PD-AB3-983 / YD

USAID

# memorandum

United States
Agency for
International
Development

DATE: November 28, 1994

TO: See Distribution

FROM: Norman L. Olsen, C/PPD

SUBJECT: Document Distribution

RE: AID Evaluation Summary for Rehabilitation of Productive Enterprise (RPE) 617-0104

Distribution:

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   Room 209 SA-18
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   Room B930 NS

PD-ABJ-983

# IDENTIFICATION DATA

| A. Reporting A.I.D. Unit | B. Was Evaluation Scheduled in Current FY Annual Evaluation Plan? | C. Evaluation Timing XD |
|---|---|---|
| General Development Office<br><br>Mission or AID/W Office Uganda<br>(ES_ ) | Yes [ * ] Slipped [ ] Ad Hoc [ ]<br><br>Evaluation Plan Submission Date: FY 94 Q4 | Interim [ ] Final [ * ]<br><br>Ex Post [ ] Other [ ] |

## D. Activity or Activities Evaluated (List the following information for project(s) or program(s) evaluated; if not applicable, list title and date of the evaluation report)

| Project No. | Project/Program Title | First PROAG or Equivalent (FY) | Most Recent PACD (Mo/Yr) | Planned LOP Cost (000) | Amount Obligated to Date (000) |
|---|---|---|---|---|---|
| 617-0104 | Rehabilitation of Productive Enterprises (RPE) Project | 08/84 | 09/94 | $21,758 | $21,758 |

## ACTIONS

| E. Action Decisions Approved By Mission or AID/W Office Director | Name of Officer Responsible for Action | Date Action to be Completed |
|---|---|---|
| Action(s) Required | | |

## APPROVALS

F. Date of Mission or AID/W Office Review of Evaluation: (Month) (Day) (Year)

### G. Approvals of Evaluation Summary And Action Decisions:

| | Project/Program Officer | Representative of Borrower/Grantee | Evaluation Officer | Mission or AID/W Office Director |
|---|---|---|---|---|
| Name (Typed) | Patrick Fine, General Development Officer, USAID/Kampala | A. A. Okema, Director, Bank of Uganda | Louanne Douris, Program Officer, USAID/Kampala | Donald B. Clark, Director, USAID/Kampala |
| Signature | | | | |
| Date | 11/03/94 | 15/11/1994 | 11/09/94 | 11/16/94 |

## H. Evaluation Abstract (Do not exceed the space provided)

The RPE Project objective was to improve investment in medium and large scale agricultural enterprises. The program was also intended to broaden the portfolio of participating local banks to include intermediate term agricultural lending, thus increasing the absorptive capacity for intermediate term lending of both the credit delivery system and the loan recipient. It was envisaged that there would be an important impact on both the promotion of the private sector and the employment of the poor in agriculture. The project was implemented by the Bank of Uganda through three Intermediate Credit Institutions (ICI).

A final impact evaluation was conducted by Management Systems International (MSI) using baseline information from an end-use survey of project commodities, a review of project documents, interviews with project and implementing institution personnel complimented with field visits to selected sites. This summary report deals mainly on activities related to the RPE credit program because of the broad nature of activities under the project and the need for brevity. The four subsidiary activities are briefly highlighted . Detailed information can be found in the ancillary reports attached to this summary.

The purpose of the final evaluation was to assess the overall impact of five project activities.

(1)the credit program and associated technical assistance to participating banks
(2)technical assistance to the Departed Asians' Property Custodian Board (DAPCB)
(3)technical assistance to Nile Bank through a Cooperative Agreement with TechnoServe International
(4)start up of a rural credit program for oil seed processing through a grant to Appropriate Technology International (ATI)
(5)assistance to the Uganda Manufacturers Association (UMA).

Major findings and conclusions are:

- Loan repayment rates for this project are 22%
- Incomes and productivity of the borrowers increased although this was not sustained
- Loan Supervision and Collection efforts by the ICIs were poor
- ICIs did not participate in the project design and neither did they receive TA to develop term lending programs
- TA to the DAPCB was effective in rationalizing its operations although the possibility of realizing the goal of complete transparency and fair play at the Board is slim
- TechnoServe provided excellent TA to the Nile Bank and there is no need for an extension beyond the project PACD
- Support to UMA/UMACIS has been productive; three feasibility studies have been completed and five are in the pipeline. TA and workshops have been provided under Project SUSTAIN and the MBA Enterprise Corps provided complimentary services
- Progress has been good in establishing the ATI operation, manufacture of oil mills has started, extension work is in progress, research on sunflower seed production is ongoing, and an Oil Seed Processor's Association now exists.

The evaluators noted the following "lessons"

- a project such as this one needs an institutional contractor to coordinate and provide specialized assistance to farmers and the ICIs
- all possible recourses lending institutions have at their disposal to increase loan repayment rates should be carefully researched and incorporated into the project during the design phase
- a critical prerequisite to capacity building is that everyone must participate equally in defining the nature of the problem to be solved and the process involved.
- depending on how the project is designed and managed, the goal of increasing the capacity of commercial banks to administer intermediate term credit using donor funds may not necessarily contribute to (and in some cases may decrease) their capacity to effectively function in their primary role of financial intermediation
- credit driven solutions may fail to consider related problems in marketing, infrastructure, extension services, research, the macroeconomic environment and agricultural policy may exacerbate farmers' problems rather than provide sustainable long-term solutions

## COSTS

I.Evaluation Costs

| 1.Evaluation Team Name | Affiliation | Contract Number OR TDY Person Days | Contract Cost OR TDY Cost (U.S.$) | Source of Funds |
|---|---|---|---|---|
| Robert Laport<br>Patricia Walker | Management Systems International (MSI) | AEP-0085-I-00-3001-00 under IQC No.OTR-000-1-00-0034-00 | US$ 63,694 | 72-1101014<br>E/M U905125 |

| 2. Mission/Office Professional Staff Person-Days (Estimate) | 3.Borrower/Grantee Professional Staff Person-Days (Estimate) |
|---|---|
| 14 Days | 14 Days |

