0	15.0	30.0	6.0
11. Net Farm Income[4]	USh/Ha	18,316	9,640	7,460	9,360	11,015	3,915
12. Returns to Farmer/Man Day[4]	USh/Ha	-24.9	10.3	-2.6	12.9	1.1	-27.9

[1]Analysis is based on a full cost enterprise budget and before GOU taxes excess profits. After accounting for the GOU's Feb.'88 farm gate price policy and after excess profits are taxed, item 7 = 60, item 8 = 1.00, and item 9 = 29.0 because family labor is being renumerated at a reduced opportunity cost (58 USh vs 83 USh).

[2]F.O.B. Mombasa or Dar es Salaam.

[3]Based on the official exchange rate of USh 60/$1.

[4]Based on GOU floor price.

TABLE 2: COMPETITIVE PRICES AND EXCHANGE RATES

Crop	Export Parity Price ($/Kg)	-----Competitive----- Price[1] ($/Kg)	Exchange Rate[2] (USh/$)
Coffee[3]	$2.30	$1.55	37
Simsim	$0.75	$0.80	64
Beans	$0.55	$0.58	64
Soybeans	$0.22	$0.45	189
Groundnuts	$0.35	$0.70	268
Maize	$0.12	$0.36	925

[1]At the official exchange rate of 60 USh:$1.
[2]At the Export Parity Price.
[3]Before taxes

TABLE 3: PRICES OF FOOD CROPS IN CAPITAL CITIES OF NEIGHBORING COUNTRIES

	KIGALI		DAR ES SALAAM			NAIROBI	
	Market Price (FRW)	Dollar Price ($)	Market Price (TSH)	Dollar Off. ($)	Dollar Price ($)	Market Price (KSH)	Dollar Price ($)
Maize	30.0	$0.40	62.5	$0.67	$0.35	3.0	$0.19
Groundnuts	90.0	$1.20	90.0	$0.96	$0.50	13.5	$0.84
Beans	35.0	$0.47	17.0	$0.18	$0.09	6.0	$0.38

Note: In Kigali, $1 = FRW 75 ; in Dar, $1 = 93.7 TSW officially and $1 = 120-180 TSW on the black market; in Nairobi $1 = 16 KSh

TABLE 4: DISTRIBUTION OF COSTS

	SIMSIM		BEANS		SOYBEANS		MAIZE		GROUNNUTS	
	Total Costs	Export Value	Total Costs	Export Value	Total Costs	Export Value	Total Costs	Export Value	Total Costs	Export Value
1. Farm Production Costs										
Foreign	2.1%	2.2%	1.8%	1.9%	4.1%	8.1%	2.4%	7.1%	2.2%	7.1%
Domestic	63.0%	66.5%	57.0%	60.3%	44.9%	91.9%	38.7%	115.0%	69.7%	228.9%
	65.1%	68.7%	58.8%	62.2%	48.9%	95.1%	41.1%	122.1%	71.9%	236.0%
2. Marketing Agent Costs										
Foreign	1.1%	1.2%	1.5%	1.6%	2.0%	4.1%	2.5%	7.5%	0.8%	2.6%
Domestic	8.8%	9.1%	8.5%	9.0%	10.6%	21.7%	11.0%	32.8%	7.4%	24.3%
	9.7%	10.3%	10.0%	10.6%	12.6%	25.8%	13.6%	40.3%	8.2%	26.9%
3. PMB Marketing Costs										
Foreign	10.8%	11.4%	14.8%	15.6%	19.1%	39.1%	24.1%	71.7%	7.5%	24.6%
Domestic	14.4%	15.2%	16.4%	17.3%	19.4%	39.6%	21.2%	63.1%	12.5%	40.9%
	25.2%	26.6%	31.1%	32.9%	38.5%	78.7%	45.4%	134.9%	20.0%	65.5%
4. Total Foreign Costs	14.0%	14.8%	18.1%	19.2%	25.1%	51.4%	29.0%	86.3%	10.4%	34.3%
Total Domestic Costs	85.0%	90.7%	81.9%	86.6%	74.9%	153.1%	71.0%	210.9%	89.6%	294.1%
Total Cost	100.0%	105.5%	100.0%	105.8%	100.0%	204.5%	100.0%	297.2%	100.0%	328.4%
5. Excess Profits		-5.5%		-5.8%		-104.5%		-197.2%		-228.4%
6. TOTAL Export Value		100.0%		100.0%		100.0%		100.0%		100.0%

ILLUSTRATIVE DETAILED EXPORT COMPETITIVENESS ANALYSIS TABLES

1. Summary of Enterprise Budget Costs per Hectare
2. Robusta Coffee--Cost Structure and Export Competitiveness per Hectare
3. Robusta Coffee--Farm Income and Returns to Family Labor per Hectare
4. Robusta Coffee--CMB Costs per Kilo of Clean Coffee
5. Robusta Coffee--Distribution of Export Value, "Full Cost" Model
6. Robusta Coffee--Distribution of Export Value, "Adjusted" Model
7. Beans--Cost Structure and Export Competitiveness per Hectare
8. Beans--Gross Margin and Returns to Family Labor per Hectare
9. Beans--Distribution of Export Value
10. Estimated Marketing Agent and PMB Costs of Exporting Food Crops

SUMMARY OF ENTERPRISE BUDGET COSTS Per HECTARE

CROP	Seed Qty (Kg)	Seed Cost (USh)	Seed Total (USh)	Fert/Manure Qty (T)	Fert/Manure Cost (USh)	Fert/Manure Total (USh)	Pestic/Insecticide Qty (Lt)	Pestic/Insecticide Cost (USh)	Pestic/Insecticide Total (USh)	Gunny Bags Qty (Bags)	Gunny Bags Cost (USh)	Gunny Bags Total (USh)	Depreciation on Equipment (USh)	Labor[1] Family (Mandays)	Labor[1] Hired (Mandays)	Labor[1] Total (USh)	T'port to Mkt (USh)	Annuity on Estab Cost (USh)	TOTAL COST (USh)
COFFEE	250	12	3,000	2	250	500	2	1,500	3,000	25	9	234	675	315	135	36,270	750	6,900	51,329
SIMSIM	10	50	500	-	-	-	-	-	-	4	15	60	600	150	40	11,100	200	-	12,460
BEANS	60	50	3,000	-	-	-	-	-	-	7	15	105	600	145	35	10,455	210	-	14,370
SOYBEANS	40	30	1,200	-	-	-	-	-	-	11	15	165	600	140	45	10,935	300	-	13,200
GROUNDNUTS	100	80	8,000	-	-	-	2	130	260	9	15	135	600	200	50	14,550	240	-	23,785
MAIZE	30	30	900	-	-	-	-	-	-	13	15	195	600	150	40	11,100	390	-	13,185

[1] Based on opportunity cost: Family labor @ 83 USh/MD for coffee and @ 54 USh/MD for food crops; Hired labor @ 75 USh/MD for all crops.

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R O B U S T A C O F F E E

COST STRUCTURE AND EXPORT COMPTETITIVENESS
YR: 1987-88 Per Hectare

WORLD PRICE (FOB Mombasa): $2.31 /Kg = $1.14/Lb
EXCHANGE RATE: 60 USh/$

1. Output Parameter--Yield	1,500 Kg/Ha		
2. Conversion Factor to Kiboko Coffee:	54.00%		
3. Export Value (Kiboko Coffee)			112,266
4. INPUT COSTS			
a. Imported Inputs:			
Cost of Inputs-farm		5,219	
CMB Processing		1,959	
CMB Marketing		7,201	
		14,379	
b. Domestic Inputs:			
Cost of Inputs-farm		2,940	
Other Costs-farm		6,900	
CMB Processing		7,802	
CMB Marketing		6,804	
		24,446	
c. Factor Renumeration:			
Family Labor[1]		26,145	
Hired Labor		10,125	
		36,270	
d. Total Input Costs	....	75,095	
5. Domestic Resource Cost (4b + 4c)	....	60,716	
6. Excess Profit (3 :- 4): TAXED[2] Tax Rate: 33.1%	....	37,171	
7. Domestic Resource Cost Incl. Tax (4b + 4c + Tax)	....	97,887	
8. International Value Added (3 :- 4a)			
a. In Uganda Shillings	....	97,887	
b. In U.S. Dollars	....	$1,631	
9. COMPETITIVENESS COEFFICIENT:			
a. Before Tax (5/8b)			37.2
b. After Tax (7/8b)			60.0
10. INDEX OF COMPETITIVENESS:			
a. Before Tax (Ex Rate/9b)			1.61
b. After Tax (Ex Rate/9b)			1.00

[1]Based on full opportunity cost of family labor.
[2]GOU taxes excess profits.

ROBUSTA COFFEE[1]
FARM INCOME and RETURNS TO FAMILY LABOR Per HECTARE
(1987/88)

A. COSTS:

1. INPUTS:	Units Used	Cost/Unit Ush	Total Ush	Foreign %	Cost
a. Fertilizer	250 kilos	12	3,000	70%	2,100
b. Mulch/Manure	2 tons	250	500	-	-
c. Insect/Pesticide	-	-	-	-	-
d. Herbicides	2 liters	1,500	3,000	70%	2,100
e. Gunny Sacks (recycled)	25 bags	150	234	70%	164
f. Depreciation on Equip.		-	675	60%	405
g. Transp/Mkting	25 bags	-	750	60%	450
Sub-Total:			8,159		5,219

2. LABOR COSTS	Man Days Family	Man Days Hired	Total Cost
a. Intercultivation/weeding	100	100	15,800
b. Prunning	10	30	3,080
c. Application of Fertilizer	5	5	790
d. Mulching/manuring	10	-	830
e. Spraying	-	-	0
f. Harvesting	150	-	12,450
g. Drying, sorting, etc.	40	-	3,320
Sub-Total:	315	135	36,270

3. ANNUITY on Estab. Cost (@ 10% replacement cost/20 yrs)	6,900
4. TOTAL COST	51,329
5. TOTAL COST — w/o Cost of Family Labor	25,184

B. RETURNS:

a. Yield	1,500	
b. Price/Kg.	29	
Total Revenue		43,500

C. GROSS MARGIN (NET FARM INCOME) [B-A.5]:	18,316
D. IMPUTED COST OF FAMILY LABOR @ 83 USh/MD:	26,145
E. FARMER'S CAPITAL & MANAGEMENT INCOME:	(7,829)
F. RETURNS TO FARMER/HA/Man-Day:	-24.86 USh

[1]Based on full opportunity cost of family labor @ USh 83/Man-Day.
Note: Costs are as of Oct. 1987. Hired labor renumerated @ 75 USh/MD.
Source: Agricultural Secretariat

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ROBUSTA COFFEE

COFFEE MARKETING BOARD COSTS PER KILO OF CLEAN COFFEE

(1987/88)

1. PROCESSING COSTS	Total Cost	Domestic Cost	Foreign %	Foreign Cost
a. Primary Soc. Commission	I.85	I.85	-	-
b. Buying & Storage	6.33	2.81	-	-
Transportation	I.67	0.37	78%	1.30
c. Processing & Factory	2.33	I.66	-	-
Repair/Maintenance	0.67	0.15	78%	0.52
d. Marketing	0.95	0.54	-	-
Packing	0.41	0.08	80%	0.33
e. Factory Administration	0.18	0.09	-	-
Printing/Stationary	0.09	0.01	88%	0.08
f. HQ Overhead	0.62	0.43	30%	0.19
g. Profit	1.64	1.64	-	-
TOTAL:	12.05	9.63		2.42

2. MARKETING COSTS	Total Cost	Domestic Cost	Foreign %	Foreign Cost
a. Overhead:				
Head Office	1.57	1.099	30%	0.47
For. Off/ICO&IACO Contr.	I.85	-	100%	I.85
b. Processing Costs:				
S/W	0.48	0.48	-	-
Admin	0.37	0.26	30%	0.11
Processing	1.73	0.69	60%	I.04
Packing	1.30	0.39	70%	0.91
Transportation	I.75	0.70	60%	1.05
c. Export Related	3.46	-	100%	3.46
d. Financial Costs	4.78	4.78	-	-
TOTAL:	17.29	8.40		8.89

