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**CONSULTANCY REPORT ON
EVALUATION OF PROPOSALS AND RECOMMENDATIONS
FOR UTILIZATION OF PL-480 FUNDS FOR THE
RECAPITALIZATION OF THE CO-OPERATIVE BANK LIMITED
AND STRENGTHENING OF THE COOPERATIVE MOVEMENT
IN UGANDA**

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**Prepared For:
United States Agency for International Development
Kampala, Uganda**

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EXECUTIVE SUMMARY

1.0 BACKGROUND

At the request of the United States Agency for International Development (USAID) in Kampala, Uganda, the Agricultural Cooperative Development International (ACDI) which is the Prime Contractor for the Cooperative Agriculture and Agribusiness Support (CAAS) Project in Uganda sub-contracted with the RONCO Consulting Corporation (RONCO) to provide a Cooperative Banking Specialist for a six-week period. The specialist provided by RONCO, Richard A. Neis arrived in Kampala on September 23, 1992 and departed November 4, 1992.

2.0 PRIMARY OBJECTIVES

The primary thrusts of the consultancy were to provide further study and recommend a detailed workplan and timetable for the proposed injection of monetized PL-480 funds to assist in the further development of cooperatives in Uganda through conversion of the PL-480 funds into equity capital of those cooperatives but more specifically to recapitalize the Cooperative Bank Limited (CoopBank)

3.0 FUNDAMENTAL QUESTIONS

During the entire consultancy focus was maintained on the following three critical questions:

- a) Should the CoopBank be recapitalized?
- b) What assurances can be given that CoopBank would not regress?
- c) What is the most constructive methodology?

4.0 CONCLUSIONS

Following a review of previous relevant studies, reports, laws, regulations and through in-depth discussions with key knowledgeable persons the consultant concluded:

- a) Because of the CoopBank's rapid pace of improvement, its almost total dominance in providing loans and other financial services to the country's extremely important agricultural sector and large foreign exchange earner as well as being a major component of the country's banking sector there is adequate justification for recapitalizing the CoopBank.
- b) It was readily recognized that although the CoopBank has made very substantial progress with the assistance provided by the Swedish team of specialists in overcoming many of the Bank's institutional and operational problems, much still remains to be done. However, it was determined that with a properly structured program and with continued external technical assistance, reasonable assurances (not guarantees) could be given that over a period of time the Bank would not regress to its former state of illiquidity and insolvency.
- c) Primarily to avoid perpetuation of a dependency attitude on the part of potential beneficiaries the consultant was determined to develop a constructive methodology which also required involvement and participation to instill healthier attitudes on the part of members in providing necessary financial (equity) support for their cooperative business entities.

5.0 RECOMMENDED CAPITAL GRANT PROGRAM

A phased program was developed which in PHASE I would provide for the distribution of some Shs. 6.0 Billion of funds monetized under the first tranche of PL-480 edible oil donation to Uganda. The funds would take the form of capital grants to qualifying cooperative unions and societies which grants would be simultaneously reinvested in the CoopBank. But, in order to qualify for such capital grants each respective cooperative entity would first be required to raise one shilling of new equity capital in cash from its members whereupon it could qualify to receive two shillings in capital grants. The new cash equity so raised could be retained in the cooperative entity to further strengthen its financial condition. In this manner membership participation is assured and the participating cooperatives would benefit from an additional cash equity build-up totalling some Shs. 2.5 Billion with the incentive being that each investing member would receive three shillings of equity for each one shilling invested. Thus, the total equity infusion in the cooperative movement in Uganda will amount to some Shs. 8.5 Billion. The one exception to the foregoing strategy would be the Uganda Cooperative Alliance (UCA). The UCA would receive an outright grant of Shs. 1.0 Billion which it would simultaneously reinvest in the CoopBank in a preferred class of dividend bearing stock. This should provide UCA with a relatively reliable source of annual income, which it does not now have, to support its very important advocacy and training functions for the entire cooperative sector in Uganda.

A comprehensive workplan for PHASE I of the PL-480 Capital Grant Program is detailed in a series of ACTIVITY sheets in APPENDIX B (page 34) hereto covering each critical activity of the recommended implementation workplan. Each ACTIVITY sheet details the estimated start and completion dates, the entity responsible for execution and a general outline of the work to be accomplished.

6.0 POTENTIAL IMPACT OF THE RECOMMENDED PROGRAM

The PL-480 Capital Grant Program as recommended is expected to accomplish the primary objectives of recapitalizing the CoopBank and providing additional financial strength to eligible and qualifying Cooperative Unions and Societies if it is diligently implemented and supervised. An intangible but constructive aspect of the Program is that it will hopefully contribute to building a more self-reliant attitude in every area of the Cooperative Movement.

In particular the reader's attention is directed to APPENDIX D (page 59) which visually illustrates the immediate financial impact the Program could have on a typical Co-op entity and on the CoopBank.

November 1992

LIST OF ACRONYMS

ACDI	-	Agricultural Cooperative Development International
BOU	-	Bank of Uganda (the Central Bank of Uganda)
CAAS	-	Cooperative Agriculture and Agribusiness Support Project
COOPBANK	-	The Co-operative Bank Limited
GOU	-	Government of Uganda
PL-480	-	United States Public Law 480, Title II, Food for Development Program
RONCO	-	RONCO Consulting Corporation, Washington, D.C.
SCC	-	Swedish Cooperative Centre
SIDA	-	Swedish International Development Agency
UCA	-	Uganda Cooperative Alliance
USAID	-	United States Agency for International Development

1.0 BACKGROUND

At the request of the United States Agency for International Development (USAID) in Kampala, Uganda, the Agricultural Cooperative Development International (ACDI) which is the Prime Contractor for the Cooperative Agriculture and Agribusiness Support (CAAS) Project in Uganda, sub-contracted with the RONCO Consulting Corporation (RONCO) to provide a Cooperative Banking Specialist for a six-week period. The Specialist, Richard A. Neis arrived in Kampala on September 23, 1992 and departed November 4, 1992.

2.0 CONSULTANCY OBJECTIVES

The primary thrust of the consultancy was to provide further study and recommendations on the proposed injection of monetized PL-480 funds to assist in the further development of cooperatives in Uganda through the conversion of PL-480 funds into equity capital of the cooperative entities in Uganda but more specifically to recapitalize the Cooperative Bank Limited (CoopBank).

2.1 Primary Objectives

2.1.1 Provide another opinion on the merits of the proposed recapitalization plans proposed by Sanders/Bethe⁽¹⁾ and Barltrop⁽²⁾

2.1.2 Provide a detailed workplan and timetable for the implementation of the consultant's recommendations agreed to by CoopBank management, the Swedish Advisor, and the Uganda Cooperative Alliance.

2.1.3 Perform as much of the approved workplan as possible during the period of the consultancy.

2.2 Sub-Objectives

- 2.2.1 The Uganda Cooperative Alliance (UCA) owning a block of non-voting preferred stock in CoopBank which would pay annual dividends sufficient to cover 80 - 90% of UCA's recurrent operating costs as an institution.
- 2.2.2 Conversion of the remaining PL-480 funds into share capital to be owned by the 8-10 district cooperative unions and the 1200 or so primary cooperative societies which are still financially viable and truly committed to serving the interests of their members.
- 2.2.3 Complete retirement of CoopBank's debt to the Bank of Uganda (BOU).
- 2.2.4 Write-off of the old, uncollectible loans carried on CoopBank's books.

Note: The initial Terms of Reference contained two additional sub-objectives which were rendered mute since they were to be addressed in tandem with a separate consultancy which did not materialize.

- (1) Consultancy Report on Financial and Technical Assistance to Cooperative Bank for the Uganda UCA/ACDI PL-480 Monetization Program, Sanders and Bethe, December 1991.
- (2) World Bank Preappraisal Mission Report, The Cooperative Bank Limited, Barltrop, February/March 1992.

Note: The above-referenced reports should be considered an integral part of this consultancy report.