## SUMMARY

**J.Summary of Evaluation Findings, Conclusions and Recommendations (Try not to exceed the three (3)pages provided Address the following Items:**

- *Purpose of evaluation and methodology used
- *Purpose of activity(ies) evaluated
- *Findings and conclusions (relate to questions)
- *Principal recommendations
- *Lessons learned

| Mission or Office USAID/Kampala | Date This Summary Prepared: 10/31/94 | Title And Of Full Evaluation Report : FINAL EVALUATION REHABILITATION OF PRODUCTIVE ENTERPRISES (RPE) PROJECT 617- 0104 USAID/KAMPALA JUNE 1994 |
|---|---|---|

The final evaluation of the RPE Project was intended to assess overall project impact of five project activities. These were (1) the credit program and associated technical assistance to participating banks; (2)technical assistance to the Departed Asians' Property Custodian Board (DAPCB); (3)technical assistance to Nile Bank through a cooperative agreement with TechnoServe, International; (4)start-up of a rural credit program for oil seed processing through a grant to Appropriate Technology International (ATI); and (5)assistance to the Uganda Manufacturers Association (UMA).

THE CREDIT PROGRAM AND ASSOCIATED TECHNICAL ASSISTANCE

Prior to the final evaluation, an end-use survey of project commodities was carried out by a local firm, IMPACT Associates, to determine whether project commodities delivered to sub-borrowers were being used for the purposes for which they were imported. The survey found that only 50% of commodities were being used for the purposes for which they were purchased. This information was used during the final evaluation. The MSI team chose at random a representative survey sample of 14 farmers and carried out field visits, personal interviews with these farmers as well as staff dealing with the RPE Project at the three implementing institutions, BOU, UCB and UDB. Documentary sources at these institutions and USAID provided additional information for the assessment of the effectiveness of the RPE Project credit program.

The original $18.2 million RPE Project was designed in 1984 by TechnoServe International, a firm reputed as expert in rural finance, one of the primary purposes of the project. Due to civil war in 1985, ending with the assumption of power by a new administration in January 1986, the USAID Mission was closed. After re-opening in the spring of 1986, the project was activated in May, at which time agreements between the Bank of Uganda (BOU), the implementing agent for the Government, the Uganda Development Bank (UDB) and the Uganda Commercial Bank (UCB), the two original ICIs, were signed. Bank of Baroda became the third ICI in January 1987.

- During this interim, the original technical assistance (TA) component of the project was reduced from 17 person-years to 7 person-years, and the determination was made that the agricultural end-beneficiaries, as they were "commercial farmers" rather than small holders, needed little if any TA.

- The economy at the time was characterized by high inflation and low productivity. The parallel exchange rate was five to six times the official rate. Foreign exchange reserves were very low, representing only few weeks of imports, and there was great pressure on the Mission to get the project moving. In this environment, some actions were taken and others omitted which, while understandable for expediency's sake, were the root cause of a variety of detrimental impacts on the smooth functioning of the project and which have negatively affected the project, to a greater or lesser degree, throughout its entire life.

- Failure to take the necessary time to select an institutional contractor to coordinate the project meant that:
(a) the Mission had to implement, rather than supervise, the project throughout;
(b)technical assistance of varying specialties needed, and promised by the Mission on several occasions during the project was unobtainable as the Mission was forced to rely on the PSC method
(c)pre-project organization, planning, TA and training and a trial period to iron-out operational difficulties, which were specified in the original Project Paper never took place.

- As the project was in the jurisdiction of the Project Development Office, no Mission inputs from the Agricultural Office were offered or solicited.

- There was no one to assist the ICIs to develop their medium-term lending capability; the TA that eventually materialized consisted of one credit specialist who was assigned to the central bank after three months work on an organizational chart which was a condition precedent for the Uganda Development Bank. The ICIs never received dedicated TA throughout the life of the project.

- The ICIs did not have a chance to participate in the project design. Nor were they provided with a Standard Operating Procedures Manual which was to have been developed for the project by the institutional contractor. The existing lending manuals of the ICIs individually were accepted as fulfilling this condition precedent even though they were not tailored to the needs of the credit program.

FINDINGS / IMPACTS OF THE CREDIT PROGRAM

■ A total 256 loans were approved. The Local Currency Fund (LCF) experienced 32% repayment of principal. While the repayment rate including principal and interest, accrued at the rate payable by the ICI to the BOU is 22%. High interest rates charged the sub-borrowers and unstable foreign exchange rates have been a major problem that help to explain the low repayment rate. While interest rates have been negative compared to inflation until the last two years, the only hedge the farmer really had was his land. The equipment financed could not be sold, and production did not increase as forecast because the farmers were not skilled in mechanized farming techniques and didn't have technical assistance.

■ Acreage under cultivation increased, but yields did not increase proportionately due to lack of infrastructure, such as water supply. 50% of animals imported under the project died. Farmers ended up with a large debt burden with many of the assets only marginally productive, or totally non-productive.
Loan supervision and collection efforts by the ICIs, with the exception of BOB, were poor. UDB does not have a branch network and this limited collection efforts carried out by the Agricultural Department Head Office. The UCB has an extensive network but their branches were not involved to any degree in the loan approval process, even though the Mission tried to order their involvement. The UCB was provided with nine 4-wheel drive vehicles and 60 motorcycles by RPE, but these were not effectively used.