Source: Agricultural Secretariat

ROBUSTA COFFEE ECONOMY - DISTRIBUTION OF EXPORT VALUE
"FULL COST" MODEL[1]

1987/88

Export Price:	$2.31 per Kg.
Exchange Rate:	60 USh/$
USh Price:	138.60 per Kg.
Export Value:	112,266 USh/Ha. (Kiboko)
Export Value:	207,900 USh/Ha. (Clean)

	Per Ha.	--- Per Kg. ----		----- Percent of --------	
	Kiboko	Kiboko	Clean	Total Cost	Export Value
1. Farm Production Cost					
Foreign	12,119	8.1	15.0	16.1%	10.8%
Domestic	39,210	26.1	48.4	52.2%	34.9%
	51,329	34.2	63.4	68.4%	45.7%
2. Processing Costs					
Foreign	1,959	1.3	2.4	2.6%	1.7%
Domestic	7,802	5.2	9.6	10.4%	6.9%
	9,761	6.5	12.1	13.0%	8.7%
3. Export Marketing Costs					
Foreign	7,201	4.8	8.9	9.6%	6.4%
Domestic	6,804	4.5	8.4	9.1%	6.1%
	14,005	9.3	17.3	18.6%	12.5%
4. Total Foreign Costs	21,279	14.2	26.3	28.3%	19.0%
Total Domestic Costs	53,816	35.9	66.4	71.7%	47.9%
Total Cost................	75,095	50.1	92.7	100.0%	66.9%
5. Excess Profits: TAXED	37,171	24.8	45.9		33.1%
6. TOTAL Export Value	112,266	74.8	138.6		100.0%

[1]Family labor renumerated at full opportunity cost of 83 USh/Man-Day.

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ROBUSTA COFFEE ECONOMY - DISTRIBUTION OF EXPORT VALUE
"ADJUSTED MODEL" [1]

1987/88

Export Price:	$2.31 per Kg.
Exchange Rate:	60 USh/$
USh Price:	138.60 per Kg.
Export Value:	112,266 USh/Ha. (Kiboko)
Export Value:	207,900 USh/Ha. (Clean)

	Per Ha. Kiboko	--- Per Kg. ---- Kiboko	Clean	----- Percent of -------- Total Cost	Export Value
1. Farm Production Cost					
Foreign	12,119	8.1	15.0	18.6%	10.8%
Domestic[1]	31,335	20.9	38.7	48.1%	27.9%
	43,454	29.0	53.6	66.6%	38.7%
2. Processing Costs					
Foreign	1,959	1.3	2.4	3.0%	1.7%
Domestic[2]	7,235	4.3	8.9	11.1%	6.4%
	9,194	6.1	11.3	14.1%	8.2%
3. Export Marketing Costs					
Foreign	7,201	4.8	8.9	11.0%	6.4%
Domestic[2]	5,354	3.6	6.6	8.2%	4.8%
	12,555	8.4	15.5	19.3%	11.2%
4. Total Foreign Costs	21,279	14.2	26.3	32.6%	19.0%
Total Domestic Costs	43,924	29.3	54.2	67.4%	39.1%
Total Cost...............	65,203	43.5	80.5	100.0%	58.1%
5. Excess Profits - TAXED	47,063	31.4	58.1		41.9%
6. TOTAL Export Value	112,266	74.8	138.6		100.0%

[1] Family labor renumerated at 58 USh/MD rather than opportunity cost of 83 USh/MD.
[2] CMB Profit margins and financing costs reduced.

B E A N S

COST STRUCTURE AND EXPORT COMPTETITIVENESS

YR:1987-88 PER HECTARE

Model Variables:

WORLD PRICE:	$0.55 per Kilo
EXCHANGE RATE:	60 USh/$

1. Output Parameter--Yield:	700 Kg/Ha	
2. Export Value		23,100 USh
3. Input Cost:		
a. Imported Inputs Costs		
1 Fertilizer/Menure	-	
2 Pesticides/Insecticides	-	
3 Bags	74	
4 Depreciation on Equipment	360	
5 Mkting Agents-Procurement Costs	378	
6 PMB-Marketing & Distrib. Costs	3,615	
Sub-total:	4,426	
b. Domestic Inputs Costs		
1 Domestic Farm Production Costs	3,272	
2 Farm Marketing Costs	210	
3 Mkting Agents-Procurement Costs	2,072	
4 PMB-Marketing & Distrib. Costs	3,588	
5 Expcrt Related Costs	406	
Sub-total:	9,548	
c. Factor Renumeration--Labor		
1 Land Clearing/Slashing	1,162	
2 Land Preparation	2,323	
3 Planting Seeds	581	
4 Appl. of Fert/Manure	0	
5 Spraying	0	
6 Weeding/Thinning	3,485	
7 Harvesting	2,323	
8 Post Harvest Activities	581	
Sub-total:	10,455	
d. Total Input Costs..............................		24,429
4. Excess Profits (2 - 3).............................		(1,329)
5. International Value Added (2 - 3a)		
a. In Uganda Shillings.............................		18,674
b. In U.S. Dollars................................		$311
6. Domestic Resource Cost (3b + 3c)		20,003
7. COMPETITIVENESS COEFFICIENT (6/5b)		64.27 USh/$
8. INDEX OF COMPETITIVENESS (Ex Rate/7)		93.4%

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B E A N S
GROSS MARGIN and RETURNS TO FAMILY LABOR per HECTARE
(1987/88)

A. COSTS:

1. INPUTS/OTHER COSTS

	Units Used	Cost/Unit (Ush)	Total (Ush)	Foreign %	Foreign Cost
a. Seed	60 Kg.	50	3,000	-	
b. Fertilizer/Manure	-	-	-	-	
c. Pesticides/Insecticides	-	-	-	-	
d. Depreciation on Equip.	-	600	600	60%	360
e. Gunny Bags (recycled)	7 Bags	15	105	70%	74
Sub-Total			3,705		434

2. LABOR

	Mandays Family	Mandays Hired	Total Cost
a. Land Clearing	10	10	1,290
b. Land Preparation	20	20	2,580
c. Planting	5	5	645
d. Applying Fert./Manure	-	-	0
e. Sparying	-	-	0
f. Weeding/Thinning	60	-	3,240
g. Harvesting	40	-	2,160
h. Post Harvest Activities	10	-	540
Total	145	35	10,455

3. TRANSPORT TO MARKET	210
4. TOTAL COST	14,370
5. TOTAL COST -- w/o Cost of Family Labor	6,540

B. RETURNS:

a. Yield	700 Kg.	
b. PMB Price/Kg.	20 USh	
Total Returns		14,000

C. GROSS MARGIN (NET FARM INCOME) [B-A.5]: 7,460

D. IMPUTED COST OF FAMILY LABOR @ 54 USh/MD: 7,830

E. FARMER'S CAPITAL & MANAGEMENT INCOME: -370

F. RETURNS TO FARMER/HA/Man Day: -2.55 USh

Note: Costs are for October 1987. Hired labor is renumerated at 75 USh/MD.

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B E A N S - DISTRIBUTION OF EXPORT VALUE

(1987/88)

Export Price: $0.55 per Kg.
Exchange Rate: 60 USh/$
USh Price: 33 per Kg.
Export Value: 23,100 USh/Ha.

	Per Ha.	Per Kg.	Percent of Total Cost	Percent of Export Value
1. Farm Production Cost				
Foreign	434	0.62	1.8%	1.9%
Domestic	13,937	19.91	57.0%	60.3%
	14,370	20.53	58.8%	62.2%
2. Marketing Agent Costs				
Foreign	378	0.54	1.5%	1.6%
Domestic	2,072	2.96	8.5%	9.0%
	2,450	3.50	10.0%	
3. Produce Mkting Board Costs				
Foreign	3,615	5.16	14.8%	15.6%
Domestic	3,994	5.71	16.4%	17.3%
	7,609	10.87	31.1%	32.9%
4. Total Foreign Costs	4,426	6.32	18.1%	19.2%
Total Domestic Costs	20,003	28.58	81.9%	86.6%
Total Cost.............	24,429	34.90	100.0%	105.8%
5. Excess Profits...........	(1,329)	-1.90		-5.8%
6. TOTAL Export Value:	23,100	33.00		100.0%

ESTIMATED MARKETING AGENT & PRODUCE MARKETING BOARD COSTS
OF EXPORTING FOOD CROPS
('87/88) (USh/KG)

	MAIZE	BEANS	GROUNDNUTS	SOYBEANS	SIMSIM
AGENT'S COST					
Handling & Overhead	1.10	1.10	1.10	1.10	1.10
Waste (3.5%)	0.26	0.70	1.75	0.53	1.22
Transport	0.90	0.90	0.90	0.90	0.90
Crop Finance (1 month)	0.20	0.30	1.25	0.38	0.88
Profit (20%)	0.45	0.50	0.65	0.47	0.55
Sub-total	2.91	3.50	5.65	3.38	4.65
PMB'S COST					
Direct & Indirect Costs	1.87	1.87	1.87	1.87	1.87
Crop Finance (2.5 months)	0.67	1.44	3.37	1.12	2.19
Transport	0.95	0.95	0.95	0.95	0.95
Contingency	0.35	0.43	0.62	0.40	0.51
Sub-total	3.84	4.69	6.81	4.34	5.52
EXPORT RELATED COSTS[1]					
Transport (Internal)	1.89	1.89	1.89	1.89	1.89
Preclearing Costs	0.27	0.58	1.35	0.45	0.94
Transport to Port	2.16	2.16	2.16	2.16	2.16
Other Costs	1.30	1.30	1.30	1.30	1.30
Overhead	0.25	0.25	0.25	0.25	0.25
Sub-total	5.87	6.18	6.95	6.05	6.54
TOTAL	12.62	14.37	19.41	13.77	16.71

[1] Incurred by the PMB.

D. History and Use of Agricultural Inputs

Value and Composition of Agricultural Imported Inputs

Category of Inputs	1981 %	1982 %	1983 %
Tractors and equipment/ processing equipment	18	13	20
Ox-ploughs..............	4	2	6
Tools and other equipment	34	25	39
Chemical and drugs......	43	57	34
Seed....................	0.8	2	.5
Improved livestock......	-	0.5	.02
Animal Feeds............	0.15	-	-
Annual value (million shillings)	1,175	3,349	4,043

Distribution of inputs during this period was through government ministries. Additionally, UCCU distributed through cooperative union stores and farm supply shops. In 1983, there were 31 farm supply shops of which 13 were owned by cooperatives and 18 by private traders. Other private importers distributed through private supply shops or through agents.

Since 1981 some local manufacturing firms have resumed production but their production has been erratic due to the lack of foreign exchange. These firms include Uganda Feeds Ltd. with a capacity of 60,000 tons p.a., Chillington Hoes with a capacity of 2.3 million hoes and UGMA Ltd. with a capacity of 300,000 units each for hoes, axes, slashers and shovels. Due to low utilization of installed capacities production costs were high and locally manufactured items faced step competition from imported items.

B. Current Structure of the Input Distribution System

Uganda, at present, does not have well defined input supply and distribution systems. Nine categories of market functionaries (institutions, firms and individuals) are currently involved in the agricultural input sector:

- government ministries
- donor aided projects
- bilateral agreements on input supply
- commercial firms (both Ugandan and Subsidiaries of multinational firms)
- parastatals and large scale farming enterprises
- non-governmental agencies
- Uganda Commercial Bank (RPE Project and Rural Farmers Scheme)
- local producers
- cooperatives (FPSP and RER Projects)

Direct ministerial involvement in distribution is through the Ministry of Agriculture (MA) and the Ministry of Animal Industry and Fisheries (MAIF). The MA imports or receives and distributes all types of agricultural inputs, except veterinary drugs, while MAIF handles farm equipment, veterinary drugs and chemicals, feeds and breeding stocks.