3. METHODOLOGY

The basic methodology used in the conduct of this consultancy involved the review of relevant studies, reports, laws and regulations together with contacts and discussions with key individuals as follows:

3.1 Studies, reports, laws and regulations reviewed:

- a. Consultancy Report on Financial and Technical Assistance to Cooperative Bank for the Uganda UCA/ACDI PL-480 Monetization Program, Sanders and Bethe, December 1991.
- b. World Bank Reappraisal Mission Report, The Cooperative Bank Limited, Barltrop, February/March 1992.
- c. Diagnostic study of Cooperative Bank, Final Report, Coopers, Lybrand Deloitte, November 1990
- d. Agreement for Implementation of the PL-480 Title II Monetization Project, dated 6th July, 1989
 - Amendment No. 1 to above agreement dated 23 July, 1989.
 - Amendment No. 2 to above agreement, dated 20 December 1991.
- e. UCA/PL-480 Technical Report, PL-480 Financial Programs Office, as at March 31, 1991.
- f. Various Field Monitoring Reports (1992) prepared by UCA/PL-480 Project Staff.
- g. Swedish (SIDA) Support to the UCA/SCC Cooperative Programme in Uganda, Interim Report of the Evaluation Mission, August/September 1992.

- h. The Co-operative Bank Ltd. Uganda, First Draft of Evaluation Report, Sven Ohlund (SIDA) 5th September, 1992.
- i. The Co-operative Societies Statute, 1991.
- j. Bye-laws, The Co-operative Bank Limited, updated to 24th June, 1989.
- k. The Bank of Uganda, Act 1966
- l. The Banking Act (Uganda), 1969
- m. Bank of Uganda Regulations (Revised September 1992)
 - Instructions for completion of B.S. 110
 - Part I - Quarterly Statement of Income and Expense.
 - Part II - Annual Reconciliation of Capital and Revenue.
 - Instructions for completion of B.S. 120
 - Part I - Quarterly Schedule of Provisions for Bad Debts.
 - Part II - Interest in Suspense
 - Part III - Charge-offs and Recoveries by Sector

3.2 Individuals contacted:

- a. Keith W. Sherper, Director, USAID Mission, Uganda
- b. Victor F. Amann, Contractor's Representative, Co-operative Development Advisor, ACDI/Kampala.
- c. Dennis C. Frederickson, UCA/ACDI PL-480 Project, Financial Programs Advisor.
- d. Bernie.F. Runnebaum, PL-480 Monetization Specialist ACDI/Kampala.
- e. Charles Kabuga, General Secretary, UCA
- f. Leonard Msemakweli, Director of Projects, UCA.

- g. Moses Tefula, UCA/ACDI PL-480 Project, Financial Programs Manager.
- h. Godfrey Nsubuga, General Manager, The Co-operative Bank Limited.
- i. Lennart Berring, Ag. Deputy General Manager/Credit, The Co-operative Bank Limited (Resident Swedish Consultant)
- j. Charles Okoth-Owor, Legal Secretary, The Co-operative Bank Limited.
- k. W.S.K. Sekweyama, Assistant Chief Accountant/Finance, The Co-operative Bank Limited.
- l. Hon. Gerald M. Ssendaula, Deputy Minister of Commerce, Industry and Co-operatives.
- m. Henry B. Kibirige, Director of Bank Supervision, Bank of Uganda.

3.3 CoopBank Branch Offices visited:

- a. Masaka
- b. Mbarara
- c. Ntungamo
- d. Kabale
- e. Rkunkiri
- f. Kasese
- g. Ishaka

4.0 FINDINGS

4.1 While it was not intended that this consultancy evaluate the operations of the CoopBank, since that was essentially accomplished by Coopers, Lybrand, Deloitte in November 1990 and more recently by Barltrop in February/March 1992, nor the operations of the UCA, the cooperative unions and primary societies, certain general observations are appropriate to set the tone and add perspective to the consultant's conclusions, and recommendations. They are:

4.1.1 During the past two years CoopBank has been engaged in strengthening its management and operations largely under the direction of the team of Swedish specialists under the auspices of SIDA. Some important achievements include:

- a) Recent appointment of a qualified General Manager who is a longtime employee of the Bank with broad experience.
- b) Strengthening of the Board of Directors.
- c) Significant cost reductions primarily through an approximate 15% reduction in staff.
- d) Ferreting out and dismissal of staff engaged in anomalous activities.
- e) Initiation of normal banking disciplines in all aspects of the Bank's operations, especially in the lending and accounting functions.
- f) Extensive staff reorganization to improve efficiency and lines of responsibility/accountability.
- g) Some significant policy changes have been implemented e.g the Bank no longer accrues interest for statement purposes on non-performing loans and only interest actually received is booked thus avoiding overstatement of Bank earnings, and equity.

- h) An internal risk analysis of the Bank's current loan portfolio of loans outstanding in excess of Shs. 1.0 Million is currently being made. Concurrently the BOU is also making a risk analysis of the Bank's loan portfolio. Together they should provide a more realistic basis for establishment of adequate loan loss provisions.
- i) Extensive staff development through education and training including on-the-job, indigenous and third country.
- j) Development of computer based programs and systems to improve the timeliness and accuracy of loan and accounting information as well as essential management information.
- k) Several branch banks have been opened/reopened to expand the Bank's scope of operations.

4.1.2

Also, especially during the past 18 months, the Bank's liquidity has been strengthened dramatically to the point that it is probably the most liquid banking system in the country. This was made possible mostly by:

- a) The continued infusion of PL-480 deposits which increased from Shs. 2.6 Billion at December 31, 1990 to Shs. 6.5 Billion at June 30, 1992.

- b) An effective deposit/savings mobilization campaign which increased total demand, time and savings deposits from Shs. 4.4 Billion at December 31, 1990 to Shs. 8.6 Billion at June 30, 1992.

4.1.3 Although the CoopBank has made very notable progress through initiation of sound changes to strengthen its management and operations many are far from being fully institutionalized due partly to limited human and financial resources and one very large problem remains unresolved which by itself could potentially force the Bank into bankruptcy. Many of these problem areas are discussed in either the Sanders/Bethe Report, the Barltrop Report or the recent Swedish Project Evaluation Mission Report. However, for purposes of clarity the most prominent ones are again summarized and supplemented below:

- a) The largest unresolved threat to the Bank's existence is the determination of legal liability for existing and potential foreign exchange losses on GOU loans obtained from the African Development Bank and administered by CoopBank. The actual magnitude of that liability cannot be fully determined at this time but it could be well in excess of Shs. 10 Billion and some estimate as high as Shs. 20 Billion. Many, including the World Bank's Barltrop, feel that liability should be borne by the BOU/GOU for a number of legitimate reasons.

- b) Similarly, the Bank has not resolved with the BOU, its obligations under its guarantees to the Bank under the Crop Support Fund and the Crop Finance Fund which together total some Shs. 300 Million.
- c) Without substantial injections of equity capital the Bank will remain technically insolvent.
- d) The risk analysis of the Bank's loan portfolio currently underway will undoubtedly require substantial additions to provisions for loan losses resulting in the Bank's equity capital being in a substantial negative position.
- e) Bank earnings (losses) have not shown significant improvement however, some of that can be attributed to some start-up costs in opening/reopening branch banks and the more conservative method of booking interest income since January 1, 1992.
- f) The Bank's computerization program has required very substantial software debugging and alteration and has yet to be implemented except on a pilot basis. This has resulted in a continued lack of timely and accurate data for management control and supervision. For example, this consultant was unable to obtain adequate data on Bank spreads in order to determine a meaningful break-even point.