■ Despite the numerous problems that arose throughout the duration of the project, there were some areas in which there were positive impacts. RPE's broad objective was to increase agricultural productivity and income through the provision of credit for commercial farmers and also to increase the capacity of the banking sector to administer intermediate term credit. While income and productivity initially increased for farmers who received loans and commodities through RPE, for the majority of farmers, increases were not sustained for reasons related to poor weather conditions, decreases in the market price for output, farmers' lack of experience with this type of lending, lack of agricultural extension and support, and the loss of productive inputs. Poultry and agribusiness enterprises appeared to have fared much better and did not experience the multitude of problems encountered by dairy and crop farmers.

■ Women constitute approximately 80% of the agricultural labour force (at harvest primarily). They typically manage their husbands' farms and harvest the crop. Given their position in the agricultural economy, increased production of maize and other crops produced with RPE loans did affect the demand for their labor, and this has implications for increased incomes. However, only 2% of the RPE loans went to women.

■ If the capacity to administer intermediate term credit is measured in terms of an increased rate of repayment over a period of time, one would conclude that the capacity of the participating banks did not increase and in fact, the administration of the loan portfolio in many ways became more encumbered as time went on. But a different mechanism can be used, the extent to which "learning by doing" took place. Both farmers and implementing institutions lacked experience with the type of lending provided under RPE. They now have considerably more experience than they did before. To varying degrees, the BOU and UDB in particular appear to have more effective operational subloan appraisal and approval systems in place which take into account credit history, management capability of the borrower and the technical and financial/economic feasibility of subproject proposals. Tracking, recording and reporting mechanisms associated with these systems have also been developed to varying degrees.

Some of the more significant lessons are as follows:

1. Although the design of RPE included an institutional contractor, after the civil war and closing of the Mission, the institutional contractor was dropped. In the case of complex projects, particularly those in which institution building is a key objective, USAID Mission management should be supplement by another comprehensive and long term management mechanism e.g. an institutional contractor.

2. The design of RPE did not address the issue of loan recovery and repayment. All possible resourceslending institutions have at their disposal to increase loan repayment rates should be carefully researched and incorporated into the project during the design phase. This might mean providing assistance to legal institutions or the legal department of the lending institution, accepting new or non traditional forms of collateral or creating mechanisms that reward repayment and loan recovery.

3. A critical pre-requisite to capacity building is that everyone must participate equally in defining the nature of the problem to be solved and the process involved. In other words the definition of exactly what "capacity" is being developed must be mutually derived. Without mutual agreement on these basic, fundamental aspects of the process that brings parties together, capacity building cannot take place.

4. Careful attention must be given to the ways in which agricultural credit delivery systems that use commercial banks to administer external sources of funds impact financial intermediation. Depending on how the project is designed and managed, the goal of increasing the capacity of commercial banks to administer intermediate term credit using donor funds may not necessarily contribute to (and in some cases may decrease) their capacity to effectively function in their primary role which is financial intermediation.

5. Fundamental questions such as: How can financial institutions effectively mobilize savings that will be used to finance agricultural growth and productivity? How can the linkages between financial intermediation and agricultural development be strengthened? are not addressed often enough by donor financed agricultural credit projects that channel funds through commercial banks. Donor intervention can actually weaken the already difficult relationship between financial intermediation and agricultural development if it causes commercial banks and other financial institutions to substitute donor support for locally mobilized savings.

6. In RPE, lack of credit was not the only or necessarily the key constraint to increasing agricultural productivity and income. Credit driven solutions that fail to adequately consider related problems in marketing, infrastructure, extension services, research, the macro-economic environment and agricultural policy may exacerbate farmers' problems rather than provide sustainable long term solutions.

TECHNICAL ASSISTANCE TO THE DEPARTED ASIANS' PROPERTY CUSTODIAN BOARD (DAPCB)

In 1972, President Idi Amin declared economic war targeting the Asian community in Uganda claiming that they had unfairly exploited Ugandans. Citizens were also forced out. Some 8,000 properties were abandoned and placed under the control of the DAPCB formed in 1973. MSI objective was to assess the impact of the TA provided under RPE to this board.

CONCLUSIONS

TA has been effective in rationalizing the operations of the DAPCB.

♦Systems to automate property and personnel records have been installed.
♦Mediation of disputes between tenants and repossesors are now attended to with relative timeliness.
♦Several internal reorganizations have taken place with a reduction in staff from 260 in 1990 to under 100 today.
♦The advisor expects that the DAPCB will be able to wind down in the next 12 to 18 months.

The activities of the DAPCB are high profile, and impact the international reputation of Uganda. The USAID Mission Director is sufficiently concerned that he has intervened with senior GOU officials on numerous occasions in an effort to regularize the operations of the DAPCB following information provided by the advisor.

TECHNICAL ASSISTANCE TO THE NILE BANK

TechnoServe Uganda was contracted in 1992 through a Cooperative Agreement to provide assistance to the Nile Bank, Uganda's largest private, indigenously owned, commercial bank. Through rapid growth and careless lending practices the bank found itself in serious trouble and needed both TA and additional capital to survive.

TechnoServe prepared a baseline study of the condition of the bank in December 1992. The baseline study team found serious deficiencies in operating policies and procedures, training and reporting by the credit staff to senior management. It recommended TA in five areas which were found deficient, Credit Policy and Procedure Development, Re-organization of Credit and Loan administration, Operations Electronic Data Processing Development, Deposit Mobilization and Project Identification and Syndications.

Considerable progress was made by the TA and the evaluation team were able to determine that their terms of reference would be completed by the Project PACD.