HISTORY AND USE OF AGRICULTURAL INPUTS IN UGANDA

A. Inputs Supplies

1) Pre-1971 Period

In the period prior to the 1971 military coup Uganda had a well established agricultural input supply and distribution system comprised of both cooperatives and private companies. The Uganda Cooperative Central Union (UCCU) was actively involved in supplying inputs to cooperative unions and societies. Private firms also participated in the supply of inputs to farmers. Some inputs were manufactured locally, for example, hoes at Chillington Hoes Ltd. at Jinja and UGMA at Lugazi, animal feeds at Uganda Feeds Ltd., Jinja, and single super phosphate at Tororo. After 1971 many of the firms ceased operation, and the whole input supply system became disorganized.

2) 1971-79 Period

During this period the supply of inputs was haphazard and imported inputs were generally in low supply. In 1971 the demand for fertilizer was estimated at 30,000 tons but the supply was only about 22% of estimated demand. In the later years the supply declined further.

The supply of basic tools (hoe and pangas) was also drastically affected. The annual demand was 2.5 million hoes, but actual supply was about 20% of demand. A similar supply and demand situation existed for pangas. Local production at Chillington Hoes Ltd. and UGMA Ltd. stopped due to theexpulsion of owners and lack of foreign exchange. The supply of agricultural chemicals suffered a similar fate to that of other inputs. Between 1971-75 most of the demand for chemicals was not met and in the later years the supply became erratic and in most cases non-existent.

Ox-plows are used in the light soils of Teso and Acholi. By 1969 it was estimated there were 90,000 plows. Due to the lack of spare parts the number of operational plows declined to about 25,000 in 1983

The supply of improved seeds was also adversely affected. Many varieties of improved seeds (beans, cowpeas, groundnuts, simsim, sorghum and maize) were locally developed between 1960 and 1970 but not adequately released and disturbed in the 1970's.

3) 1980-86 Period

Due to the neglect of the input supply sector during the decade of Amin's regime, the country faced serious input shortages by 1980. Beginning in 1980, the government, donor agencies and private importers started heavy importation of inputs.

The agricultural "inputs" imported into Uganda between 1981 and '83 are shown in the following table:

Imported inputs financed through donor assisted projects handled by MA and MAIF are summarized in the table below:

Imported Inputs Financed Under Donor Assisted Projects, 1980-86

Project Name	Type of Inputs	Financing Agency
Uganda Seed Project	Fertilizer, Vegetable seeds, Improved seeds, agro-chemicals.	EEC
Agricultural Development Project (ADP)	Farm tools, vegetable seeds, aphicides, insecticides, fungicides, agro-chemicals, hardware, flour mills	IFAD
Coffee Rehabilitation Project	Farm tools, insecticides fungicides, herbicides, fertilizers, hardwares	EEC
Karamoja Production Project	Farm tools, Improved seed	EEC and OXFAM
Food Production Support	Bicycles, vegetable seeds bean, wheat and maize seed alfafa	USAID

There are 15 major commercial firms currently engaged in the marketing of agricultural inputs (see Table C-1 at the end of this Annex). Table C-2 identifies 12 parastatal and large scale enterprises that are involved in the importation of agricultural inputs.

Non government organizations which have been involved in input procurement and distribution include those dealing with refugee resettlement, and church-aid organizations:

UNHCR	Hoes, pangas and seeds
Red Cross	Hoes, pangas and seeds
Church of Uganda	Hoes, and some livestock inputs
Catholic Church	Hoes
UNICEF	Hoes, Water pumps

In addition, the Agricultural Rehabilitation Project (ARP), financed by the World Bank and implemented by Uganda Commercial Bank, procures inputs through Crown Agents for various institutions, such as the cooperatives and other agricultural enterprises which qualify under the project. Also, the Uganda Cooperative Central Union (UCCU) continues to import various types of inputs for sale to unions, and also handles various donor supplied inputs. Some cooperative unions have also ventured into direct importation through Uganda Commercial Bank under the ARP-program.

Local producers of inputs include both formal and informal producers of farm tools, animal feeds, barbed wire and other simple tools as shown in Table C-3.

C. Market Concentration/Role of Various Functionaries

Over the three-year period 1981-83, the percentage of imported inputs handled by MA and MAIF increased from approximately 20% in 1981 to 55% in 1983. During the three years they handled about 44% of the total value of imported inputs. Most of the inputs were donor financed, largely by IFAD's Agricultural Reconstruction Project and EEC's Coffee Rehabilitation Project. Other inputs handled by the ministries were financed under bilateral agreements with Japan, FAO, West Germany, Finland, U. K. and Italian Aid. Importation of inputs financed by the GOU accounted for less than 15 percent of inputs handled by ministries.

The Uganda Central Cooperatives Union (UCCU) handled an average of about 10 percent of the inputs imported and distributed over the 1981-83 period. Over 80 percent of all inputs handled by UCCU were donor financed. In more recent years their market share has increased substantially.

The eight most important private sector importers of agricultural inputs, handled about 74 percent of the input market in 1981, but by 1983 their share declined to 31 percent. Of the volume of business handled, 57 percent were tender purchasers.

Several points can be made about the structure of the inputs market in the period 1981-83:

- In 1981 and '82 private firms handled the greatest volume of imported inputs and via GOU tender purchase as most of the aid inputs had not started to arrive in country.
- In 1981 the ministries were experiencing local cover problems and as a result could only handle minimal input purchases; once donor financed inputs began to arrive they became heavily involved in input distribution.
- Despite increasing volumes of donor financed imported inputs, the private sector retained one third of the market in 1983.
- The uncertainty of the period discouraged the private sector from fully establishing their marketing systems.
- Inadequancy of foreign exchange limited the role of the private sector in the procurement of inputs.

D. Market Channels and Sales Outlets

The channels for distributing inputs were and largely remain very rudimentary and sales outlets are only in major towns, limiting farmers access to inputs. Although the vast majority of storage facilities are in Kampala, cooperative unions have storage facilities at the district level. An important factor limiting the re-establishment of a viable input delivery system during the period 1984-86 was an inadequate transport fleet and the deteriorated condition of the national road network.

The formal input distribution system presently ends at the district level. At the village and county levels, farmers have to depend on various sources of farm inputs, such as --

- weekly or bi-weekly markets where market hawkers sell their wares including inputs.

- the village general shop which might occasionally have some inputs.

- the local cooperative society, if it is able to obtain inp ts from the district union.

- mobile vans selling inputs from the cooperative unions when they are available.

- sales or free distribution from non-governmental organizations in the areas where they operate.

- sales by Ministry officials if the area is covered under a donor aided project; and purchases from

- a farm supply shop if located nearby

The above sources represent uncertainty of supply. Farmers are consequently not aware of who has inputs, what types are available and at what price. To overcome this situation. cooperatives and private traders need greater access to imported inputs and need to be encouraged to open sales outlets at the sub-county level.

E. Agricultural Input Needs For the Food Crop Sector As Projected By the Ministry of Agriculture (MA)

The Ministry recognizes that the food crop sector (source of nontraditional exports) has not been receiving adequate attention. The MA established a production program for 1987 aimed at achieving adequate increases in supply, not only for domestic consumption but also for the production of raw materials for domestic processing, and production for export.

It is recognized that to achieve these aims, massive inputs, both local and imported, are required. The MA estimated that the following inputs were the requirement for the food crop sector in 1987.

Estimated Agricultural Input Requirements Dominated in Dollars For 1987

INPUTS	ITEM	QUANTITY TONNES/ KG/LT	UNIT COST	TOTAL COST (US $).
SEEDS	Maize Hybrid	1,250	750	937,500
	Maize Kawanda	2,000	400	800,000
	Sorghum Serena	100	500	50,000
	Barley	150	750	112,500
	Wheat	300	750	225,000
	Beans	2,600	500	1,300,000
	Groundnuts	1,500	1000	1,500,000
	Sesame	100	800	800,000
	Soyabeans	100	500	50,000
	Vegetable Seeds	20	100	200,000
	SUB TOTAL			$5,225,000
FERTI-LIZERS	CAN/ASN 25% Single Super	3,000	400	1,200,000
	Phospate (SSP)	1,000	350	350,000
	NPK 25:5:5	500	500	250,000
	Muriate of Potash	500	500	250,000
	SUB TOTAL			$2,050,000
PESTI-CIDES	SUB TOTAL			$4,340,000
HERBI-CIDES	SUB TOTAL			$2,064,000
GUNNY BAGS	SUB TOTAL	12,000 Bales	300	$3,600,000
FARM TOOLS	Hoes	3,000,000	2.5	7,500,000
	Pangas	1,000,000	1.5	1,500,000
	Axes	500,000	2.5	1,250,000
	Wheel barrows	100,000	40.0	4,000,000
	Crop Sprayers	50,000	50.0	2,500,000
	Ox-ploughs	10,000	50.0	500,000

	Spares for Sprayers and Ox-ploughs	-		300,000
	SUB TOTAL			$17,550,000
FARM MACHINERY AND EQUIPMENT	Maize shellers	2,000	500	1,000,000
	Groundnut shellers	2,000	400	800,000
	Tractors/(40-80 HP) with disc plough disc harrow and trailer.	300	15,000	4,500,000
	Tractor Implements:			
	Planters	50	4,500	225,000
	Maize Mills	30	12,000	360,000
	Cultivators	30	3,500	105,000
	Spares for Tractors and Machinery			1,000,000
	SUB TOTAL			$7,990,000
Bicycles	SUB TOTAL		150	$750,000
	TOTAL			$43,569,000

F. Import Procedures

The general consensus among importers is that import documentation procedures take too long.(what normally takes 12 to 20 weeks it is believed should only take 1-4 weeks). This is because of the infrequent meetings of import committees within the Ministry of Commerce and the Bank of Uganda and lengthy local cover clearance procedures in the importers own banks. In the case of donor funded projects, the process is complicated by donor procurement procedures and in some cases, insistence on international competitive bidding. It is frequently suggested that donors should be more flexible in their procedures and that local institutions involved in importdocumentation procedures should meet more regularly and process documents more quickly.

G. Sources of Inputs

The major sources of inputs imported into Uganda include Kenya, European countries (UK, Norway, France, West Germany, Belgium, Switzerland, Denmark, Spain, Italy), Asian Countries (India, Bangladesh, China, South Korean and Japan), Australia, and the United States.

Delivery times for inputs from Kenya are typically 4 - 6 weeks; from Europe 6-12 weeks (however, EEC and FAO funded inputs can take up to 24 weeks); from Asia 6-14 weeks but inputs from India, Japan and Australia may take as long as 32 weeks.

H. Prices of Imported Inputs

Due to a lack of uniform pricing procedures by importers, input prices at farm supply shops are not uniform. The margin mark-up by farm supply shops range from 10-35 percent for major inputs but go as high as 90 percent above the supplier's price. The open market mark-ups range from 10 to over 100 percent. Farm input traders argue that prices are high for several reasons such as inadequate and irregular supplies, which create an element of speculative pricing; the high costs of transportation; continuous changes in supplier prices; and different prices charged by suppliers for similar commodities.

I. Seasonality of Demand

The demand for most inputs is influenced by croppingpatterns in each of the regions. In areas surrounding Lake Victoria and some parts of eastern and western Uganda, there is a bimodal rainfall pattern, making two annual planting seasons possible. Land preparation in these areas takes place between January and March. The s cond crop season starts with land preparation taking place during July to September. In most of northern Uganda, which experiences unimodal rainfall, land preparation takes place between January to April. These agronomic facts along with an analysis of annual sales of farm supply shops in Kampala, Rakai, Mbale, Tororo and Mbarara indicates the seasonality in the demand of imported inputs. Most inputs sales take place just before planting in the period March to May and again during September to November. Thus, imported inputs must be available at least two weeks before planting seasons or during January and February and July and August.