- g) Desperately needed are procedure manuals in order to improve efficiency and consistency of staff performance and to provide the basis for more effective staff training programs. Simple, straight-forward, "cookbook style" manuals for both headquarters and branches are critically needed in at least the following major functional areas of operation:
- Loan Administration (Credit)
 - Loan Accounting
 - General Ledger Accounting (including an up-to-date chart of accounts)
 - Cashiers/Tellers
 - International Department
 - Personnel and Administration
- h) Also, desperately needed are vehicles (motorcycles) in the branch banks to provide them the necessary mobility to effectively monitor, supervise and collect outstanding loans. However, this problem is expected to be resolved very soon.
- i) Although many constructive policy, structural and procedural changes have been initiated under the leadership provided by the Swedish team of specialists many requiring major changes from past practices and/or major changes in staff attitudes have yet to be fully institutionalized. At this time there is no assurance the Swedish technical assistance will be provided beyond July 1993 although a two-year extension is

under consideration. If an extension does not occur a potentially serious vacuum could be created in the Bank's continued institutional development.

- j) There appears to be no formal long-term strategic planning to provide the Bank's staff with clear near-term and long-term goals.

4.2 As indicated, this consultant did not conduct any operational analyses of the UCA nor the secondary level cooperative unions or primary level societies however, discussions with knowledgeable persons revealed the following relevant facts:

- a) The UCA, which is the apex cooperative entity in Uganda, appears to have strong, capable management. It is very adequately fulfilling its advocacy role for the cooperative movement and is providing much needed educational and training services. The UCA also provides an array of business services including computer based services, technical assistance and auditing. However, since the UCA is essentially a non-income producing enterprise it has had to rely heavily on donor funding which is usually narrowly targeted and at best intermittent and unreliable. And, because of the relatively poor financial performance of the societies the UCA's income from the National Co-operative Education Fund has been meager. Therefore, in order to reliably sustain the institution a legitimate need has been identified to create a type of trust fund for the UCA capable of producing sufficient annual income to largely support its basic institutional needs on an ongoing basis (See sub-objective 2.2.1).

- b) Many of the cooperative unions and societies continue to struggle to recover from the devastation caused by the war and with some exceptions, most are operating on a very limited basis resulting in poor financial performance.

Generally speaking, the unions and societies are plagued with weak management and lack the necessary leverage (equity) capital needed to rebuild and sustain their operations. Additionally, many are burdened with debts (mostly to CoopBank) incurred in previous times which they are now unable to repay due to wartime damage.

5.0 REVIEW OF PREVIOUS STUDIES

One of the primary objectives of this consultancy is to provide another opinion on the merits of the recapitalization plans proposed in earlier studies by Sanders/Bethe and Barltrop. Both studies have been carefully reviewed by this consultant and the salient features of each are described below.

5.1 Sanders/Bethe Study (Dec. 1991)

This study recommends a total capital improvement in CoopBank in the amount of Shs. 6.675 Billion from the following sources:

- a) Requiring existing members to pay in their full minimum capital requirements. (This would be Shs. 1.0 Million per union and Shs. 250 Million per primary society). To accomplish this PL-480 funds would be loaned to the cooperatives at 12% per annum (a very concessionary rate). Equity capital raised from this source would total Shs. .375 Billion.

b) PL-480 capital grants would be made to unions and societies which would simultaneously be invested in the CoopBank in the form of 10% per annum (presumably fixed/cumulative) interest bearing shares or debentures as follows:

- UCA	Shs. .825 Billion
- Unions	Shs. 1.188 Billion
- Societies	Shs. .486 Billion
	<hr/>
Total	Shs. 2.500 Billion

The foregoing is intended to create an annual endowment to those respective entities at 10% per annum.

- c) CoopBank would initiate a loan based capital plan requiring each member and associate member borrower to maintain equity capital in the Bank at least equal to 10% of their maximum borrowing requirements. This was expected to yield an additional Shs. 1.0 Billion to the Bank's capital. This capital together with the minimum required membership capital in a. above would be treated as permanent capital to be redeemed at the discretion of the Bank's Board of Directors and/or possibly in the liquidation or dissolution of a member union or society.
- d) A further equity enhancement was anticipated by the expectation that the BOU would "forgive" CoopBank's overdraft with the BOU in the amount of Shs. 2.8 Billion.

5.2 Barltrop Study (Feb/Mar 1992)

This study recommends a total capital improvement in CoopBank in the amount of Shs. 7.5 Billion from the following sources:

- a) Conversion of Shs. 6.0 Billion from PL-480 deposits to equity capital. (No method for implementing this conversion was supplied).
- b) Realization of a Shs. 1.5 Billion extraordinary gain resulting from the BOU's 50% forgiveness of CoopBank's Shs. 3.0 Billion overdraft with the BOU. (As of this writing, the debt to the BOU has been fully repaid and the extraordinary gain has been or will be reflected in CoopBank's statements).
- c) This study also recommends that the issue related to the treatment of foreign exchange exposure (which has a potential liability to CoopBank ranging from Shs. 10 to 20 billion) be resolved (presumably in the CoopBank's favour) prior to any recapitalization of CoopBank.
- d) The study also alludes to using some Shs. 1.0 Billion of the PL-480 funds whose ownership is not transferred to CoopBank under the restructuring be used to payout some of the old unrecoverable loans to cooperatives.

Note: Both studies relied heavily upon their own subjective statistical analyses in arriving at the estimated amount of capital required to rejuvenate the CoopBank and Barltrop further reported that based upon an evaluation of CoopBank's loan portfolio in 1991 by the BOU it estimated a recapitalization requirement of some Shs. 8.0 Billion.

5.3 Concluding Comments

This consultant does not intend to dwell on the specific merits or demerits of the recommendations contained in either of the earlier Sanders/Bethe or the Barltrop studies. Because, each has its own pluses and minuses but mostly because they were based upon certain facts and assumptions apparent at the time. And, because the

CoopBank is going through a fairly rapid state of change this consultant would instead prefer to render his own recommendations based upon current facts, etc. which will incorporate some of the recommendations made in the earlier studies.

6.0 CONCLUSIONS

6.1 Fundamental Questions

The consultant determined that in order to respond effectively to the basic thrust of the consultancy of whether and how best to utilize the PL-480 funds to recapitalize the CoopBank and strengthen the cooperative movement in Uganda at least three fundamental questions must be addressed:

- a. Should the CoopBank be recapitalized?
- b. If the answer to the first question is positive, what assurances (not guarantees) can be provided that if the Bank is adequately recapitalized the Bank would not, over a period of time, regress to its former state of illiquidity and insolvency.
- c. And, if the above can be answered positively, what is the most constructive method of achieving the basic thrust of the PL-480 program?

6.2 Should the CoopBank be recapitalized?

This question was not directly addressed in either of the earlier studies probably because it can be addressed only in a largely subjective manner. For example, public data on the relative importance of the Bank to the overall economy of Uganda is not available. Likewise, this consultant can only respond in a subjective but positive manner based upon discussions with knowledgeable individuals in which the following major points were elicited:

- a) CoopBank is the only financial intermediary in Uganda dedicated to providing the peculiar financial services required by cooperatives, principally agricultural cooperatives. While many cooperatives were devastated and have not yet recovered from the political turbulence and military destruction of the recent past, over the years cooperatives have become an effective system for providing essential economic services to the country's rural population, particularly farmers, which represent a very high proportion of the total population.
- b) Currently and for the foreseeable future the CoopBank is the only Bank providing loans to the agricultural sector which is undoubtedly the largest sector and foreign exchange earner in the economy of Uganda.
- c) As a result of the foregoing, the CoopBank represents a relatively large proportion of the banking/financial sector of the Ugandan economy. And, in spite of its current technical insolvency it is nonetheless one of the most, if not the most, liquid banks in the country. Therefore, closure of the CoopBank would seriously undermine public confidence in an already weakened banking sector and could jeopardize the country's political stability.

6.3 What assurances can be given that CoopBank would not regress?

Largely under the direct supervision and guidance of the team of Swedish consultants the CoopBank has made great strides in a relatively short time in strengthening its organizational and management structure and in its operations. Most of the Bank's strengths and weaknesses have already been highlighted in Section 4 of this report. However, basically everyone agrees, including this consultant, that the Bank has as a result definitely turned the corner and is heading in the right direction but that much remains to be done including adequate institutionalization of the changes.