TECHNICAL ASSISTANCE TO THE UGANDA MANUFACTURERS ASSOCIATION

In 1992, USAID earmarked $1 million in RPE funds at the BOU for the purpose of funding project feasibility studies for new or expanded agricultural or agro-industrial projects. The funds were not utilized. The Uganda Manufacturers Association (UMA) is an indigenous, not for profit association representing Uganda's industrial and commercial sectors. It is supported by membership dues and assistance from DANIDA. The UMA and three other association members, formed UMA Consulting and Information Services (UMACIS). A USAID grant to UMACIS in July 1993 enabled UMACIS to conduct feasibility studies.

Conclusions

♦Support to UMA/UMACIS has been productive.
♦Three feasibility studies have been completed and five are in the pipeline.
♦Technical Assistance and workshops have been provided and facilitated under Project SUSTAIN.
♦UMACIS has had the services for one year of two MBA graduate members of the MBA Enterprise Corps.

TECHNICAL ASSISTANCE GRANT TO APPROPRIATE TECHNOLOGY INTERNATIONAL (ATI)

The most recent grant under the RPE Project is to ATI, a non-profit organization, for the purpose of arranging the production and sale of manually operated seed crushing mills to produce vegetable oil.

♦Progress has been good in establishing the ATI operation.
♦Manufacture of Oil Mills has started
♦Extension work is in progress
♦Research on sunflower seed production is ongoing
♦An Oil Seed Processor's Association now exists

K. Attachments (List attachments submitted with this Evaluation Summary; always attach copy of full evaluation report, even if one was submitted earlier; attach studies, surveys, etc., from "on-going" evaluation, if relevant to the evaluation report)

1. Final Evaluation of the Rehabilitation of Productive Enterprises (RPE) Project 617-0104
   USAID/KAMPALA / June 1994

2. Evaluation supplement of the Rehabilitation of Productive Enterprises (RPE) Project 617-0104
   USAID/KAMPALA / June 1994 (Ancillary Reports containing proprietary information)

## COMMENTS

L. Comments By Mission, AID/W Office and Borrower/Grantee On Full Report

A copy of the Bank of Uganda letter regarding this Summary Report is attached.

## Program Management

- An independent accounting firm based in Kampala, Ernest and Young, is conducting an audit of the STD/ACP accounts at the present time. This audit will be completed and paid for during the next reporting period.

## Implementation Problems and Proposed actions

- **Vehicles**

  - The problem of old vehicles cited in previous PIRs continues to hinder implementation of district activities such as DAESA, supervisory visits and surveillance activities. The cost of vehicle maintenance and repair has exceeded the funds available for this activity. USAID acknowledges that the STD/ACP requires new vehicles, but PL 480 funds cannot be used to purchase vehicles. The Sexually Transmitted Infections (World Bank) Project has proposed to purchase one new vehicle for the STD/ACP and WHO may purchase others.

- **Personnel**

  - There is an acute shortage of trained personnel based in the districts. This makes it difficult for the districts themselves to plan and implement AIDS/STD prevention and control activities. Recognizing this limitation, the STD/ACP will continue to play a leading role in planning and implementing district-level AIDS/STD activities. However, the STD/ACP will to devolve these responsibilities to the district as and when competent district-level staff become available.

  - The print shop should be capable of producing most of the IEC materials developed by the STD/ACP. However, the IEC activities of the STD/ACP are severely hampered by a lack of trained personnel to run the print shop. The print shop was equipped by WHO which, in the past, had also provided technical assistance to operate it. The STD/ACP hopes to obtain additional assistance to support this important element of its program.

**Proposed Project Grade: A**

# BANK OF UGANDA

KAMPALA ROAD
P.O. BOX 7120, KAMPALA
TELEPHONE 258441 & 258061

RECEIVED
1 5 NOV 1994
USAID/UGANDA

*Your Ref:*

*Our Ref:* RPB/31 15 November, 1994

Mr. Patrick Fine
General Development Office
USAID
KAMPALA

Dear Sir,

Re: A.I.D. EVALUATION SUMMARY - PART 1

This is to acknowledge receipt of the A.I.D. Evaluation Summary, Part 1 calling for my signature in order to finalize payment to Management Systems International (MSI).

We have perused the report carefully and generally agree with the contents contained therein.

It is observed however that the summary is silent on the procurement aspect of the Project which was a major activity in the operations of the Project.

Mention of the activity together with lessons drawn would in our view be beneficial for future projects.

I have in the meantime signed the document which is herewith returned for your further action.

Thank you for your usual co-operation.

Yours faithfully

A. A. Okema
Director, Development Finance Department

| DUE DATE 11/24 | | |
|---|---|---|
| ACTION COPY | | |
| Action taken | | |
| No Action Necessary | | |
| Initials | | Date |
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| | | ANR |

XD-ABJ-983-A
ISN 91885

# FINAL EVALUATION

# REHABILITATION OF PRODUCTIVE ENTERPRISES PROJECT

## 617-0104

## USAID/KAMPALA

June 1994

MANAGEMENT
SYSTEMS
INTERNATIONAL

600 Water Street, S.W.
Washington, D.C. 20024
USA

202/484-7170
Fax: 202/488-0754

WPDATA\REPORTS\1707-019\019-001.w51
(8/94)

## Table of Contents

**List of Annexes**



**Ancillary Reports**

## LIST OF ACRONYMS

| | |
|---|---|
| AAPC | African-American Procurement Center, Inc. |
| BOU | Bank of Uganda |
| DAPCB | Departed Asians Property Custodian Board |
| DFF | Development Finance Fund |
| FX | Foreign Exchange |
| GOU | Government of Uganda |
| ICI | Intermediate Credit Institution |
| IMF | International Monetary Fund |
| L/C | Letter of Credit |
| LCF | Local Currency Fund |
| PIL | Project Implementation Letter |
| PP | Project Paper |
| PPS | Project Paper Supplement |
| PSC | Personal Services Contract |
| RPE | Rehabilitation of Productive Enterprises |
| TA | Technical Assistance |
| UCB | Uganda Commercial Bank |
| UDB | Uganda Development Bank |
| UMACIS | Uganda Manufacturer's Association Consulting and Information Services |
| USAID | United States Agency for International Development |
| WO | Work Order |

# EXECUTIVE SUMMARY

## Introduction

The preparation of the final evaluation of the Rehabilitation of Productive Enterprises (RPE) Project was contracted with Management Systems International of Washington D.C. by USAID/Kampala. The Scope of Work for the evaluation called for an assessment of impacts. The evaluation team has concentrated its efforts on the impacts of the credit component of the RPE Project and the lessons to be learned.