J. Value of Business Handled By Farm Supply Shops

The current distribution channels end in most cases at district headquarters, via four categories of shops: co-operative unions; primary cooperative societies or private shops: well-established Kampala shops: and small scale Kampala shops. An analysis of nine input outlets covering these four categories of shops shows that typical small rural farm supply shops handle business averaging Ush. 13.6 million; large rural cooperative shops up to Ush. 272.5 million; a well-established Kampala outlets Ush. 271.0 million; and a Kampala based small shop selling agricultural inputs around Ush. 31 million.

K. The UCCU Input Distribution System

The UCCU is the country's apex cooperative institution. In the past it was the major importer of agricultural inputs but currently imports only 10-20 percent of the inputs it distributes. The majority of the inputs are supplied by donor agencies under specific projects or bilateral agreements. The decline in the volume of inputs it imports has been mainly due to UCCU liquidity problems, lack of foreign exchange available from the banking system and the increasing role of government ministries in the direct distribution of inputs.

Despite these problems UCCU handled Ush. 877 million of imported inputs in the fiscal year 1985/86. Sixty-three percent of the sales were in the Central Region, followed by 22 percent in the Western Region. The Central Region is dominant in the purchase of inputs due to its nearness to sales outlets, more developed agriculture, comparatively higher household incomes than other regions, higher literacy rate and farmers' longer experience with input useage.

Of the total volume of inputs handled by UCCU in 1985/86, chemicals and drugs accounted for 49%; hardware and tools 43%; vegetable and maize seed 4%; bicycles and spares 3% with fertilizers, gunny bags and vehicle tires and spares accounting for the remainder.

Table C-1:
Commercial Importers of Agr Inputs

Firm	Types of Inputs
Ciba-Geigy	Livestock drugs
Pfizer Limited	Agro-chemicals
May and Baker	Agro-chemicals
Farm Inputs - Uganda	Agro-chemicals
Agromed Limited	Agro-chemicals and Livestock drugs
Armstrades	Livestock drugs
Shell (U) Ltd	Agro-chemicals
Wellcome (U) Ltd.	Veterinary drugs and equipments
Twiga Chemical Industries	Agro-chemicals
General Machinery Ltd.	Tractors, grain mills, water pumps
Gailey and Roberts	Grain mills, agricultural machinery, water pumps
Farm Machinery Distributors (U) Ltd.	Tractors and spare parts
Uganda Hardwares	Hoes and other hardware
Associated Chemicals	Agro-chemicals
Industrial and Agricultural Chemicals Ltd.	Agro-chemicals

Table C-2:
Parastatal and Large-scale Private Importers of Agric Inputs

Enterprises	Activity	Types of Inputs
Uganda Tea Growers Corp.	Smallholder tea	Tea production inputs
Agricultural Enterprises	Estate tea	Tea production inputs
Uganda Tea Corporation	Estate tea	Tea production inputs
Dairy Corporation	Milk	Inputs for diary farmers
Madhvani Sugar Ltd.	Sugar	Sugar production inputs
Sugar Corporation of Uganda	Sugar	Sugar production inputs
National Sugar Works Ltd.	Sugar	Sugar production inputs
BAT (U) Ltd.	Tobacco	Tobacco production inputs
CMB	Coffee	Gunny bags and processing inputs
LMB	Cotton	Gunny bags and processing inputs
Kibimba Rice Company	Rice	Rice production inputs
Cocoa Rehabilitation Project	Cocoa	Cocoa production inputs

Table C-3:
Local Manufacturers of Agricultural Inputs

Organization	Inputs	Present-Production	Potentia Capacity
Uganda Feeds Ltd	Live-stock	Less than 50% of capacity	60,000
Uganda Hoes Ltd	Hoes	Erratic depending on raw material supplies.	2.3 million pieces
UGMA	Hoes, axes, slashers, shovels	300,000 of each per annum	500,000
	Ploughs	In trial stage	
	trailers and maize mills		
	A wide range of spares	Orders below capacity	
UNIDO Project, Soroti	Ox-plows and carts; maize mills; spare parts	Not fully installed; production of spares depends on raw for materials	Projected capacity of 6,000 ploughs a year;spares for 2000 ploughs;

			500 seeders/ weeders; 20 maize shellers; 150-300 ox carts;1500 hoes.
Casement (Africa) Ltd; Metal Ltd; E. A. Steel Mill.	Barbed wire; Chain link fencing	All producing intermetently d pending on raw materials	Estimated at over 100,000 rolls of barbed wire a year for each unit.

E. Uganda ANEPP Dollar Budget

ANNEX E

UGANDA AEPRP DOLLAR BUDGET

I. Technical Assistance Project:	YR-1	YR-2	TOTAL
A. LONG-TERM TRADE ADVISOR			
Salary	60,000	63,000	123,000
Benefits (15%)	9,000	9,450	18,450
Allowances:			
Differential (25%)	15,000	15,750	30,750
COLA	7,300	7,500	14,800
Ed Allowance	19,000	21,000	40,000
Per Diem	1,200	1,200	2,400
Travel & Transportation:			
International	10,500	10,500	21,000
HHE & Airfreight	18,000	15,000	33,000
HHE Storage	3,500	3,500	7,000
Other Direct Costs	3,875	4,000	7,875
Home Office Backstopping	5,000	5,000	10,000
Overhead Costs[a]	69,500	72,690	142,190
	221,875	228,590	450,465
B. SHORT-TERM CONSULTANTS			
16 Person Months	140,000	84,000	224,000
Home Office Backstop	2,500	2,500	5,000
Overhead Costs[a]	121,875	74,275	196,150
	264,375	160,775	425,150
C. COMMODITIES			
Vehicle (1)	18,000	-	18,000
Computer Systems (2)	12,000	-	12,000
Office Eqmt & Supplies	30,000	-	30,000
Expendable Supplies	5,000	2,000	7,000
Procurement Fee (15%)	7,050	300	7,350
	72,050	2,300	74,350
D. OTHER COSTS			
Training	165,000	100,000	265,000
Conferences/Workshops,etc.	50,000	45,000	95,000
TA Housing	50,000	25,000	75,000
	265,000	170,000	435,000
E. INFLATION & CONTINGENCY			
Inflation (@ 5%)[b]	20,455	8,730	29,185
Contingency (@ 10%)[c]	56,245	29,605	85,850
	76,700	38,335	115,035
TECH ASSIST TOTAL..........	900,000	600,000	1,500,000

[a] 85% of field costs and 115% of home office costs.
[b] No inflation on TA since TA costs are fixed in YR-1.
[c] No contingency on Long-term TA.

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UGANDA AEPRP DOLLAR BUDGET
(Continued)

	YR-1	YR-2	TOTAL
II COMMODITY IMPORT PROGRAM			
Fertilizer	2,000,000	-	1,500,000
Seed	1,000,000	-	1,500,000
Jute or Jute Bags	1,500,000	-	2,500,000
Steel	3,000,000	-	4,000,000
Packing Material	2,000,000	-	3,000,000
	---------		---------
F. CIP TOTAL	9,500,000	-	12,500,000
G. AEPRP TOTAL	10,400,000	600,000	14,000,000

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F. ECPR Guidance Cable

ORIGIN AID-00

ORIGIN OFFICE AFPD-04
INFO AAAF-03 AFCO-02 AFEA-03 AFDP-06 SEOP-01 FPA-02 SERP-01
SECS-02 AMAD-01 PPPB-02 GC-01 GCAF-01 PPEA-01 SEOS-02
FM-02 PPR-01 STFN-02 SAST-01 AFPE-07 PVC-02 RELO-01
PRE-06 /054 A0

INFO LOG-00 AF-00 /000 R

DRAFTED BY: AID/AFR/PD/EAP:BBELDING:ELD:VD0368BL
APPROVED BY: AID/AFR/DAA:LSAIERS
AID/AFR/DP/PAR:JWOLGIN (DRAFT) AID/AFR/PD/EAP:TLOFGREN (DRAFT)
AID/AFR/EA:SMINTZ (DRAFT) AID/AFR/PRE:HMUNSON (INFO)
AID/PPC/EA:ABATCHELDER (DRAFT) AID/GC/AFR:MAKLEINJAN (DRAFT)
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FM SECSTATE WASHDC
TO AMEMBASSY KAMPALA IMMEDIATE
INFO AMEMBASSY NAIROBI IMMEDIATE

UNCLAS STATE 370950

AIDAC NAIROBI FOR REDSO/ESA

E.O. 12356: N/A

SUBJECT: ECPR GUIDANCE: UGANDA AEPRP PAIP

REF: (A) KAMPALA 03729 (B) STATE 34099

1. THIS CABLE PROVIDES ECPR GUIDANCE FOLLOWING A REVIEW OF THE UGANDA AEPRP PAIP ON FRIDAY, OCTOBER 30, 1987. THE ECPR CONCLUDED THAT AN AEPRP FOR UGANDA IS WORTHY OF SUPPORT. A PROGRAM DIRECTED AT ENCOURAGING POLICY ADJUSTMENTS TO STIMULATE EXPORTS WOULD, IN ECPR'S VIEW, BE AN APPROPRIATE USE OF AEPRP FUNDS. MISSION IS AUTHORIZED TO PROCEED WITH DEVELOPMENT OF PAAD FOR AN EPRP TARGETED AT DOLS 11 MILLION. ECPR DECISIONS, RECOMMENDATIONS AND DISCUSSION POINTS ARE SUMMARIZED IN THE FOLLOWING PARAGRAPHS.

2. THE ECPR WAS CHAIRED BY AFR/DAA SAIERS. PARTICIPANTS REPRESENTED AFR/PD, AFR/DP, AFR/EA, AFR/PRE, GC/AFR, PPC/EA, AND REDSO/ESA. PRESENCE OF USAID/UGANDA ASSISTANT DIRECTOR WAS VERY USEFUL BOTH DURING EXTENSIVE DISCUSSIONS WITH PROJECT COMMITTEE MEMBERS PRIOR TO ECPR AND AT THE ECPR. THE UGANDA PAIP SUPPLEMENT, WHICH THE ASSISTANT DIRECTOR PREPARED FOLLOWING THESE MEETINGS, WAS HELPFUL IN CLARIFYING SEVERAL KEY POINTS DURING ECPR'S REVIEW.

3. ECPR DISCUSSED THOROUGHLY THE ISSUE OF WHAT POLICY OR POLICIES THE AEPRP WILL SEEK TO REFORM. THERE IS NO CLEAR DESCRIPTION IN THE PAIP ABOUT THE NATURE OF POLICY CONSTRAINTS TO INCREASED REGIONAL TRADE, AND WHAT POLICY CHANGES WILL BE SOUGHT THROUGH THE AEPRP. THE SUPPLEMENT OFFERS SOME OPTIONS FOR POLICY REFORM WHICH AN AEPRP MIGHT FOCUS UPON. ECPR DECIDED THAT PAAD MUST ADDRESS THE MAJOR PROBLEMS ASSOCIATED WITH EXPANDING UGANDA'S INTERNATIONAL TRADE AND HOW THE SUGGESTED ASSISTANCE WILL DEAL WITH THEM. THE ECPR AGREED WITH USAID'S REPRESENTATIVE THAT LIBERALIZING EXPORT MARKETING WAS THE MOST PROMISING AREA OF REFORM AND SHOULD BE EXPLORED WITH THE GOU. CONDITIONALITY SHOULD BE GEARED TO THOSE ECONOMIC REFORMS DEEMED MOST CRUCIAL IN THE AREAS OF DOMESTIC MARKETING, TRADE AND EXPORT POLICY.