Obviously, no guarantees can be given that after a major recapitalization effort the CoopBank would not gradually drift back to its former state of illiquidity and insolvency. However, reasonable assurances can be given with the imposition of critical requirements on the Bank coupled with adequate monitoring and supervision to ascertain that desired results are being attained and the imposition of critical reciprocal requirements together with the provision of adequate technical assistance, training and education.

6.4 What is the most constructive methodology?

In the opinion of this consultant the granting of outright grants (gifts) with little or no reciprocal actions expected on the part of the recipients tends to be more destructive than constructive in most instances. Over the long-term it tends to deemphasize a self-help attitude and inculcates an attitude of dependence upon such grants. Therefore, any such grant program should use its leverage to require potential recipients to achieve certain, but specific, and desirable goals in order to qualify for such grants.

6.5 Conclusions

In response to the fundamental questions cited in 6.1 above this consultant concludes that:

- a) The CoopBank, in addition to providing most of the financial needs of the agricultural sector of Uganda, especially cooperatives, is also a very integral part of the country's banking industry and in view of the progress it has made to date there appears to be adequate justification to recapitalize the Bank.
- b) With the continued expatriate technical assistance currently being provided by SIDA together with the imposition of adequate disciplines, safeguards, etc. and the provision of added expatriate technical expertise, as needed, reasonable assurances can be given that the CoopBank should not regress to its former state.
- c) The proposed PL-480 capital grants should be channelled to the members of cooperative entities that qualify for such grants on the condition that the members would be required to invest additional new equity capital in their respective cooperatives on a matching basis. Such a program feature would serve to encourage member financial support of their cooperatives, provide additional financial strength to their cooperatives and at least to some degree, avoid the image of a give-away (free lunch) attitude on the part of both the cooperatives and members.

7.0 RECOMMENDATIONS

7.1 Phasing

The monetization of edible oils in Uganda under the PL-480 program has occurred in two distinct tranches. The first involved a total of 10,650 tons which has been completely monetized. However, the second tranche involving 10,500 tons is not expected to be fully monetized and final net proceeds determined until approximately the third quarter of 1993. Therefore, it is recommended that the Capital grant program be implemented in corresponding phases. Thus, the PL-480 funds from the first tranche would be distributed in PHASE I and virtually all of the recommendations which follow in this report will relate to PHASE I. This system of phasing will also permit a timely evaluation of the effectiveness of the first phase and the evolving needs which will be more apparent at the time, thereby permitting appropriate changes before implementing the second phase.

7.2 PHASE I Funds Available

Attached as APPENDIX A (page 33) is a status report on the funds derived from the first tranche of edible oil sales. This indicates that approximately Shs. 6.0 Billion plus will be available under PHASE I for PL-480 capital grants. That report also indicates that some Shs. 5.0 billion of that amount is currently in outstanding loans granted by the CoopBank with the approval of the CAAS Core Committee. The estimated amount of funds to be available for distribution from the second tranche of oil sales is expected to be approximately Shs. 10.0 Billion.

7.3 Equity Capital Needs of the CoopBank

During the past two years the CoopBank has been and continues to be buffeted by some external influences over which it has little control which when combined with its rapidly changing internal operations and strengthening the amount of capital needed to place the Bank on a sound footing has been elusive to say the least. This fact is evident by the varying amounts recommended by Sanders/Bethe of Shs. 6.675 Billion in December 1991 and by Barltrop of 7.5 Billion in February/March 1992 - see Section 5.0 of this report. This situation has not changed and if anything it has become more complicated by the fact that certain problems/factors need to be resolved first which is another motivating factor for the recommended phasing. The two major problems needing early resolution are:

- a) Determination of the potential loan losses in the Bank's existing loan portfolio. An evaluation is currently being undertaken both externally by the BOU and internally by the Bank's credit staff so that the magnitude of this problem should be clearer very soon.
- b) Resolution with the BOU/GOU of the potential contingent liability of the Bank in regard to foreign exchange losses on administered loans denominated and repayable in foreign currencies.

Further, complicating the matter is the fact that the GOU is currently drafting a new Banking Act which based upon information obtained by this consultant will require banks to have substantially larger amounts of equity capital. The timing of the promulgation of this new Act is uncertain but, it would likely "grandfather" in the existing banks and provide a period of time within which they must comply with the new capital requirements.

Therefore, timing-wise it is felt that this factor can be dealt with more adequately in the second phase of the PL-480 capital grant program.

Further, it is strongly felt by this consultant that the cooperative owner/borrowers should be expected to provide a greater proportion of the CoopBank's risk (equity) capital as recommended by Sanders/Bethe.

Also, as brought out in the Barltrop study, the CoopBank should be able to operate profitably with its current estimated spread of 20 to 25% provided, loan losses are brought under control and the intermediation costs (operating expenses) are kept reasonable.

Therefore, based upon the foregoing factors together with the program being recommended by this consultant and barring unforeseen circumstances and reasonable resolution of the two major problems cited above and with the proposed distribution of some Shs. 6.0 Billion contemplated during PHASE 1 of the PL 480 Capital Grant Program the COOPBANK's equity base should be adequately strengthened. However, should a need for additional equity infusions become desirable and justified such as may be required by the proposed new banking Act, they can be adjudicated during the second phase of the program.

7.4 PHASE I Program Framework/Strategies

It is recommended that the following strategies be utilized in order to maximize both the near-term and long-term economic impact on the co-operative movement in Uganda from PHASE I of the PL 480 Capital Grant Program:

- a. Provide a grant to the UCA in the amount of shs.1.0 billion which UCA would simultaneously invest in a preferred class of stock in the COOPBANK. It is suggested that the Bank stock bear cumulative dividends, payable if earned, at an initial rate of 10% per annum. However, provision should be made to permit negotiation of the dividend rate in the event of major changes in market interest rates, inflation rates, currency devaluations or such other similar occurrences over which the Bank has no control. This block of Bank stock should be non-redeemable except upon liquidation or dissolution of either COOPBANK or UCA. This should provide adequate annual income to the UCA to help it cover its operating costs as an institution.
- b. The remaining shs.5.0 billion plus should be allocated to the co-operative unions and primary societies that are or have been users of the COOPBANK's services on the basis of appropriate formulary to be determined by the CAAS Core Committee with the following caveats:
- 1) A Co-operative would qualify to receive its allocated portion of capital grants on a matched basis whereby for every shilling of new cash equity invested by its members in the co-operative, the co-operative would receive two shillings in PL 480 capital grants. Obviously, for administrative purposes some minimum and incremental amount(s), such as shs.100 or 1,000, would have to be determined.

- 2) Of the total new capital thus invested in the co-operative, the new cash invested by the members could be retained by the co-operative to improve its working capital but the amount it received in capital grants must simultaneously be invested in COOPBANK equity. And, the capital grants received will be issued in share capital to individual members of the co-operative in the same 2 to 1 proportion of new equity capital invested by each respective member thus providing adequate motivation for members to initiate the program through their new equity investments. Stock issued to co-operative members as a result of this program should be treated by the co-operative the same as its regular permanent equity capital and appropriate safeguards should be built in to prevent early and/or untimely redemption by members.
- c. Provision should also be made whereby co-operative unions and societies may utilize a portion of their resulting new equity investments in the COOPBANK as an offset against their outstanding loans due to the Bank. However, it is very strongly recommended that such offsets be limited to those loan amounts already charged off or the Bank is prepared to charge off against each respective borrower. Since the overall magnitude of such potential equity/debt offsets cannot be determined at this stage, it is desirable to incorporate a ceiling so as to avoid an excessive redemption of the Bank's new capital stock.

- d. The capital stock so issued by the COOPBANK should become a part of the Bank's permanent capital with appropriate restrictions on its redemption. Preferably it should be non-dividend bearing stock - at least non-cumulative and with dividends payable only if earned.
- e. The COOPBANK should replace its present minimum membership capital requirements of shs.1.0 million per regular member (co-op unions) and .250 million per associate member (societies) with a new loan based capital plan. The new plan would require co-operative borrowers to maintain capital stock in the Bank equivalent in amount to at least 10% of its borrowings.