## Background

The original $18.2 million RPE Project was designed in 1984 by TechnoServe International, a firm well reputed as expert in rural finance, one of the primary purposes of the project. RPE was to strengthen the capabilities of the participating banks (Intermediate Credit Institution or ICIs) which were to make loans using (a) a $10 million facility for financing imported components for commercial-sized farms, and (b) a local currency fund established with a grant from the Ugandan Government and by an additional reserve (the Development Finance Fund, or DFF), which would be provided by the commercial banks, for working capital and local procurement.

Due to a civil war which took place in 1985, ending with the assumption of power by the administration of President Museveni in January 1986, the USAID Mission was closed. After re-opening in the spring of 1986, the RPE Project was activated in May, at which time the agreements between the Bank of Uganda (BOU), the Implementing Agent for the Government, and the Uganda Development Bank (UDB) and the Uganda Commercial Bank (UCB), the two original ICIs, were signed. Bank of Baroda became the third ICI in January 1987.

During the interim, the original technical assistance (TA) component of the project had been reduced from 17 person-years to 7 person-years, and the determination was made that the agricultural end-beneficiaries, as they were "commercial farmers" rather than small holders, needed little if any TA.

The economy at the time was characterized by high inflation and low productivity. Foreign exchange reserves were very low, representing only a few weeks of imports, and there was great pressure on the Mission to get the project moving.

In this environment, some actions were taken and others omitted which, while understandable for expediency's sake, were the root cause of a variety of detrimental impacts on the smooth functioning of the project and which have negatively affected the project, to a greater or lesser degree, throughout its entire life.

- The failure to take the time necessary to select an institutional contractor to coordinate the project has meant that:
  - (a) the Mission has had to manage, rather than simply supervise, the project throughout;

(b) technical assistance of varying specialties needed, and promised by the Mission on several occasions during the project, was unobtainable as the Mission was forced to rely on the PSC method; and,

(c) pre-project organization, planning, TA and training, and a trial period to iron-out operational difficulties, which were specified in the original Project Paper (PP), never took place.

- As the project was in the jurisdiction of the Project Development Office, no Mission inputs from the Agricultural Office were offered or solicited.

- There was no one to assist the ICIs to develop their medium-term lending capability; the TA that eventually materialized consisted of one credit specialist who was assigned to the central bank after three months work on an organizational chore which was a condition precedent for the Uganda Development Bank. The ICIs never received dedicated TA throughout the life of the project.

- The ICIs did not have a chance to participate in the project design as they were not initially intended to participate in the project. Nor were they provided with a Standard Operating Procedures Manual which was to have been developed for the project by the institutional contractor. The existing lending manuals of the ICIs individually were accepted as fulfilling this condition precedent.

The project began during late 1986 in a difficult, highly inflationary economic environment. The parallel exchange rate was five-to-six times the official rate, no procurement agent had as yet been selected, and the Uganda Commercial Bank, which was to eventually book almost 70 percent of the loans under the project, had little experience with term lending, and no dedicated TA. The first loans were approved by the Bank of Uganda in September 1986.

Day-to-day control of the project was in the hands of the Bank of Uganda, but project management, through the Project Implementation Letter (PIL) mechanism, was performed by the Mission. The ICIs, each operating under their own credit norms, went their own way. The central bank tried to standardize operations, accounting procedures, and reporting, but with little initial success. Up until the very end, the loan classification reports prepared by the ICIs at USAID's request in December 1993 differed fundamentally one from the other.

A procurement agent, the African-American Procurement Center (AAPC) in New York, was finally selected and a contract signed in February 1987. There began a series of misadventures which ended with the AAPC going out of business in 1992 under a cloud. The procurement problem was never satisfactorily resolved. With Washington and the Mission pressuring for the use of project funds, disbursements, which didn't show up until the underlying letter of credit was drawn upon, took 10-to-18 months to be reflected. USAID/Washington was slow in issuing Commitment Letters to Citibank, New York. Citibank was several weeks in issuing letters of credit to suppliers. The suppliers wouldn't place an order into their production pipeline until the letter of credit was received. Arranging ocean freight to Mombasa or Dar es Salaam took another number of months before arrival. And finally, the inland transport to Kampala and clearance of customs took more weeks. No one in the Mission, the Bank of Uganda, or the ICIs had ever had any experience with complex procurement issues. A procurement specialist was promised in a PIL, but was never provided.

Given the scarcity of foreign exchange and the need for imported equipment and supplies, loan demand was considerable. By the time of the mid-term evaluation in 1988, 70 loans, representing $5.5 million in commodities, had been approved by the ICIs and the Bank of Uganda, and 12 further applications were pending in the Bank of Uganda.

**Findings**

In total, 256 loans were approved of which 226 involved the usage of the dollar credit facility. Thirty involved only local currency loans. The last loan approved under the import facility was, according to Bank of Uganda records, approved on July 3, 1989. The total amount financed under the $15.5 million commodity import facility was $12,969,707.