4. THE ECPR THEN WENT ON TO REVIEW WHETHER IT IS LOGICAL TO LINK AN AEPRP DEVOTED TO TRADE EXPANSION REFORM TO THE P.T.A. THE UTILIZATION OF THE P.T.A. CLEARING HOUSE AS A MECHANISM FOR DISBURSING FUNDS DOES NOT APPEAR TO BE A POLICY REFORM MEASURE. A PRIMA FACIE CASE COULD BE MADE THAT INTRA-REGIONAL TRADE UNDER THE P.T.A. WILL RESULT IN TRADE DIVERSION AND AT LEAST SECOND-BEST TRADE PARTNERSHIP. THE PAIP DID NOT MAKE A CONVINCING CASE THAT THE USE OF THE PTA AS A MECHANISM FOR DISBURSING DOLLARS HAS GREATER BENEFITS THAN USE OF A STRAIGHT CIP. IN FACT, THERE ARE GOOD REASONS TO BELIEVE THE OPPOSITE IS THE CASE. THE ECPR RECOMMENDS THAT THE MISSION RECONSIDER THE EFFICACY OF LINKING THE AEPRP TO THE P.T.A. IF THE PTA REMAINS PART OF THE AEPRP, THE PAAD MUST CONTAIN A THOROUGH DISCUSSION OF THE BENEFITS AND COSTS OF LINKING OUR PROGRAM TO THE PTA AS OPPOSED TO SOME OTHER MORE DIRECT FINANCING MECHANISM.

5. THE ECPR QUESTIONED THE USE OF DOLS 3.5 MILLION FOR MARKETING AND TRADE STUDIES. UNDOUBTEDLY, SOME STUDIES COULD BE HELPFUL, BUT THE AMOUNT REQUESTED IS QUITE HIGH. THE PAIP DOES NOT SPECIFY WHY DOLS 3.5 MILLION FOR STUDIES IS NEEDED. ARE THESE ACTIVITIES ESSENTIAL TO SUCCESSFUL ATTAINMENT OF THE AEPRP'S GOAL? WHAT SPECIFICALLY ARE THE FUNDS TO BE USED FOR? THE ECPR DECIDED THAT THE PAAD SHOULD CONTAIN A THOROUGH JUSTIFICATION FOR THE STUDIES, A DESCRIPTION OF THE MAJOR ACTIVITIES TO BE UNDERTAKEN AND WHY THEY ARE TO BE UNDERTAKEN, AND A BUDGET WHICH SUBSTANTIATES THE NEED FOR ANY PARTICULAR DOLLAR AMOUNT REQUESTED. THERE ARE CLEAR TRADEOFFS BETWEEN LONGER RANGE STUDIES AND QUICKER DISBURSING BALANCE OF PAYMENTS SUPPORT. COULD SOME LONGER RANGE STUDIES BE ASSUMED IN FUTURE OYB OR PD & S?

6. SEVERAL OTHER CONCERNS WERE RAISED DURING THE ECPR. THEY INCLUDE:

A. RELATIONSHIP OF PROPOSED EMPHASIS IN AN AEPRP TO THE UGANDA CONCEPTS PAPER. PAGE 45 OF THE PAIP STATES THAT QUOTE THE MISSION INTENDS TO MAKE TRADE A CENTRAL FOCUS OF OUR DEVELOPMENT ASSISTANCE STRATEGY UNQUOTE. HOW DOES THIS FIT IN WITH PROGRAM SET FORTH IN THE UGANDA CONCEPTS PAPER? DOES TRADE HAVE TO BE A QUOTE CENTRAL FOCUS UNQUOTE OF OUR DEVELOPMENT STRATEGY FOR A SUCCESSFUL AEPRP TO BE DEVELOPED IN UGANDA? THE ECPR RECOMMENDED THAT THE PAAD LINK THE FOCUS ON TRADE TO ADVANCING THE GOALS AND OBJECTIVES SET FORTH IN THE UGANDA CONCEPTS PAPER, ESPECIALLY THE NEED TO STIMULATE AND REVITALIZE THE ECONOMY.

B. ECONOMIC STABILIZATION, PARTICULARLY MOVEMENT TO A LIBERAL FOREIGN EXCHANGE REGIME, AND REPAIR OF MARKETING INFRASTRUCTURE WITHIN UGANDA, TO A LARGE DEGREE, ARE PRECONDITIONS TO SUBSTANTIALLY INCREASING UGANDA'S ABILITY TO INCREASE ITS EXPORTS. ARE THESE INTERNAL READJUSTMENTS AND REHABILITATION TAKING PLACE AT A SUFFICIENT PACE TO SET THE STAGE FOR INCREASING UGANDA'S EXPORTS UNDER THE PROPOSED AEPRP? THE PAAD SHOULD EXPLORE THIS ISSUE.

C. DISBURSEMENT SCHEDULE. IF THE PTA OPTION IS CHOSEN, HOW LIKELY IS IT THAT THE GOU WILL NEED DOLS 2.5 MILLION AFTER EACH 75 DAY PERIOD TO CLEAR ITS ACCOUNTS WITH THE P.T.A.? IS THIS THE DISBURSEMENT SCHEDULE THE MISSION IS PROPOSING? THE ECPR RECOMMENDED THAT THE PAAD PROVIDE A MORE REFINED ANALYSIS SUBSTANTIATING THE SCHEDULE FOR DISBURSEMENTS. FURTHERMORE, THE RELATIONSHIP BETWEEN PROPOSED POLICY REFORM CONDITIONALITY AND THE NEED TO INJECT BALANCE OF

PAYMENTS SUPPORT INTO THE ECONOMY TO SUPPORT THE ONGOING STABILIZATION EFFORT NEEDS TO BE EXPLORED AND ANALYZED IN THE PAAD.

D. EVALUATIONS. IN THE DESCRIPTION OF THE DOLS 3.5 MILLION FOR STUDIES, THE PAIP MAKES NO MENTION OF EVALUATIONS OR ASSESSMENTS. THE ECPR STIPULATED THAT A

MONITORING AND EVALUATION PLAN SHOULD BE DESIGNED, INCORPORATED IN, AND FUNDED THROUGH THE AEPRP. THE USAID/UGANDA ASSISTANT DIRECTOR INDICATED THAT THE OMISSION OF EVALUATIONS IN THE PAIP WOULD BE RECTIFIED IN THE PAAD.

E. LOCAL CURRENCY GENERATIONS. SUPPLEMENTAL GUIDANCE TO POLICY DETERMINATION-5 ON PROGRAMMING LOCAL CURRENCY WAS SENT TO THE FIELD ON OCTOBER 21 (STATE 327494). THIS CABLE SHOULD BE THE REFERENCE GUIDE FOR THE MISSION IN PROGRAMMING LC UNDER THE EPRP.

7. WHEN TERMS OF THE LEGISLATION APPLICABLE TO FY88 FUNDS BECOME KNOWN, THEY WILL NEED TO BE APPLIED TO THE PROGRAM. FOR INSTANCE, THE APPLICABLE FUNDING ACCOUNT WILL NEED TO BE IDENTIFIED (THE AFRICAN DEVELOPMENT FUND, IF ENACTED), AND THE PAAD WILL NEED TO CLEARLY SPELL OUT HOW THE PROGRAM PURPOSE FITS WITHIN THE AUTHORIZED USE OF FUNDS FROM THAT ACCOUNT. IT IS LIKELY THAT A 25 HOST COUNTRY CONTRIBUTION WILL BE REQUIRED FOR ADF FUNDS, UNLESS A WAIVER IS JUSTIFIED.

8. THE PAAD WILL NEED TO CLARIFY WHETHER THE INTENDED USE OF OUR DOLLARS IS AS A CASH TRANSFER OR FOR COMMODITY FINANCING. IF A CASH TRANSFER IS INTENDED, CARE WILL NEED TO BE TAKEN TO ENSURE THAT IT IS NOT STRUCTURED SO AS TO TRIGGER REQUIREMENTS APPLICABLE TO COMMODITY FINANCING, IN CASE THE APPLICABLE FUNDS DO NOT BENEFIT FROM AN EXCULPATORY CLAUSE SIMILAR TO THAT CURRENTLY APPLICABLE TO ESF-FUNDED CASH TRANSFERS ABOVE DOLS 5 MILLION. IN RESPONSE TO A QUESTION FROM THE USAID ASSISTANT DIRECTOR, THE ECPR SAID THAT IT WOULD WELCOME AN EPRP PROGRAM INCLUDING COMMINGLING, IF THAT BECAME NECESSARY IN LIGHT OF PROCUREMENT REQUIREMENTS AND COULD BE JUSTIFIED. GC/AFR ALSO NOTED THAT IF COMMODITIES ARE FINANCED, AID'S NAMED AUTHORIZED GEOGRAPHIC CODES (EG. OCC, 941, AND 899/935) WOULD NEED TO BE APPLIED, INSTEAD OF A REGIONAL SOURCE/ORIGIN SUBSET. IN VIEW OF THE COMPLEXITY OF THE QUESTIONS, IT WAS STRONGLY RECOMMENDED THAT THE MISSION CONSULT CLOSELY WITH THE RLA. UNDER REG. 16 IEE WAS REQUIRED TO BE INCLUDED IN THE PAIP. THUS, ONE SHOULD BE SUBMITTED TO THE BUREAU ENVIRONMENTAL OFFICER ASAP, AND IN ANY CASE BEFORE THE PAAD IS SUBMITTED.

9. THE PAAD WILL BE APPROVED IN AID/W, IN ACCORDANCE WITH NORMAL PRACTICE FOR AEPRP.

10. IT WAS UNDERSTOOD THAT LOCAL CURRENCY GENERATION SHOULD BE IN ACCORDANCE WITH AID'S EXCHANGE RATE POLICY.
11. WE WOULD LIKE MISSION TO KEEP UP A CONTINUING DIALOGUE WITH AID/W AS IT ADDRESSES THE CONCERNS NOTED ABOVE SO THAT WE CAN JOINTLY SHAPE THE INNOVATIVE PROGRAM BEFORE THE PAAD IS SUBMITTED. THIS CAN CONTRIBUTE TO A MORE TIMELY AND SUCCESSFUL REVIEW/APPROVAL PROCESS. SHULTZ

G. Statutory Checklists

5C(1) - COUNTRY CHECKLIST

Uganda FY 1988

Listed below are statutory criteria applicable to: (A) FAA funds generally; (B)(1) Development Assistance funds only; or (B)(2) the Economic Support Fund only.

A. GENERAL CRITERIA FOR COUNTRY ELIGIBILITY

1. FY 1988 Continuing Resolution Sec. 526. Has the President certified to the Congress that the government of the recipient country is failing to take adequate measures to prevent narcotic drugs or other controlled substances which are cultivated, produced or processed illicitly, in whole or in part, in such country or transported through such country, from being sold illegally within the jurisdiction of such country to United States Government personnel or their dependents or from entering the United States unlawfully?

No

2. FAA Sec. 481(h). (This provision applies to assistance of any kind provided by grant, sale, loan, lease, credit, guaranty, or insurance, except assistance from the Child Survival Fund or relating to international narcotics control, disaster and refugee relief, or the provision of food or medicine.) If the recipient is a "major illicit drug producing country" (defined as a country producing during a fiscal year at least five metric tons of opium or 500 metric tons of coca or marijuana) or a "major drug-transit country" (defined as a country that is a significant direct source of illicit drugs significantly affecting the United States, through which such drugs are transported, or through which significant sums of drug-related profits are laundered with the knowledge or complicity of the government), has the President in the March 1 International Narcotics Control Strategy Report (INSCR) determined and certified to the Congress (without

NA

Congressional enactment, within 30 days of continuous session, of a resolution disapproving such a certification), or has the President determined and certified to the Congress on any other date (with enactment by Congress of a resolution approving such certification), that (a) during the previous year the country has cooperated fully with the United States or taken adequate steps on its own to prevent illicit drugs produced or processed in or transported through such country from being transported into the United States, and to prevent and punish drug profit laundering in the country, or that (b) the vital national interests of the United States require the provision of such assistance?