Such stock would be treated as permanent capital of the Bank as in (d) above. Preferably, as a result, there should be no distinction between regular and associate members. All borrowers would be equal and have equal rights. Similarly, non-co-operative borrowers should be required to maintain compensating balances in their current accounts equivalent to 10% of their borrowings, including overdrafts.

- f. In order to determine the COOPBANK's realistic financial condition and to further strengthen its operations the Bank, prior to implementation, will be required to:
 - 1) Resolve the issue with BOU/GOU relative to the liability for foreign exchange losses.
 - 2) Establish realistic loan loss provisions/charge-offs on its loan portfolio.

- 3) Develop desperately needed procedure manuals, provide an appropriate organizational structure and provide adequate levels of training to appropriate staff, especially in lending operations in order to maintain a high quality loan portfolio, and to improve efficiency and consistency of operations.
- 4) Complete at an early date the Bank's computerization program to provide bank management with adequate, accurate and timely information to assure adequate monitoring and controlling and to assist management in decision-making processes.

7.5 PHASE I Implementation Plan

To provide a comprehensive plan for the implementation of PHASE I of the PL 480 Capital Grant Program this Consultant has prepared a series of ACTIVITY sheets which are presented in APPENDIX B hereto beginning on page 34. Each critical activity required to successfully implement the program is described in an ACTIVITY sheet which shows for each activity the estimated starting and completion dates, the entity with the principal responsibility for executing the activity and a general description of the work to be accomplished. The activity sheets are numbered sequentially in the following series:

- 1000 series - Program Development
- 2000 series - Program Implementation
- 3000 series - Program Administration

Further, to provide a global, sequential guide for the program, which will also be useful in monitoring program progress, a CHRONOGRAM (Gantt Chart) is presented on the following page.

7.6 Controlling/Implementing Entities

There will be three controlling/implementing entities with major responsibilities for program development, implementation and administration as follows:

a. CAAS Core Committee

As at present, the CAAS Core Committee consisting of three persons: The General Secretary of the UCA; a representative from USAID; and, a representative from the Ministry of Commerce, Industry and Co-operatives, would continue to function as the controlling entity for the management and utilization of the PL 480 funds. However, the CAAS Core Committee should establish an adhoc TECHNICAL (working) COMMITTEE to assist it in developing, implementing and monitoring the PL 480 Capital Grant Program. For a more complete description of the Technical Committee's role, and responsibilities refer to Activity # 1010 (page 35) which includes a proposed Terms of Reference for that committee.

(b) Uganda Co-operative Alliance (UCA)

As at present, the UCA would continue to function as administrator of the PL 480 funds. Additionally, the UCA would be expected to perform two other major functions critical to the success of the PL 480 Capital Grant Program as follows:

CHRONOGRAM - PL 480 CAPITAL GRANT PROGRAM (By Months)

1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	
1000 PROGRAM DEVELOPMENT																			
	1010 Establish Technical Committee (CAAS Core Committee)																		
	1020 Develop Capital Grants Formulary, Rules, etc. (Technical Committee)																		
	1030 Develop Manuals / Train Staff (Coop Bank)																		
	1040 Resolve Foreign Exchange Liability (BOU/GOU)																		
	1050 Establish Loss Provision (Coop Bank)																		
	1060 Computerization of Branch banks (Coop Bank)																		
		1070 Revise Bye-Laws (Coop Bank)																	
			1080 Develop Educational Program for Beneficiaries (UCA)																
	1090 Monitor Compliance with Preconditions (Technical Committee)																		
2000 PROGRAM IMPLEMENTATION																			
						2010 Notification to Eligible Beneficiaries (UCA)													
							2020 Implement Educational Program for Beneficiaries (UCA)												
								2030 Provide Technical Assistance to Beneficiaries (UCA)											
									2040 Receive / Review Applications for Capital Grants (Technical Committee)										
										2050 Approve / Issue Capital Grants (CAAS Core Committee / UCA)									
											2060 Monitor Beneficiary Compliance (UCA)								
3000 PROGRAM ADMINISTRATION																			
	3010 Monthly Progress Reports on Compliance with Preconditions (Coop Bank)																		
							3020 Monthly Reports on Education, Monitoring and Capital Grants Issued (UCA)												
										3030 Evaluation of Phase I / Recommendations for Phase II (CAAS Core Committee)									
													3040 Final Report on Implementation of Phase I (Technical Committee)						

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- (1) Prior to actual implementation of the program the UCA should develop and conduct an educational (promotional) program directed at potential grant beneficiaries (co-operatives) and their members to fully acquaint them with the elements of the program. This program should also provide for the provision of technical assistance to potential beneficiaries to assist them, as necessary, in fulfilling their obligations to qualify for the capital grants - see Activity ' 1080 (page 45).

- (2) The UCA should also develop and implement an effective program whereby following the actual distribution of capital grants to co-operatives the UCA will monitor those beneficiaries to determine and assure their full compliance with the terms and conditions of the PL 480 Capital Grant Program - see Activity ' 2060 (page 52).

- (c) The Co-operative Bank Limited (COOPBANK)
As the principal beneficiary of the PL 480 Capital Grant Program the Bank will be expected to comply with the intent and purposes of any pre-conditions and/or post-conditions directed at further strengthening the Bank's institutional development as may be prescribed by the CAAS Core Committee - see APPENDIX C hereto (page 57) which contains suggested pre-conditions.

7.7 Technical Assistance needs.

In order to assure the ultimate success of the recommended PL 480 Capital Grant Program and, in particular the continued strengthening of the COOPBANK's operations and the adequate institutionalization of those improvements, the need for continued expatriate technical assistance cannot be over-emphasized especially in the following areas where indigenous technical expertise does not appear to be available:

(a) Institutional development (COOPBANK)

While it is anticipated that the institutional development expertise which has been provided by SIDA will be extended for an additional two-year period beyond the present termination date of July 1993, at this point that extension cannot be assured. That assistance which has been very effective in turning around the COOPBANK is far from complete and as yet has not been adequately institutionalized for the long-term. Should that assistance be terminated by SIDA a very significant vacuum would be created which could seriously jeopardize the intended long-term objectives of the PL 480 program in Uganda. Therefore, such a vacuum would need to be filled by some donor agency for at least an additional two-year period.

(b) Develop Procedure Manuals/Train Personnel (COOPBANK).

The management of the COOPBANK including the resident Swedish Technical experts, as well as this Consultant, agree that in order for the Bank to properly develop the desperately needed procedure manuals and adequately train relevant personnel which is one of the critical pre-conditions to be required of the Bank, see APPENDIX C, (page 57) qualified expatriate technical assistance will be

necessary. No attempt has been made to quantify in detail this need, however based upon personal experience of this Consultant, the loan administration (credit) manual together with providing adequate training could require a minimum of one year to complete. Likewise, the accounting manuals and training could easily require an equal amount of time whereas the other required manuals and training might be accomplished in lesser periods of time.

- (c) PHASE I Program Evaluation (CAAS Core Committee). It is recommended that the required evaluation of the PHASE I PL 480 Capital Grant Program and recommendations for the second phase as described in the Program - see Activity # 3030 (page 55) - be performed by an expatriate and can probably be accomplished in approximately six-weeks time.

8.0 CONCLUDING COMMENTS

8.1 Response to consulting objectives

With one exception, this Consultant believes he has adequately responded to the primary and sub-objectives of the consultancy as outlined in section 2.0 of this report. The primary objective 2.1.3. requiring performance of as much of the approved workplan as possible during the period of the consultancy could not possibly be carried out.