The record of the ICIs is shown below, in UShl. millions:

| | # Loans | Amt. Disbursed | Amt. Repaid | Arrears (06/30/93) |
|---|---|---|---|---|
| Uganda Commercial Bank | 175 | 4,030 | 931 | 6,785 |
| Uganda Development Bank | 75 | 227 | 187 | 2,198 |
| Uganda Development Bank (cont.) | | US$4.4m | (included above) | |

The Bank of Baroda made six loans which have been repaid.

According to the Bank of Uganda, the LCF has experienced 32 percent repayment of principal. The repayment rate including principal and interest, accrued at the rate payable by the ICI to the Bank of Uganda, is 22 percent. At the rate charged to the sub-borrower, the percentage of repayment would be less.

The interest rate charged the sub-borrowers, and the foreign exchange rates, have been a major problem. While they only explain the low repayment rate in part, they have contributed. While interest rates have been negative compared to inflation until the last two years, the only hedge the farmer really had was his land. The equipment financed could not be sold, and production did not increase as forecast because the farmers were not used to mechanized farming techniques and didn't have technical assistance.

Acreage under cultivation increased, but yields did not increase proportionately as much of the infrastructure, such as a water supply, which would be assumed in many countries, didn't exist. Many of the animals imported under the project died-almost 50 percent. Thus farmers ended up with a large burden of debt with many of the assets purchased only marginally productive, or totally non-productive.

Beyond this, the usual agricultural problems also occurred; bumper crops initially which resulted in low crop prices (especially in milk and maize during 1990/91); this was followed by two years of drought. Most farmers have paid something against their loans. A few have not. Many have taken the stand, since the project was publicized as a USAID grant to the GOU, why should we repay? Others have given up. All of those whom the evaluators met intend to keep trying.

However, loan supervision and collection efforts by the ICIs, with the exception of Bank of Baroda, were poor to spotty at best. Uganda Development Bank does not have a branch network; collection efforts, what few there were, were carried out by the Agricultural Department in the Head Office.

The Uganda Commercial Bank has an extensive network, but their branches had not been involved to any degree in the loan approval process, even though the Mission tried to order their involvement. A branch manager who has no responsibility for making a loan is unlikely to be motivated to help collect it. RPE operations were handled by the Development Finance Group at the Head Office. The Uganda Commercial Bank was provided with nine 4-wheel drive vehicles and 60 motorcycles by RPE, but these were used on another project for the most part. Whereas the rule of thumb for rural lending is three-to-four visits per year to each farmer by the loan officer, RPE sub-borrowers saw their bankers once or twice during the life of the loan thus far, and several with whom the evaluators met not at all.

An End-Use Commodity Survey to determine the current location and condition of the commodities procured under RPE was performed in April 1994. The survey found that there was considerable discrepancy between the initial use of the equipment and its actual use.

- In the transport category, lorries, tractors, and pick-up trucks were being used largely for commercial purposes.
- Of the 266 cattle received by 14 farmers in the survey sample of 50 farms, only 98, or 43 percent, were still alive.
- Construction materials were used to rebuild residences as often as they were used for new productive assets.

**Impacts of the RPE Project**

In spite of the numerous problems that arose throughout the duration of the RPE project there were some areas in which the project had a positive impact. The broad objectives of RPE were to increase agricultural productivity and income through the provision of credit for commercial farmers and also to increase the capacity of the banking sector to administer intermediate term credit.

While income and productivity initially increased for farmers who received loans and commodities through RPE, for the majority of farmers, increases were not sustained for reasons related to poor weather conditions, decreases in the market price for output, farmers' lack of experience with this type of lending, lack of agricultural extension and support, and the loss of productive inputs. Poultry and agribusiness enterprises appeared to have fared much better and did not experience the multitude of problems encountered by dairy and crop farmers.

Women constitute approximately 80 percent of the agricultural labor force (at harvest primarily). They typically manage their husbands' farms and harvest the crop. Given their position in the agricultural economy, increased production of maize and other crops produced with RPE loans did affect the demand for their labor, and this has implications for increased incomes.

If the capacity to administer intermediate term credit is measured in terms of an increased rate of repayment over a period of time, one would conclude that the capacity of the participating banks did not increase and in fact, the administration of the loan portfolio in many ways became more encumbered as time went on.

There are other criteria by which the capacity of the banks involved in RPE can be assessed, however. In this evaluation, capacity was measured by the extent to which "learning by doing" took place.

- Both farmers and implementing institutions lacked experience with the type of lending provided under RPE. They now have considerably more experience than they did before.

- To varying degrees the Bank of Uganda and the Uganda Development Bank, in particular, appear to have more effective operational subloan appraisal and approval systems in place which take into account credit history, management capability of the borrower, and the technical and financial/economic feasibility of subproject proposals. Tracking, recording, and reporting mechanisms associated with these systems have also been developed to varying degrees.

**Conclusions & Lessons Learned**

These lessons are related not only to the specifics of RPE but also to what a project such as RPE implies about how to develop the institutional capacity of financial institutions and the ways in which donor intervention impacts the relationship between financial intermediation and agricultural productivity. Some of the more significant lessons are as follows:

1. Although the design of RPE included an institutional contractor, after the civil war and closing of the Mission, the institutional contractor was dropped. **In the case of complex projects, particularly those in which institution-building is a key objective, USAID Mission management should be supplemented by another comprehensive and long-term management mechanism, e.g., an institutional contractor.**

2. The design of RPE did not address the issue of loan recovery and repayment.

   **All possible recourses lending institutions have at their disposal to increase loan repayment rates should be carefully researched and incorporated into the project during the design phase.** This might mean providing assistance to legal institutions or the legal department of the lending institution. It might involve establishing and accepting new or nontraditional forms of collateral or creating mechanisms that reward repayment and loan recovery. It might mean structuring the disbursement schedule so that the size of the loan and payments are made incrementally. Ultimately, credit is a contract between the borrower and lender. The design should incorporate mechanisms by which this contract can be enforced.