3. Drug Act Sec. 2013. (This section applies to the same categories of assistance subject to the restrictions in FAA Sec. 481(h), above.) If recipient country is a "major illicit drug producing country" or "major drug-transit country" (as defined for the purpose of FAA Sec 481(h)), has the President submitted a report to Congress listing such country as one (a) which, as a matter of government policy, encourages or facilitates the production or distribution of illicit drugs; (b) in which any senior official of the government engages in, encourages, or facilitates the production or distribution of illegal drugs; (c) in which any member of a U.S. Government agency has suffered or been threatened with violence inflicted by or with the complicity of any government officer; or (d) which fails to provide reasonable cooperation to lawful activities of U.S. drug enforcement agents, unless the President has provided the required certification to Congress pertaining to U.S. national interests and the drug control and criminal prosecution efforts of that country? NA

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

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

6. FAA Secs. 620(a), 620(f), 620D; FY 1988 Continuing Resolution Sec. 512. Is recipient country a Communist country? If so, has the President determined that assistance to the country is vital to the security of the United States, that the recipient country is not controlled by the international Communist conspiracy, and that such assistance will further promote the independence of the recipient country from international communism? Will assistance be provided directly to Angola, Cambodia, Cuba, Iraq, Libya, Vietnam, South Yemen, Iran or Syria? Will assistance be provided to Afghanistan without a certification? — No

7. FAA Sec. 620(j). Has the country permitted, or failed to take adequate measures to prevent, damage or destruction by mob action of U.S. property? — No

8. FAA Sec. 620(l). Has the country failed to enter into an investment guaranty agreement with OPIC? — No

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9. FAA Sec. 620(o); Fishermen's Protective Act of 1967 (as amended) Sec. 5. (a) Has the country seized, or imposed any penalty or sanction against, any U.S. fishing vessel because of fishing activities in international waters? (b) If so, has any deduction required by the Fishermen's Protective Act been made? No

10. FAA Sec. 620(q); FY 1988 Continuing Resolution Sec. 518. (a) Has the government of the recipient country been in default for more than six months on interest or principal of any loan to the country under the FAA? (b) Has the country been in default for more than one year on interest or principal on any U.S. loan under a program for which the FY 1988 Continuing Resolution appropriates funds? No

11. FAA Sec. 620(s). If contemplated assistance is development loan or to come from Economic Support Fund, has the Administrator taken into account the percentage of the country's budget and amount of the country's foreign exchange or other resources spent on military equipment? (Reference may be made to the annual "Taking Into Consideration" memo: "Yes, taken into account by the Administrator at time of approval of Agency OYB." This approval by the Administrator of the Operational Year Budget can be the basis for an affirmative answer during the fiscal year unless significant changes in circumstances occur.) NA

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

13. FAA Sec. 620(u). What is the payment status of the country's U.N. obligations? If the country is in arrears, were such arrearages taken into account by the A.I.D. Administrator in determining the current A.I.D. Operational Year Budget? (Reference may be made to the Taking into Consideration memo.)	Yes, it is current.
14. FAA Sec. 620A. Has the President determined that the recipient country grants sanctuary from prosecution to any individual or group which has committed an act of international terrorism or otherwise supports international terrorism?	No
15. FY 1988 Continuing Resolution Sec. 576. Has the country been placed on the list provided for in Section 6(j) of the Export Administration Act of 1979 (currently Libya, Iran, South Yemen, Syria, Cuba, or North Korea)?	No
16. ISDCA of 1985 Sec. 552(b). Has the Secretary of State determined that the country is a high terrorist threat country after the Secretary of Transportation has determined, pursuant to section 1115(e)(2) of the Federal Aviation Act of 1958, that an airport in the country does not maintain and administer effective security measures?	No
17. FAA Sec. 666(b). Does the country object, on the basis of race, religion, national origin or sex, to the presence of any officer or employee of the U.S. who is present in such country to carry out economic development programs under the FAA?	No
18. FAA Secs. 669, 670. Has the country, after August 3, 1977, delivered to any other country or received nuclear enrichment or reprocessing equipment, materials, or technology, without specified arrangements or safeguards, and without special certification by the President? Has it transferred a nuclear explosive device to a non-nuclear weapon state, or if such a state, either received or detonated a nuclear explosive device? (FAA Sec. 620E permits a special	No

19. <u>FAA Sec. 670</u>. If the country is a non-nuclear weapon state, has it, on or after August 8, 1985, exported (or attempted to export) illegally from the United States any material, equipment, or technology which would contribute significantly to the ability of a country to manufacture a nuclear explosive device?	No
20. <u>ISDCA of 1981 Sec. 720</u>. Was the country represented at the Meeting of Ministers of Foreign Affairs and Heads of Delegations of the Non-Aligned Countries to the 36th General Assembly of the U.N. on Sept. 25 and 28, 1981, and did it fail to disassociate itself from the communique issued? If so, has the President taken it into account? (Reference may be made to the Taking into Consideration memo.)	Uganda failed to disassociate itself and this was taken into consideration by the Administrat in approving the FY 1988 OYB
21. <u>FY 1988 Continuing Resolution Sec. 528</u>. Has the recipient country been determined by the President to have engaged in a consistent pattern of opposition to the foreign policy of the United States?	No
22. <u>FY 1988 Continuing Resolution Sec. 513</u>. Has the duly elected Head of Government of the country been deposed by military coup or decree? If assistance has been terminated, has the President notified Congress that a democratically elected government has taken office prior to the resumption of assistance?	No
23. <u>FY 1988 Continuing Resolution Sec. 543</u>. Does the recipient country fully cooperate with the international refugee assistance organizations, the United States, and other governments in facilitating lasting solutions to refugee situations, including resettlement without respect to race, sex, religion, or national origin?	Yes

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B. FUNDING SOURCE CRITERIA FOR COUNTRY ELIGIBILITY

1. Development Assistance Country Criteria

FAA Sec. 116. Has the Department of State determined that this government has engaged in a consistent pattern of gross violations of internationally recognized human rights? If so, can it be demonstrated that contemplated assistance will directly benefit the needy? No

FY 1988 Continuing Resolution Sec. 538. Has the President certified that use of DA funds by this country would violate any of the prohibitions against use of funds to pay for the performace of abortions as a method of family planning, to motivate or coerce any person to practice abortions, to pay for the performance of involuntary sterilization as a method of family planning, to coerce or provide any financial incentive to any person to undergo sterilizations, to pay for any biomedical research which relates, in whole or in part, to methods of, or the performance of, abortions or involuntary sterilization as a means of family planning? No

2. Economic Support Fund Country Criteria

FAA Sec. 502B. Has it been determined that the country has engaged in a consistent pattern of gross violations of internationally recognized human rights? If so, has the President found that the country made such significant improvement in its human rights record that furnishing such assistance is in the U.S. national interest? NA

FY 1988 Continuing Resolution Sec. 549. Has this country met its drug eradication targets or otherwise taken significant steps to halt illicit drug production or trafficking? NA

5C(2) - PROJECT CHECKLIST

Uganda FY 1988

Listed below are statutory criteria applicable to projects. This section is divided into two parts. Part A includes criteria applicable to all projects. Part B applies to projects funded from specific sources only: B(1) applies to all projects funded with Development Assistance; B(2) applies to projects funded with Development Assistance loans; and B(3) applies to projects funded from ESF.

CROSS REFERENCES: IS COUNTRY CHECKLIST UP TO DATE?	Yes
HAS STANDARD ITEM CHECKLIST BEEN REVIEWED FOR THIS PROJECT?	Yes

A. GENERAL CRITERIA FOR PROJECT

1. FY 1988 Continuing Resolution Sec. 523; FAA Sec. 634A. If money is sought to obligated for an activity not previously justified to Congress, or for an amount in excess of amount previously justified to Congress, has Congress been properly notified?	Yes. The Congressional Notification was sent to Congress 7/13 and 15 day waiting period expired 7/28/88
2. FAA Sec. 611(a)(1). Prior to an obligation in excess of $500,000, will there be (a) engineering, financial or other plans necessary to carry out the assistance, and (b) a reasonably firm estimate of the cost to the U.S. of the assistance?	(a) yes. (b) yes
3. FAA Sec. 611(a)(2). If legislative action is required within recipient country, what is the basis for a reasonable expectation that such action will be completed in time to permit orderly accomplishment of the purpose of the assistance?	NA

4. <u>FAA Sec. 611(b); FY 1988 Continuing Resolution Sec. 501</u>. If project is for water or water-related land resource construction, have benefits and costs been computed to the extent practicable in accordance with the principles, standards, and procedures established pursuant to the Water Resources Planning Act (42 U.S.C. 1962, <u>et seq</u>.)? (See A.I.D. Handbook 3 for guidelines.)

NA

5. <u>FAA Sec. 611(e)</u>. If project is capital assistance (<u>e.g.</u>, construction), and total U.S. assistance for it will exceed $1 million, has Mission Director certified and Regional Assistant Administrator taken into consideration the country's capability to maintain and utilize the project effectively?

NA

6. <u>FAA Sec. 209</u>. Is project susceptible to execution as part of regional or multilateral project? If so, why is project not so executed? Information and conclusion whether assistance will encourage regional development programs.

No

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

The primary thrust of Uganda's FY 88 AEPRP is to stimulate competitive regional trade within Africa through private sector and cooperative movement thereby discouraging monopolisti practices while rewarding efficiency in agriculture and commerce. It will also provide opportunity for the unemployed or underemployed rural labor force.

8. <u>FAA Sec. 601(b)</u>. Information and conclusions on how project will encourage U.S. private trade and investment abroad and encourage private U.S. participation in foreign assistance programs (including use of private trade channels and the services of U.S. private enterprise).

Policy changes implemented through this program will stimulate trade be Ugandan and international private sector traders and trading channels.

9. <u>FAA Secs. 612(b), 636(h)</u>. Describe steps taken to assure that, to the maximum extent possible, the country is contributing local currencies to meet the cost of contractual and other services, and foreign currencies owned by the U.S. are utilized in lieu of dollars.

All local costs associated with techcal assistance operating expenses wil be paid in Ugandan shillings through host contributions.

10. FAA Sec. 612(d). Does the U.S. own excess foreign currency of the country and, if so, what arrangements have been made for its release? No

11. FY 1988 Continuing Resolution Sec. 521. If assistance is for the production of any commodity for export, is the commodity likely to be in surplus on world markets at the time the resulting productive capacity becomes operative, and is such assistance likely to cause substantial injury to U.S. producers of the same, similar or competing commodity? NA

12. FY 1988 Continuing Resolution Sec. 553. Will the assistance (except for programs in Caribbean Basin Initiative countries under U.S. Tariff Schedule "Section 807," which allows reduced tariffs on articles assembled abroad from U.S.-made components) be used directly to procure feasibility studies, prefeasibility studies, or project profiles of potential investment in, or to assist the establishment of facilities specifically designed for, the manufacture for export to the United States or to third country markets in direct competition with U.S. exports, of textiles, apparel, footwear, handbags, flat goods (such as wallets or coin purses worn on the person), work gloves or leather wearing apparel? No

13. FAA Sec. 119(g)(4)-(6). Will the assistance (a) support training and education efforts which improve the capacity of recipient countries to prevent loss of biological diversity; (b) be provided under a long-term agreement in which the recipient country agrees to protect ecosystems or other wildlife habitats; (c) support efforts to identify and survey ecosystems in recipient countries worthy of protection; or (d) by any direct or indirect means significantly degrade national parks or similar protected areas or introduce exotic plants or animals into such areas? No

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14. FAA 121(d). If a Sahel project, has a determination been made that the host government has an adequate system for accounting for and controlling receipt and expenditure of project funds (either dollars or local currency generated therefrom)? NA

15. FY 1988 Continuing Resolution. If assistance is to be made to a United States PVO (other than a cooperative development organization), does it obtain at least 20 percent of its total annual funding for international activities from sources other than the United States Government? NA

16. FY Continuing Resolution Sec. 541. If assistance is being made available to a PVO, has that organization provided upon timely request any document, file, or record necessary to the auditing requirements of A.I.D., and is the PVO registered with A.I.D.? NA

17. FY 1988 Continuing Resolution Sec. 514. If funds are being obligated under an appropriation account to which they were not appropriated, has prior approval of the Appropriations Committees of Congress been obtained? NA

18. FY Continuing Resolution Sec. 515. If deob/reob authority is sought to be exercised in the provision of assistance, are the funds being obligated for the same general purpose, and for countries within the same general region as originally obligated, and have the Appropriations Committees of both Houses of Congress been properly notified? NA

19. State Authorization Sec. 139 (as interpreted by conference report). Has confirmation of the date of signing of the project agreement, including the amount involved, been cabled to State L/T and A.I.D. LEG within 60 days of the agreement's entry into force with respect to the United States, and has the full text of the agreement been pouched to those same offices? (See Handbook 3, Appendix 6G for agreements covered by this provision). Agreement will be forwarded to State/LT and AID/W when signed.