8.2 Potential impact of the recommended program

If implemented as designed it is believed that the recommended program can accomplish all of the desired objectives and on a constructive basis. In particular the reader's attention is directed to APPENDIX D (page 59) which illustrates the immediate financial impact the program could have on a typical co-op entity and on the COOPBANK. A synopsis of the potential impact of PHASE I of the recommended program is as follows:

- a) The full amount of PHASE I PL-480 funds of over Shs. 6.0 Billion will be infused into the CoopBank's equity structure through a debt-equity swap.
- b) The potentially devastating contingent liability on the CoopBank for foreign exchange losses will be (favourably) resolved.
- c) The CoopBank's loan portfolio will be critically evaluated and appropriate loss reserves established thus making its balance sheet more credible.
- d) The quality of the CoopBank's loan portfolio should improve as a result of offsetting of proposed capital grants to cooperatives against some uncollectible loans.
- e) The CoopBank's operational and institutional development should continue at a rapid pace and become poised for long-term growth, profitability and stability.
- f) The CoopBank will have a sounder membership capital program which should also serve to expand and promote greater membership participation in the Bank's future development.
- g) The UCA will have a relatively reliable source of annual income to support its very important advocacy and training functions for the cooperative movement through its preferred class investment in the CoopBank.

- h) The beneficiary cooperative unions and societies will have their financial condition and borrowing capacity significantly improved through increased working capital, increased equity capital and, in many instances a reduction in debt to the CoopBank which they are unable to repay under normal circumstances.

- i) Individual Co-operative members will have invested in cash an additional amount of permanent equity in their respective cooperatives in an aggregate amount of Shs. 2.5 Billion for which they will receive an additional aggregate amount of Shs. 6.0 Billion. Thus, the total equity infusion into the cooperative movement in Uganda will amount to some Shs. 8.5 Billion.

- j) The most intangible but perhaps most constructive aspect of the program is that it will hopefully contribute to building a more self-reliant attitude in every area of the cooperative movement. No one is getting a "free lunch" or "dole out". Every potential beneficiary whether they are individual Co-op members or cooperative entities are expected to contribute in some constructive manner before they can qualify to receive a capital grant under the program.

A. STATUS OF PHASE I PL-480 FUNDS AS OF SEPTEMBER 30, 1992

Net proceeds from monetization of 10,650 tons of edible oils (deposited in CoopBank)	Shs. 7,684,921,378
Less: Project operating expense	504,932,450
Outright grants to Cooperatives	866,357,499
	<hr/>
Total deductions	1,371,289,949
	<hr/>
<u>Balance available for Capital grants⁽¹⁾</u>	<u>Shs. 6,313,631,429</u>

B. DISPOSITION OF PHASE I PL-480 FUNDS DEPOSITED IN COOP BANK AS OF SEPTEMBER 30, 1992

Net proceeds deposited	Shs. 7,684,921,378
Less: Project operating expenses	504,932,450
Outright grants to Cooperatives	866,357,499
Loans to Cooperatives - Disbursed	4,615,905,710
Loans to Cooperatives - Undisbursed	314,517,961
	<hr/>
Total deductions	6,301,713,620
	<hr/>
<u>Balance on deposit in CoopBank⁽¹⁾</u>	<u>Shs. 1,383,207,758</u>

(1) Plus additional interest income less bank charges.

IMMEDIATELY FOLLOWING THIS SHEET
ARE THE INDIVIDUAL ACTIVITY SHEETS
IN CONSECUTIVE NUMERICAL ORDER.

PHASE I - PL-480 CAPITAL GRANT PROGRAM

Activity #1010

Estimated Start Date : Beginning of month 1

Estimated Completion Date : Middle of month 1

Responsible Entity : CAAS Core Committee

Activity: Establish Technical Committee

At the outset of the Program the CAAS Core Committee should establish a special (ad hoc) Technical Committee which will in effect be a working sub-Committee to develop, monitor and supervise the Program in accordance with the attached proposed Terms of Reference. The Committee should consist of a capable representative from each of the following:

- Uganda Cooperative Alliance (Chairman)
- The Cooperative Bank Limited (Vice Chairman)
- USAID
- Ministry of Commerce, Industry and Cooperatives
- ACDI Cooperative Development Advisor (Recording Secretary)

In addition, the UCA/ACDI PL-480 Project, Financial Programs Advisor should be appointed to this Committee in an ex-officio, non-voting, advisory capacity.

The Technical Committee should remain in existence until such time as all of the funds under the PL-480 Capital Grant Program have been distributed and all technical matters related thereto have been resolved.

Attachment: Proposed Terms of Reference.

CAAS CORE COMMITTEE

TECHNICAL COMMITTEE - TERMS OF REFERENCE

- 1.0 The initial undertakings of the Committee prior to program implementation should be to develop and recommend to the CAAS Core Committee for its approval appropriate formulary for the equitable distribution of Phase I PL-480 capital grants to cooperative entities in Uganda together with appropriate rules and procedures. Among other things, this activity should include the following:
- a. Determine the functions, responsibilities, preconditions and post conditions expected of the participating Ugandan apex Cooperative entities to be involved in implementing this program, namely the Uganda Cooperative Alliance and the Co-operative Bank Limited, and document the same in written agreements to be executed by each respective entity and the CAAS Core Committee.
 - b. Determination of the exact aggregate amount of capital grant funds available for distribution.
 - c. Develop the basic equitable criteria for the selection of eligible cooperative beneficiaries.
 - d. Based upon the approved criteria developed in c. above prepare a list of eligible beneficiaries detailing the exact amount of capital grant for which each cooperative entity is eligible to apply.
 - e. Determination of any preliminary statutory requirements, such as amendments to corporate documents, bye-laws, etc. which may be necessary for the eligible beneficiaries to adopt in order for them to legally receive such capital grants in the form(s) and under the terms and conditions to be specified in g. below.
 - f. Determination of a specific termination date by which each eligible beneficiary under Phase I of this program must have its fully documented application for its capital grant submitted to this Technical Committee for its review and recommendation for action to the CAAS Core Committee.

(Note: It is suggested that the termination date be set for one year from the date of implementation of Phase I of this program and, that any applicant unable to provide the required and complete documentation by that date be automatically disqualified from participation in Phase I of the program).

- g. Develop an appropriate application form, together with rules and procedures, authorized uses of the capital grants, reciprocal requirements of the beneficiaries, required documentation, other terms and conditions etc. which should be assembled in written form for dissemination to eligible cooperative entities in order to provide adequate guidance for them to complete their applications for capital grants.
 - h. Develop a written Agreement/Contract which defines all of the terms and conditions etc. of the PL-480 Capital Grant program with which each approved beneficiary must agree to comply and which must be legally executed by it and the Uganda Cooperative Alliance prior to actual distribution of its capital grant.
 - i. Determine that the Uganda Cooperative Alliance develops an appropriate notification and disseminates it in a timely manner to each eligible beneficiary which, as a minimum describes the source, purposes and intent of the PL-480 Capital grant program, the amount to which each is eligible to apply (as determined in d. above) and the rules, procedures, application form, required documentation, etc. required to apply for said grants (as determined in g. above).
 - j. Ascertain that the Uganda Cooperative Alliance has developed an adequate program which in addition to educating the eligible capital grant beneficiaries in regard to all aspects of the program also provides for appropriate levels of technical assistance to them in completing their requirements to enable them to qualify to receive their allocated amounts of capital grants in a timely and efficient manner.
 - k. Ascertain that the Co-operative Bank Limited has satisfactorily complied with all of the preconditions to which it has agreed as described in a. above.
- 2.0 The Technical Committee will receive each application for a capital grant under this program, determine the degree to which the applicant has complied with requirements of the program, determine the specific amount of capital grant for which the applicant qualifies and makes appropriate recommendations to the CAAS Core Committee for final action. Upon approval by the CAAS Core Committee it directs the Uganda Cooperative Alliance, by written communication, to arrange with the Cooperative Bank for issuance of the approved capital grant.
- 3.0 The Technical Committee, through appropriate reporting mechanisms, should ascertain that the Uganda Cooperative Alliance is performing adequate monitoring of recipient capital grant beneficiaries to determine if they have and are complying with the requirements of the program and more specifically, the terms and conditions in the Agreement/Contract described in h. above.