3. One of the primary objectives of RPE was to increase the capacity of the banking sector to administer intermediate term credit. Meaningful capacity building can only occur when the parties involved share the same perspective on the goals to be achieved, the priorities among these goals, and the means by which they will be achieved.

   A critical prerequisite to capacity building is that everyone must participate equally in **defining** the nature of the problem to be solved and the process involved. In other words, the definition of exactly what "capacity" is being developed must be mutually derived. Without mutual agreement on these basic, fundamental aspects of the process that brings parties together, capacity building cannot take place.

4. Careful attention must be given to the ways in which agricultural credit delivery systems that use commercial banks to administer external sources of funds impact financial intermediation.

   Donor financed lines of credit, even when implemented through indigenous institutions, function to some extent outside of the mainstream of banking operations because they create their own separate category of financial administration and bureaucratic management (e.g. PILs and procurement). The greater the separation between the problems affecting the mainstream operations (e.g., efficiency in check clearing, solvency, deposit mobilization, customer service and confidence) and those associated with donor financed operations (e.g. repayment rates, attainment of targets, adherence to guidelines and regulations), the less sustainable is donor impact on financial intermediation. When the project finishes and the donor line of credit leaves the institution, what aspects of its experience with administering the donor line of credit increase, support, or contribute to its mainstream operations and growth. **Depending on how the project is designed, and depending upon how it is managed, the goal of increasing the capacity of commercial banks to administer intermediate term credit using donor funds may not necessarily contribute to (and in some cases may decrease) their capacity to effectively function in their primary role which is financial intermediation.**

5. Fundamental questions such as:

   - How can financial institutions effectively mobilize savings that will be used to finance agricultural growth and productivity?
   - How can the linkages between financial intermediation and agricultural development be strengthened?

   are not addressed often enough by donor financed agricultural credit projects that channel funds through commercial banks. Donor intervention can actually weaken the already difficult relationship between financial intermediation and agricultural development if it causes commercial banks and other financial institutions to substitute donor support for locally mobilized savings.

6. In RPE, lack of credit was not the **only** or necessarily the **key** constraint to increasing agricultural productivity and income.

Credit driven solutions that fail to adequately consider related problems in marketing, infrastructure, extension services, research, the macroeconomic environment, and agricultural policy may exacerbate farmers' problems rather than provide sustainable long-term solutions.

# AID PROJECT IDENTIFICATION DATA

| | | |
|---|---|---|
| 1. | COUNTRY: | UGANDA |
| 2. | PROJECT TITLE: | Rehabilitation of Productive Enterprise Project |
| 3. | PROJECT NUMBER: | 617-0104 |
| 4. | PROJECT DATES: | |
| | a. Project Authorization signed by AA/AFR | September 1984 |
| | b. Project Paper | May 1985 |
| | c. Grant agreement CPs met | March 1986 |
| | d. PP Supplement | December 1986 |
| | e. PP Amendment 2 | June 1990 |
| | f. PP Amendment 3 | drafted Feb 1994 |
| | g. PACD | September 1994 (amended twice) |
| 4. | PRESENT PROJECT FUNDING: | |
| | a. AID Bilateral Funding | U.S. $ 29.9 million |
| | b. Host Country Counterpart Funds | U.Sh 500 million |
| 5. | MODE OF IMPLEMENTATION: | |
| | a. Contractor: | USAID/Kampala Project Development Office |
| | b. Grantee: | Bank of Uganda |
| | c. Sub-Contractor: | Uganda Commercial Development Bank |
| | d. Sub-Grantees: | Uganda Development Bank |
| | e. PASAs: | Bank of Baroda |
| 6. | PROJECT DESIGNERS: | |
| | a. USAID/Kampala | |
| | b. Government of Uganda | |
| | c. Technoserve International | |
| 7. | RESPONSIBLE MISSION OFFICIALS: | |
| | a. Mission Directors: | Irwin Coker 1984-1988<br>Richard Podol 1988-1990<br>Keith Sherper 1990 to present |
| | b. Project Officers: | Winston McPhie, PDO<br>Ed Smith, PDO, 1989-1993<br>Norm Olson, PPD, 1993<br>Cheryl Anderson, PDO, 1993<br>Patrick Fine, GDO, 1993-present |
| 8. | PREVIOUS EVALUATIONS & KEY STUDIES: | |
| | Midterm Evaluation | 1988 |
| | Procurement Study by Shashee Joshi | July 1988 |
| | End Use Commodity Survey by IMPACT Associates | April 1994 |

# I. INTRODUCTION

Management Systems International (MSI) of Washington, D.C., was contracted to perform the Final Evaluation of the Rehabilitation of Productive Enterprises (RPE) Project by the USAID/Kampala Mission. The Scope of Work provided by the Mission calls for an impact evaluation.

MSI provided two consultants, Mr. Robert Laport, Banking Specialist, and Ms. Patricia Walker, Agricultural Credit Specialist, to carry-out this assignment. Prior to the arrival of the team, a local firm, Impact Associates, conducted a commodity end use survey, in which a sample of 50 of the 226 borrowers using the credit line was visited.

The evaluation has concentrated on the Credit Component of the project which accounts for $15.5 million of the $29.9 million total project funding. The Credit Component has also occupied the greatest amount of time and effort on the part of the Mission. Participants in this component are, the Mission, the Bank of Uganda, the Central Bank of Uganda and three intermediate credit institutions: the Uganda Commercial Bank, the Uganda Development Bank, and the Bank of Baroda.

Beginning in 1992, project activities were expanded, and subsequently three projects directly or indirectly related to the RPE Project purpose were funded. These three activities are: support for the Nile Bank, Uganda's largest, indigenously-owned private bank; the consulting affiliate of the Uganda Manufacturers' Association, UMACIS, which was involved in preparing feasibility studies for agricultural and agro-industrial projects; and Appropriate Technology International, which has established a new micro-enterprise development scheme to promote vegetable oil production at the village level in Uganda.