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B. FUNDING CRITERIA FOR PROJECT

1. Development Assistance Project Criteria

a. FY 1988 Continuing Resolution Sec. 552 (as interpreted by conference report). If assistance is for agricultural development activities (specifically, any testing or breeding feasibility study, variety improvement or introduction, consultancy, publication, conference, or training), are such activities (a) specifically and principally designed to increase agricultural exports by the host country to a country other than the United States, where the export would lead to direct competition in that third country with exports of a similar commodity grown or produced in the United States, and can the activities reasonably be expected to cause substantial injury to U.S. exporters of a similar agricultural commodity; or (b) in support of research that is intended primarily to benefit U.S. producers?

(a) The project is designed to increase agricultural exports but will not compete with U.S. exports.
(b) No

b. FAA Secs. 102(b), 111, 113, 281(a). Describe extent to which activity will (a) effectively involve the poor in development by extending access to economy at local level, increasing labor-intensive production and the use of appropriate technology, dispersing investment from cities to small towns and rural areas, and

a. The group targeted for this program for increased production and export of non traditional export crops is Uganda's small farmer through use of appropriate small farm technology, thereby spreading investment out to rural areas where the small farmer lives.
b. Given the types of agro inputs to be financed within this program the cooperative movement will play a large role in the distribution of these inputs, thus strengthening their development efforts.
c. The program supports of self help efforts of Ugandans in the expansion of regional trade.

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insuring wide participation of the poor in the benefits of development on a sustained basis, using appropriate U.S. institutions; (b) help develop cooperatives, especially by technical assistance, to assist rural and urban poor to help themselves toward a better life, and otherwise encourage democratic private and local governmental institutions; (c) support the self-help efforts of developing countries; (d) promote the participation of women in the national economies of developing countries and the improvement of women's status; and (e) utilize and encourage regional cooperation by developing countries.

d. Women play a large role in Ugandan's small farming activities and will benefit from expanding non traditional export crop production.
e. This program will lead developing countries in East Africa to increase trade and cooperation.

c. FAA Secs. 103, 103A, 104, 105, 106, 120-21. Does the project fit the criteria for the source of funds (functional account) being used?

FY 88 funds for DFA are not categorized by 103, 104, 105, 106 or 120-21 sections.

d. FAA Sec. 107. Is emphasis placed on use of appropriate technology (relatively smaller, cost-saving, labor-using technologies that are generally most appropriate for the small farms, small businesses, and small incomes of the poor)?

FAA Secs. 110, 124(d). Will the recipient country provide at least 25 percent of the costs of the program, project, or activity with respect to which the assistance is to be furnished (or is the latter cost-sharing requirement being waived for a "relatively least developed" country)?

Uganda's contribution wil exceed 25%.

f. FAA Sec. 128(b). If the activity attempts to increase the institutional capabilities of private organizations or the government of the country, or if it attempts to stimulate scientific and technological research, has it been designed and will it be monitored to ensure that the ultimate beneficiaries are the poor majority?

Yes

g. <u>FAA Sec. 281(b)</u>. Describe extent to which program recognizes the particular needs, desires, and capacities of the people of the country; utilizes the country's intellectual resources to encourage institutional development; and supports civil education and training in skills required for effective participation in governmental processes essential to self-government.

Through three policy measures small farmers will be encouraged to develop their capacities to produce non traditional expert crops. The cooperative movement will be utilized to distribute agricultural inputs and assist in marketing. At the national level, the capacities of Ministries of Planning and Economic Development, Agriculture, Commerce, and Cooperatives and Marketing will utilize and strengthen to develop and implement trade policy measures.

h. <u>FY 1988 Continuing Resolution Sec. 538</u>. Are any of the funds to be used for the performance of abortions as a method of family planning or to motivate or coerce any person to practice abortions?

Are any of the funds to be used to pay for the performance of involuntary sterilization as a method of family planning or to coerce or provide any financial incentive to any person to undergo sterilizations?

NO

Are any of the funds to be used to pay for any biomedical research which relates, in whole or in part, to methods of, or the performance of, abortions or involuntary sterilization as a means of family planning?

i. <u>FY 1988 Continuing Resolution</u>. Is the assistance being made available to any organization or program which has been determined to support or participate in the management of a program of coercive abortion or involuntary sterilization?

No

If assistance is from the population functional account, are any of the funds to be made available to voluntary family planning projects which do not offer, either directly or through referral to or information about access to, a broad range of family planning methods and services?

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j. FAA Sec. 601(e). Will the project utilize competitive selection procedures for the awarding of contracts, except where applicable procurement rules allow otherwise?

Yes

k. FY 1988 Continuing Resolution. What portion of the funds will be available only for activities of economically and socially disadvantaged enterprises, historically black colleges and universities, colleges and universities having a student body in which more than 20 percent of the students are Hispanic Americans, and private and voluntary organizations which are controlled by individuals who are black Americans, Hispanic Americans, or Native Americans, or who are economically or socially disadvantaged (including women)?

These entities will be provided with an opportunitity to compete for any awards thatr may be given under the project.

l. FAA Sec. 118(c). Does the assistance comply with the environmental procedures set forth in A.I.D. Regulation 16? Does the assistance place a high priority on conservation and sustainable management of tropical forests? Specifically, does the assistance, to the fullest extent feasible: (a) stress the importance of conserving and sustainably managing forest resources; (b) support activities which offer employment and income alternatives to those who otherwise would cause destruction and loss of forests, and help countries identify and implement alternatives to colonizing forested areas; (c) support training programs, educational efforts, and the establishment or strengthening of institutions to improve forest management; (d) help end destructive slash-and-burn agriculture by supporting stable and productive farming practices; (e) help conserve forests which have not yet been degraded by helping to increase production on lands already cleared

The project complies with Reg 16.

(a)-(k) NA

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or degraded; (f) conserve forested watersheds and rehabilitate those which have been deforested; (g) support training, research, and other actions which lead to sustainable and more environmentally sound practices for timber harvesting, removal, and processing; (h) support research to expand knowledge of tropical forests and identify alternatives which will prevent forest destruction, loss, or degradation; (i) conserve biological diversity in forest areas by supporting efforts to identify, establish, and maintain a representative network of protected tropical forest ecosystems on a worldwide basis, by making the establishment of protected areas a condition of support for activities involving forest clearance or degradation, and by helping to identify tropical forest ecosystems and species in need of protection and establish and maintain appropriate protected areas; (j) seek to increase the awareness of U.S. government agencies and other donors of the immediate and long-term value of tropical forests; and (k)/utilize the resources and abilities of all relevant U.S. government agencies?

m. <u>FAA Sec. 118(c)(13)</u>. If the assistance will support a program or project significantly affecting tropical forests (including projects involving the planting of exotic plant species), will the program or project (a) be based upon careful analysis of the alternatives available to achieve the best sustainable use of the land, and (b)/take full account of the environmental impacts of the proposed activities on biological diversity? NA

n. FAA Sec. 118(c)(14). Will assistance be used for (a) the procurement or use of logging equipment, unless an environmental assessment indicates that all timber harvesting operations involved will be conducted in an environmentally sound manner and that the proposed activity will produce positive economic benefits and sustainable forest management systems; or (b) actions which will significantly degrade national parks or similar protected areas which contain tropical forests, or introduce exotic plants or animals into such areas?

(a) No
(b) No

o. FAA Sec. 118(c)(15). Will assistance be used for (a) activities which would result in the conversion of forest lands to the rearing of livestock; (b) the construction, upgrading, or maintenance of roads (including temporary haul roads for logging or other extractive industries) which pass through relatively undegraded forest lands; (c) the colonization of forest lands; or (d) the construction of dams or other water control structures which flood relatively undegraded forest lands, unless with respect to each such activity an environmental assessment indicates that the activity will contribute significantly and directly to improving the livelihood of the rural poor and will be conducted in an environmentally sound manner which supports sustainable development?

(a)-(d) No

p. FY 1988 Continuing Resolution If assistance will come from the Sub-Saharan Africa DA account, is it (a) to be used to help the poor majority in Sub-Saharan Africa through a process of long-term development and economic growth that is equitable, participatory, environmentally sustainable, and self-reliant; (b) being provided in

(a) Yes

(b) Yes

accordance with the policies contained in section 102 of the FAA; (c) being provided, when conistent with the objectives of such assistance, through African, United States and other PVOs that have demonstrated effectiveness in the promotion of local grassroots activities on behalf of long-term development in Sub-Saharan Africa; (d) being used to help overcome shorter-term constraints to long-term development, to promote reform of sectoral economic policies, to support the critical sector priorities of agricultural production and natural resources, health, voluntary family planning services, education, and income generating opportunities, to bring about appropriate sectoral restructuring of the Sub-Saharan African economies, to support reform in public administration and finances and to establish a favorable environment for individual enterprise and self-sustaining development, and to take into account, in assisted policy reforms, the need to protect vulnerable groups; (e) being used to increase agricultural production in ways that protect and restore the natural resource base, especially food production, to maintain and improve basic transportation and communication networks, to maintain and restore the natural resource base in ways that increase agricultural production, to improve health conditions with special emphasis on meeting the health needs of mothers and children, including the establishment of self-sustaining primary health care systems that give priority to preventive care, to provide increased access to voluntary family planning services, to improve basic literacy and mathematics especially to those outside the formal educational system and to improve primary education, and to develop income-generating opportunities for the unemployed and underemployed in urban and rural areas?

(c) Yes
(d) Yes
(e) NA

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2. Development Assistance Project Criteria (Loans Only)

a. FAA Sec. 122(b). Information and conclusion on capacity of the country to repay the loan at a reasonable rate of interest.

b. FAA Sec. 620(d). If assistance is for any productive enterprise which will compete with U.S. enterprises, is there an agreement by the recipient country to prevent export to the U.S. of more than 20 percent of the enterprise's annual production during the life of the loan, or has the requirement to enter into such an agreement been waived by the President because of a national security interest?

c. FY 1988 Continuing Resolution. If for a loan to a private sector institution from funds made available to carry out the provisions of FAA Sections 103 through 106, will loan be provided, to the maximum extent practicable, at or near the prevailing interest rate paid on Treasury obligations of similar maturity at the time of obligating such funds?

d. FAA Sec. 122(b). Does the activity give reasonable promise of assisting long-range plans and programs designed to develop economic resources and increase productive capacities?

3. <u>Economic Support Fund Project Criteria</u> NA

a. <u>FAA Sec. 531(a)</u>. Will this assistance promote economic and political stability? To the maximum extent feasible, is this assistance consistent with the policy directions, purposes, and programs of Part I of the FAA?

b. <u>FAA Sec. 531(e)</u>. Will this assistance be used for military or paramilitary purposes?

c. <u>FAA Sec. 609</u>. If commodities are to be granted so that sale proceeds will accrue to the recipient country, have Special Account (counterpart) arrangements been made?

5C(3) - STANDARD ITEM CHECKLIST

Listed below are the statutory items which normally will be covered routinely in those provisions of an assistance agreement dealing with its implementation, or covered in the agreement by imposing limits on certain uses of funds.

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

A. PROCUREMENT

1. FAA Sec. 602(a). Are there arrangements to permit U.S. small business to participate equitably in the furnishing of commodities and services financed? — Yes

2. FAA Sec. 604(a). Will all procurement be from the U.S. except as otherwise determined by the President or under delegation from him? — Yes

3. FAA Sec. 604(d). If the cooperating country discriminates against marine insurance companies authorized to do business in the U.S., will commodities be insured in the United States against marine risk with such a company? — Yes

4. FAA Sec. 604(e); ISDCA of 1980 Sec. 705(a). If non-U.S. procurement of agricultural commodity or product thereof is to be financed, is there provision against such procurement when the domestic price of such commodity is less than parity? (Exception where commodity financed could not reasonably be procured in U.S.) — Yes

5. FAA Sec. 604(g). Will construction or engineering services be procured from firms of advanced developing countries which are otherwise eligible under Code 941 and which have attained a competitive capability in international markets in one of these areas? (Exception for those — No

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countries which receive direct economic assistance under the FAA and permit United States firms to compete for construction or engineering services financed from assistance programs of these countries.)