- 4.0 In the event it is determined that a capital grant beneficiary is not satisfactorily complying with the requirements of the program, following appropriate investigation the Technical Committee shall determine and evaluate the merits of the case and submit its recommendations to the CAAS Core Committee for action.
- 5.0 Immediately following the termination date of Phase I of the program (as described in f. above) the Technical Committee shall determine the extent to which eligible beneficiaries were unable to qualify for and receive their allocated capital grants and make appropriate recommendations to the CAAS Core Committee on the future disposition of those amounts of capital grants.
- 6.0 In the event that a dispute shall arise related to this program the Technical Committee shall act as mediator and submit its recommendations to resolve the dispute to the CAAS Core Committee which Committee's decision shall be binding on the parties involved.
- 7.0 Prior to the termination date of Phase I of this program the CAAS Core Committee shall engage a qualified disinterested party to make an evaluation of the effectiveness of Phase I, the degree of compliance by all parties involved in the program and provide independent recommendations in relation to:
 - a. Whether or not Phase II of the program should be implemented.
 - b. If it should be implemented, a detailed implementation program should be provided.
 - c. If it is not to be implemented, in what other manner should the remaining PL-480 funds be utilized to benefit the cooperative movement in Uganda.
 - d. Any other aspects or components of the program which may be prescribed by the CAAS Core Committee.

PHASE I - PL-480 CAPITAL GRANT PROGRAM

Activity #1020

Estimated Start Date: Middle of month 1

Estimated Completion Date: End of month 4

Responsible Entity: Technical Committee

Activity: Develop Capital Grants Formulary, Rules & Conditions, appropriate Agreements/Contracts, etc. necessary to Implement the Program

Among other things which may be required to implement the Program, the Technical Committee will prepare its recommendations for approval by the CAAS Core Committee on the following:

1. Draft agreement to be executed by the Uganda Cooperative Alliance which clearly defines its obligations and responsibilities in implementing the Program.
2. Draft agreement to be executed by the Cooperative Bank Limited which clearly defines its obligations (preconditions) and responsibilities in implementing the Program.
3. Basic equitable Criteria for the selection of eligible cooperative beneficiaries and based upon said criteria a list of eligible beneficiaries detailing the exact amount of capital grant for which each cooperative entity is eligible to apply.
4. An appropriate application form and rules, procedures, authorized uses of the capital grants, reciprocal requirements of the beneficiaries, required documentation, other terms and conditions etc.
5. Draft agreement to be executed by each approved beneficiary which clearly defines all of the terms and conditions of the PL-480 Capital Grant Program with which each beneficiary cooperative entity must agree to comply.
6. A specific termination date by which each eligible beneficiary under Phase I of this Program must have its fully documented application for its allocated capital grant submitted to the Technical Committee.

PHASE I - PL-480 CAPITAL GRANT PROGRAM

Activity #1030

Estimated Start Date : Beginning of month 1 (See note)

Estimated Completion Date : End of month 6 (See note)

Responsible Entity : COOPBANK

Activity : Develop Policy/Procedure Manuals and Train Staff

The CoopBank will develop and/or arrange to have developed adequate policy and procedure manuals which incorporate adequate supervision and control mechanisms and assure that relevant staff are adequately trained in their use and that an appropriate organizational structure is in place for their effective implementation in at least the following functional areas:

1. Loan Administration (Credit)
2. Loan Accounting
3. General Ledger Accounting (including an up-to-date chart of accounts)
4. Cashiers/Tellers
5. International Department
6. Personnel and Administration

Note: It is anticipated that expatriate technical assistance may be necessary to adequately execute some or all of this activity. Therefore, the start/completion dates may have to be adjusted.

PHASE I - PL-480 CAPITAL GRANT PROGRAM

Activity #1040

Estimated Start Date: Beginning of month 1

Estimated Completion Date: End of month 3

Responsible Entity : BOU/GOU (COOPBANK)

Activity: Resolution of CoopBank's Contingent Foreign Exchange Liability

In negotiations with the BOU/GOU the CoopBank should obtain written agreement that the COOPBANK will not be contingently liable for any foreign exchange losses related to existing loans from the BOU/GOU which are denominated and repayable in foreign currencies.

PHASE I - PL-480 CAPITAL GRANT PROGRAM

Activity #1050

Estimated Start Date: Beginning of month 1

Estimated Completion Date: End of month 2

Responsible Entity: CoopBank

Activity: Establish adequate Loan Loss Provisions on CoopBank's existing Loan Portfolio

As a result of a loan by loan review of the CoopBank's existing loan portfolio of all loans with an outstanding balance of Shs. 1.0 Million or more (which review is expected to be completed by December 31, 1992) and, in accordance with BOU regulations, the CoopBank will establish appropriate and adequate provisions for loan losses on its books.

Additionally, the CoopBank should establish appropriate and adequate provisions for loan losses on its books on loans of less than Shs. 1.0 Million.

PHASE I - PL-480 CAPITAL GRANT PROGRAM

Activity #1060

Estimated Start Date: Beginning of month 1

Estimated Completion Date: End of month 6

Responsible Entity: COOPBANK

Activity: Computerization of Branch Banks

The CoopBank should ascertain that the computerization of its branch bank loan and accounting records and systems will be functional and operational and appropriate staff adequately trained by the time the PL-480 Capital Grant Program is implemented or shortly thereafter so as to provide Bank Management with accurate and timely information. If appropriate this may be accomplished on a branch by branch basis.

PHASE I - PL-480 CAPITAL GRANT PROGRAM

Activity #1070

Estimated Start Date: Beginning of month 4

Estimated Completion Date: End of month 5

Responsible Entity: COOPBANK

Activity: Make necessary revisions to CoopBank's Bye-Laws

At the CoopBank's next (1993) Annual General Assembly or at a special meeting, legally called for the purpose, the Bank's owners should take appropriate action to revise its bye-laws which will replace the existing membership capital requirements with the following:

1. Require all cooperative borrowers to maintain minimum equity capital in the Bank at least equal to 10% of the amount of the loans or overdraft granted to them by the Bank. Such member investments should be treated as permanent capital, preferably non-dividend bearing and at least non-cumulative, which may be retired/redeemed only in the discretion of the Bank's Board of Directors.
2. Similarly, require each non-cooperative borrower to maintain compensating balances in their respective current account at least equal to 10% of the amount of the loans or overdrafts granted to it by the Bank. Such compensating balances may be retired/redeemed when each such borrower fully repays its respective loans or overdrafts due to the Bank.

Additionally, necessary revisions to the Bank's bye-laws should be made to provide authority for the Bank to issue whatever forms and amounts of its equity capital instruments which may be required to fully implement the PL-480 Capital Grant Program.

PHASE I - PL-480 CAPITAL GRANT PROGRAM

Activity # 1080

Estimated Start Date: Beginning of month 5

Estimated Completion Date: End of month 6

Responsible Entity: UCA

Activity: Develop Educational/Promotional Program for
 Eligible Capital Grant Beneficiaries

The UCA should develop a program, satisfactory to the Technical Committee, designed to adequately promote and educate potential capital grant beneficiaries including primary society members on all aspects of the PL 480 Capital Grant Program especially the program's purposes, reciprocal requirements of beneficiaries, and other rules and procedures necessary to be followed in order to qualify for such grants. The program should also provide for providing assistance as needed to individual eligible beneficiaries to assist them in satisfying program requirements necessary to qualify for approval of capital grants allocated to them.

PHASE I - PL-480 CAPITAL GRANT PROGRAM

Activity # 1090

Estimated Start Date: Beginning of month 1

Estimated Completion Date: End of month 6

Responsible Entity: Technical Committee

Activity: Monitor Compliance with Preconditions

The Technical Committee will monitor for satisfactory compliance the preconditions required of the COOPBANK, especially those required in Activity #1030, #1040, #1050, #1060 and #1070, and those of the UCA, especially Activity #1080.

PHASE I - PL-480 CAPITAL GRANT PROGRAM

Activity # 2010

Estimated Start Date: Beginning of month 7

Estimated Completion Date: End of month 7

Responsible Entity: UCA

Activity: Provide notification to Eligible Beneficiaries

Based upon the list of eligible beneficiaries and the amount of capital grants allocated to each as approved by the CAAS Core Committee (see Activity #1020) the UCA will provide written notification to each eligible beneficiary which as a minimum describes:

1. The source, purpose and intent of the PL 480 Capital Grant Program.
2. The amount of capital grant for which that beneficiary is eligible to apply. (see note)
3. All of the rules, procedures, application form, required documentation, etc. required to apply for said capital grants.
4. The termination date for the submission of applications for said capital grants.
5. How eligible beneficiaries can obtain assistance in satisfying program requirements.

Note: It may also be advisable to include in the notification the maximum amount of loans due to the COOPBANK which each beneficiary is eligible to offset against the capital grant for which it may qualify.

PHASE I - PL-460 CAPITAL GRANT PROGRAM

Activity # 2020

Estimated Start Date: Beginning of month 8

Estimated Completion Date: End of month 11

Responsible Entity: UCA

Activity: Implement Educational/Promotional Program for
Beneficiaries.

Implement the approved educational/promotional program developed in
Activity #1080.

PHASE I - PL-480 CAPITAL GRANT PROGRAM

Activity # 2030

Estimated Start Date: Beginning of month 9

Estimated Completion Date: Termination date of PHASE I

Responsible Entity: UCA

Activity: Provide Technical Assistance to Beneficiaries

The UCA, in accordance with its approved educational and promotional program (see Activity #1080), should provide assistance on an as needed basis to assist eligible Program beneficiaries in fulfilling their obligations in order for them to qualify for the maximum amount of PL-480 capital grants allocated to them.

PHASE I - PL-480 CAPITAL GRANT PROGRAM

Activity # 2050

Estimated Start Date: Beginning of month 11

Estimated Completion Date: Termination date of PHASE I

Responsible Entity: CAAS Core Committee/UCA/COOPBANK

Activity: Approve/Issue Capital Grants

Upon receipt of an application for a PL 480 Capital Grant with recommendations from the Technical Committee (see Activity #2040) the CAAS Core Committee will review it and if found satisfactory, approve it.

Upon approval by the CAAS Core Committee it will provide written communication of the approval to the UCA which in turn will provide written communication to the COOPBANK whereupon the Bank will issue the capital grant to the respective co-operative entity and simultaneously issue the co-operative an equal amount of capital stock, or other agreed upon equity instrument, of the COOPBANK.

PHASE I - PL-480 CAPITAL GRANT PROGRAM

Activity # 2060

Estimated Start Date: Beginning of month 12

Estimated Completion Date: When all capital grant beneficiaries have completed their obligations under Phase I.

Responsible Entity: UCA

Activity: Monitor Beneficiary Compliance

The UCA will develop and implement an effective program whereby following the actual distribution of approved capital grants to co-operatives the UCA will monitor those recipient beneficiaries to determine and assure their full compliance with the requirements of the PL-480 Capital Grant Program and more specifically the terms and conditions in the Program Agreement executed by the recipient and the UCA (see Activity #1010 and #1020).

Whenever a capital grant recipient is found not to be in compliance and demonstrates an unwillingness to come into compliance within a reasonable period of time the UCA will promptly report the relevant facts in the matter to the Technical Committee in writing.

PHASE I - PL-480 CAPITAL GRANT PROGRAM

Activity # 3010

Estimated Start Date: Beginning of month 1

Estimated Completion Date: End of month 6

Responsible Entity: COOPBANK

Activity: Monthly Progress Reports on Compliance with
Preconditions.

The COOPBANK will provide monthly progress reports to the Technical Committee, in form satisfactory to the Committee, which adequately describes progress achieved by the Bank in complying with the preconditions set forth in the Program Agreement executed by the Bank and the CAAS Core Committee (see Activity #1010 and #1020).

PHASE I - PL-480 CAPITAL GRANT PROGRAM

Activity # 3020

Estimated Start Date: Beginning of month 8

Estimated Completion Date: When all monitoring activities described in activity #2060 have been completed.

Responsible Entity: UCA

Activity: Monthly Reports on Education and Monitoring Activities and on Capital Grants Issued.

The UCA will provide monthly progress reports to the Technical Committee, in form satisfactory to the Committee, which adequately describes:

1. Its education and promotion activities (see Activity #2020).
2. Its technical assistance activities provided to beneficiaries (see Activity #2030).
3. Its activities related to monitoring beneficiary compliance (see Activity #2060).
4. Lists of beneficiaries and amounts of approved PL-480 capital grants distributed to each.

PHASE I - PL-480 CAPITAL GRANT PROGRAM

Activity # 3030

Estimated Start Date: Beginning of month 17

Estimated Completion Date: End of month 18

Responsible Entity: CAAS Core Committee

Activity: Evaluation of Phase I/Recommendations for Phase II

The CAAS Core Committee will engage the services of a qualified disinterested party to make an evaluation of the effectiveness of the Program in achieving the primary objectives of PHASE I, the degree of compliance by all parties involved in the Program and provide independent recommendations in relation to:

1. Whether or not PHASE II of the PL 480 Grant Program should be implemented.
2. If it should be implemented, a detailed implementation program should be provided.
3. If it is not to be implemented, in what other manner should the remaining PL 480 funds be utilized to further develop the edible oil industry in Uganda and/or benefit its co-operative movement.
4. Recommendations on any other aspects or components of the program which may be prescribed by the CAAS Core Committee.

PHASE I - PL-480 CAPITAL GRANT PROGRAM

Activity # 3040

Estimated Start Date: Beginning of month 17

Estimated Completion Date: End of month 19

Responsible Entity: Technical Committee

Activity: Final Report on Implementation of PHASE I

Upon termination of PHASE I of the PL 480 Capital Grant Program the Technical Committee will render a final written report to the CAAS Core Committee setting forth the degree of achievement of the primary objectives of PHASE I of the program. Also, if any capital grant funds in PHASE I remain undisbursed for which eligible beneficiaries were unable to qualify, the Technical Committee should provide its recommendations to the CAAS Core Committee on their disposition.

CO-OPERATIVE BANK LTD.

PROPOSED PRECONDITIONS TO PHASE I PL-480 CAPITAL GRANT PROGRAM

Prior to the first distribution of PL-480 grants the Bank shall:

1. Obtain from the BOU/GOU written agreement that the Bank will not be liable for any foreign exchange losses related to existing loans from the BOU/GOU which are denominated and repayable in foreign currencies.
 2. Perform a complete risk analysis of all loans outstanding with balance of Shs. 1 Million or greater and based upon the findings of said risk analysis, establish appropriate and adequate provisions for loan losses on the Bank's books.
 3. Obtain assurance that the computerization of its branch bank's loan and accounting records and systems will be functional and operational and appropriate staff adequately trained no later than 30th June, 1993 or within two months from the date of the first distribution of PL-480 grants. If appropriate this may be accomplished on a branch by branch basis.
 4. Develop adequate policy and procedure manuals which incorporate adequate supervision and controls and assure that relevant staff are adequately trained and that an appropriate organizational structure is in place for their effective implementation in at least the following functional areas:
 - a. Loan Administration (Credit)
 - b. Loan Accounting
 - c. General Ledger Accounting (including an up-to-date chart of accounts)
 - d. Cashiers/Tellers
 - e. International Department
 - f. Personnel and Administration
- (Note: It is anticipated that expatriate technical assistance may be necessary to adequately implement the foregoing precondition).
5. At the Bank's next (1993) Annual General Assembly or at a special meeting, legally called for the purpose, the Bank's owners take appropriate action to revise its bye-laws which will replace the existing membership capital requirements with the following:
 - a. Require all cooperative member borrowers to maintain minimum equity capital in the Bank at least equal to 10% of the amount of the loans or overdrafts granted to them by the Bank. Such member investments may be retired/redeemed only in the discretion of the Bank's Board of Directors.