6. FAA Sec. 603. Is the shipping excluded from compliance with the requirement in section 901(b) of the Merchant Marine Act of 1936, as amended, that at least 50 percent of the gross tonnage of commodities (computed separately for dry bulk carriers, dry cargo liners, and tankers) financed shall be transported on privately owned U.S. flag commercial vessels to the extent such vessels are available at fair and reasonable rates?	Shipping will comply with requiremnets
7. FAA Sec. 621(a). If technical assistance is financed, will such assistance be furnished by private enterprise on a contract basis to the fullest extent practicable? Will the facilities and resources of other Federal agencies be utilized, when they are particularly suitable, not competitive with private enterprise, and made available without undue interference with domestic programs?	Yes
8. International Air Transportation Fair Competitive Practices Act, 1974. If air transportation of persons or property is financed on grant basis, will U.S. carriers be used to the extent such service is available?	Yes
9. FY 1988 Continuing Resolution Sec. 504. If the U.S. Government is a party to a contract for procurement, does the contract contain a provision authorizing termination of such contract for the convenience of the United States?	Yes
10. FY 1988 Continuing Resolution Sec. 524. If assistance is for consulting service through procurement contract pursuant to 5 U.S.C. 3109, are contract expenditures a matter of public record and available for public inspection (unless otherwise provided by law or Executive order)?	Yes

B. CONSTRUCTION

1. FAA Sec. 601(d). If capital (e.g., construction) project, will U.S. engineering and professional services be used? — NA

2. FAA Sec. 611(c). If contracts for construction are to be financed, will they be let on a competitive basis to maximum extent practicable? — NA

3. FAA Sec. 620(k). If for construction of productive enterprise, will aggregate value of assistance to be furnished by the U.S. not exceed $100 million (except for productive enterprises in Egypt that were described in the CP), or does assistance have the express approval of Congress? — NA

C. OTHER RESTRICTIONS

1. FAA Sec. 122(b). If development loan repayable in dollars, is interest rate at least 2 percent per annum during a grace period which is not to exceed ten years, and at least 3 percent per annum thereafter? — NA

2. FAA Sec. 301(d). If fund is established solely by U.S. contributions and administered by an international organization, does Comptroller General have audit rights? — NA

3. FAA Sec. 620(h). Do arrangements exist to insure that United States foreign aid is not used in a manner which, contrary to the best interests of the United States, promotes or assists the foreign aid projects or activities of the Communist-bloc countries? — Yes

4. Will arrangements preclude use of financing:

a. FAA Sec. 104(f); FY 1987 Continuing Resolution Secs. 525, 538. (1) To pay for performance of abortions as a method of family planning or to motivate or coerce persons to practice abortions; (2) to pay for performance of involuntary sterilization as method of family planning, or to coerce or provide financial incentive to any person to undergo sterilization; (3) to pay for any biomedical research which relates, in whole or part, to methods or the performance of abortions or involuntary sterilizations as a means of family planning; or (4) to lobby for abortion? (1)-(4) Yes

b. FAA Sec. 483. To make reimbursements, in the form of cash payments, to persons whose illicit drug crops are eradicated? Yes

c. FAA Sec. 620(g). To compensate owners for expropriated or nationalized property, except to compensate foreign nationals in accordance with a land reform program certified by the President? Yes

d. FAA Sec. 660. To provide training, advice, or any financial support for police, prisons, or other law enforcement forces, except for narcotics programs? Yes

e. FAA Sec. 662. For CIA activities? Yes

f. FAA Sec. 636(i). For purchase, sale, long-term lease, exchange or guaranty of the sale of motor vehicles manufactured outside U.S., unless a waiver is obtained? Yes

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g. FY 1988 Continuing Resolution Sec. 503. To pay pensions, annuities, retirement pay, or adjusted service compensation for prior or current military personnel? Yes

h. FY 1988 Continuing Resolution Sec. 505. To pay U.N. assessments, arrearages or dues? Yes

i. FY 1988 Continuing Resolution Sec. 506. To carry out provisions of FAA section 209(d) (transfer of FAA funds to multilateral organizations for lending)? Yes

j. FY 1988 Continuing Resolution Sec. 510. To finance the export of nuclear equipment, fuel, or technology? Yes

k. FY 1988 Continuing Resolution Sec. 511. For the purpose of aiding the efforts of the government of such country to repress the legitimate rights of the population of such country contrary to the Universal Declaration of Human Rights? Yes

l. FY 1988 Continuing Resolution Sec. 516; State Authorization Sec. 109. To be used for publicity or propaganda purposes designed to support or defeat legislation pending before Congress, to influence in any way the outcome of a political election in the United States, or for any publicity or propaganda purposes not authorized by Congress? Yes

H. Request for Assistance

ACTION AID-00

ACTION OFFICE AFEA-03
INFO AFDP-06 AFTR-05 AAAF-03 ES-01 AAPF-01 SEOP-01 SEOS-02
FPA-02 SERP-01 SECS-01 TELE-01 AGRI-01 /029 A1 WF21

INFO LOG-00 AF-00 /000 W
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O 211125Z JUL 88
FM AMEMBASSY KAMPALA
TO SECSTATE WASHDC IMMEDIATE 0718

UNCLAS KAMPALA 02988

AIDAC

FOR AFR/EA - JOHN ROSE

E. O. 12356: N/A
SUBJECT: FORMAL REQUEST FOR FINANCIAL ASSISTANCE FOR AGRICULTURAL NON-TRADITIONAL EXPORT PROMOTION PROGRAM.

1. TODAY JULY 20, 1988, MISSION RECEIVED FROM THE MINISTRY OF PLANNING AND ECONOMIC DEVELOPMENT SUBJECT FORMAL REQUEST ADDRESSED TO DR. RICHARD L. PODOL. FOLLOWING IS THE TEXT:

QUOTE REQUEST FOR FINANCAIL ASSISTANCE FOR TRADE PROMOTION

- I WISH TO REFER TO DISCUSSIONS USAID HAVE BEEN HOLDING WITH THE OFFICIALS FROM THIS MINISTRY AND THE BANK OF UGANDA REGRADING FINANCIAL ASSISTANCE FOR TRADE AND PROMOTION OF NON-TRADITIONAL EXPORTS.

- TRADE PROMOTION ESPECIALLY OF THE NON-TRADITIONAL EXPORTS HAVE BEEN GIVEN TOP PRIORITY BY THE NRM GOVERNMENT AND ANY FINANCIAL ASSISTANCE IN THIS AREA IS VITAL AND HELPFUL TOWARDS SUCCESSFUL IMPLEMENTATION OF THE PROGRAM. IN THIS REGARD, I WISH TO FORMALLY REQUEST THE GOVERNMENT OF THE UNITED STATES OF AMERICA TO EXTEND A GRANT OF US DOLS 11M. AS PLANNED NOW, USLS 9.5M WILL BE CHANNELLED THROUGH THE BANK OF UGANDA TO FINANCE TRADE OF NON-TRADITIONAL EXPORTS TO INCLUDE CASH CROPS SUCH AS MAIZE, DRIED BEANS AND SELECTED FRUITS AND VEGETABLES, PLUS HIDES AND SKINS.

- THERE IS ALSO NEED TO STREGNTHEN THE INSTITUTIONAL AND PRIVATE SECTOR CAPABILITIES IN THE AREA OF EXPORT TRADE ANALYSIS AND PROMOTION. THIS ASSISTANCE (APPROXIMATELY US DOLS 1.5M) WILL BE GIVEN IN TERMS OF A LONG TERM (OVER TWO YEARS) AGRICULTURAL TRADE ECONOMIST TO BE ASSIGNED TO THE TRADE POLICY ANALYSIS AND MONITORING UNIT (WITHIN THE MINISTRY OF PLANNING AND ECONOMIC DEVELOPMENT (MPED), TO ASSIST THE UNIT TO UNDERTAKE TRADE POLICY ANALYSIS AND FORMULATE A COMPREHENSIVE EXPORT STRATEGY AND PROGRAM FOR INCREASING PRIVATE SECTOR NON-TRADITIONAL EXPORTS. ALSO SHORT TERM TECHNICAL ASSISTANCE WILL BE NECESSARY TO TRAIN THE PRIVATE SECTOR EXPORTERS AND IMPORTERS.

- FINALLY, I WISH TO EXPRESS UGANDA GOVERNMENT'S APPRECIATION FOR THE UNITED STATES GOVERNMENT CONTRIBUTION AND SUPPORT TO OUR VARIOUS PROGRAMS AND FOR THE ENCOURAGEMENT AND ASSISTANCE IN OUR DEVELOPMENT EFFORTS. SIGNED A. M. MUGWANYA, AG. PERMANENT SECRETARY. UNQUOTE

2. A COPY OF THE FORMAL REQUEST IS ALSO BEING HAND-CARRIED TO U.S. NEXT WEEK.
HOUDEK

I. Initial Environmental Examination (IIE)

INITIAL ENVIRONMENTAL EXAMINATION

OR

CATEGORICAL EXCLUSION

Program Country: Uganda

Program Title and Number: Agricultural Non-Traditional Export Promotion Program 617-0113

Funding: FY(s) 1988 $ 14,000,000

IEE/CE Prepared By: Lawrence Odle/Environmental Officer/Kampala

Environmental Action Recommended:

Positive Determination ______

Negative Determination ______
OR
Categorical Exclusion x

This activity meets the criteria for Categorical Exclusion in accordance with Section 216.2(c)(2) and is excluded from further review because:

See Attached Analysis

Action Requested By: Richard L. Podol (Mission Director) Date: 6 Jun 88

Concurrence: (Bureau Environmental Officer) AFR/TR/ANR

APPROVED x

DISAPPROVED ______

DATE JUN - 8 1988

Clearance: GC/AFR Date June 26, 88

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Initial Environmental Examination (IIE)

FY 88 African Agricultural Non-traditional Export Promotion Program/Uganda
Program Number 617-0113

I. Program Summary:

The objectives of this program are to (1) increase the production of food and cash crops in which there is a demonstrated demand in external markets. (2) create the necessary inecentives, through policy and institutional reform, to diversify Uganda's export base, and (3) increase formal trade of nontraditional exports by the private sector. In conjunction with the implementation of a Ugandan policy reform package, the program will provide an infusion of foreign exchange to finance (a) the purchase of inputs needed to increase the production of nontraditional exports, and (b) technical assistance and logistical support to develop the institutional capacity and capability required to formulate an articulate and coherent agricultural export strategy and supporting program procedures. At the same time, local shilling generations from the private sector purchase of these foreign exchange funds will be used by the Government of Uganda to finance development activities designed to increase nontraditional exports.

Up to $1.5 million in DFA grant funds will finance a long term trade economist for 2 years and various short term consultants to undertake specific studies; and vehicles, as appropriate, as well as initial office operating expenses, if needed, prior to the generation of local shillings to cover operating expenses of a soon to be established Trade Policy Analysis and Monitoring Unit within the Ministry of Planning and Economic Development.

Up to $12.5 million will be provided to support specific policy reform to enhance private sector trade, incentives to increase formal nontraditional exports, plus increase availability of foreign exchange to finance imported inputs for crop production in Uganda.

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II. Environmental Analysis

Per Section 216.2 (c) Categorical Exclusions, Subsection (2), the following classes of actions are not subject to the procedures set for within the 216 Environmental guidelines: technical assistance or training programs, analyses and studies, and assistance provided A.I.D. does not have knowledge of the specific commodities to be financed. Therefore, no further environmental studies are required and a categorical exclusion is recommend.

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