A fourth activity, unrelated to the RPE purpose, but extremely important to the reputation of the country abroad and to the President of Uganda, was the provision of technical assistance to the Departed Asians Property Custodian Board (DAPCB). A project-funded advisor has been in place since 1992; he had been supported by another Mission project for two years prior to that time. These four ancillary sub-projects are in the Evaluation Supplement.

## II. BACKGROUND

Civil strife, with periods of uncertain but repressive calm, characterized Uganda during the 1970s. Considerable damage was done throughout the country, and much public and personal infrastructure destroyed. The economy was almost out of foreign exchange, inflation raged, and farm production dropped to barely subsistence levels.

Agricultural output had increased somewhat by 1984 using traditional means, but many larger farms lacked the technical means to realize increased outputs, and the country lacked the foreign exchange to import the equipment necessary to achieve faster agricultural growth.

The Rehabilitation of Productive Enterprises (RPE) Project was designed and approved in 1984 to help fill this need. As a step toward providing financing and foreign exchange, USAID approved an $18.2 million grant, and the Agreement was signed with the Government of Uganda (GOU) on September 28, 1984. The primary purpose of RPE was to increase agricultural production in Uganda through investments in agricultural enterprises. A secondary purpose was to increase employment opportunities and incomes of the rural poor.

### A. Original 1984 Project Paper

The original Project Paper (PP) was prepared by TechnoServe International, a firm with considerable experience in creating rural lending programs. The structure was to include:

USAID/Kampala -- with project oversight responsibility;

the Bank of Uganda -- agent for the GOU as the Project Implementing Agent;

participating intermediary credit institutions (ICIs) -- who would select the sub-borrower beneficiaries and collect and monitor the sub-loans; and

an institutional contractor -- responsible for project coordination and the provision of technical assistance to the participants as required.

During the project identification phase, TechnoServe consultants visited farmers in 11 districts; thus, the PP was designed with farmer input and with information from a good cross-section on the capabilities and needs of the end-beneficiaries. The original PP also called for a pilot phase to test operations so that the project would run more smoothly when geared-up.

Of the original $18.2 million project approval, $10 million was to be used to provide the sub-loans for the importation of productive commodities. The remainder was to be used to pay for 17 person-years of long-term technical assistance (TA) and for project support activities and supplies.

The original focus of the project was on institutional strengthening by building an intermediate-term lending capability in the participating ICIs. Seventeen person-years of TA were to be allocated to assisting the Bank of Uganda, the participating ICIs, and sub-borrowers.

The RPE consisted of two funds: the Local Currency Fund and the Development Finance Fund. USAID provided $10 million in grant funds for the importation of capital inputs for agriculture in view of the critical foreign exchange shortage at the time. The local currency countervalue of the imported equipment approved for each sub-borrower under the grant was booked as a loan in the Local Currency Fund (LCF) managed by the Bank of Uganda. The repayments made by sub-borrowers for the imports obtained was then re-lent for further development in the agricultural sector.

The GOU was to provide a Development Finance Fund (DFF) to finance local procurement and working capital needs. The DFF was funded with a UShl 500 million grant from the GOU plus the levy of a special reserve on all local commercial banks equal to 5 percent of commercial bank deposits at the end of each calendar year.

One of the problems USAID faced at the very beginning of RPE was that the project was originally designed with Grindlays and Barclays banks as the implementing institutions. These banks declined to participate in RPE. At the last minute, the two government owned banks, Uganda Commercial Bank and Uganda Development Bank, were asked to be a part of RPE. The timing of the invitation and the initiation of the project did not allow for an adequate assessment of each institution's capacity to administer such a program. The project paper dated May 9, 1985, stated in a section on institutional analysis that the Bank of Uganda requested that Uganda Commercial Bank be included in RPE, and that the request had come during the final stages of preparation of the project paper so there was not enough time to complete an assessment of its institutional capacity.

Political forces intervened in the form of a civil war, and the Mission was evacuated between July 1985 and early Spring 1986. The initiation of the RPE Project was, of course, delayed.

Loan agreements to onlend the grant funds were signed between the Bank of Uganda and Uganda Development Bank on May 23, 1986, with the Uganda Commercial Bank on May 26, 1986, and with the Bank of Baroda in January 1987.

Prior to the initiation of the project in 1986, the purpose shifted. The institution-building component of the project was de-emphasized. The budget for technical assistance for the project overall was reduced from 17 person-years to 7 person-years. At this time, also, a shift in emphasis in development goals took place. The purpose changed to the improvement of the situation of the rural poor; the vehicle to achieve this was the rehabilitation of the private commercial farm.

## B. Project Paper Supplement (PP Supplement) of December 1986

The purpose of improving incomes for the rural poor was to be achieved by assisting a number of agricultural and related enterprises to become profitable. Priority was to be given to those firms that lacked foreign exchange for the importation of key commodities (primarily equipment) which was seen as an impediment to the early resumption of profitable operations. The foreign exchange credit component of the project was increased from $10 to $15 million and the TA component reduced; overall Project funding remained the same at $18.2 million.

RPE Project implementation began in March 1986 with the establishment of the DFF (Statutory Instruction 6) and the efforts of the Bank of Uganda, the implementing agent, to fulfill the conditions precedent to the Grant Agreement. The first $1.5 million of USAID funds for the importation of commodities were obligated in September 1986, and increased to $3 million in October. US$3 million was also earmarked for TA.

Publicity covering the RPE Project began in October 1986. That month, four potential clients and six bank officials visited an agricultural equipment trade show in Nairobi. By November 30, two Uganda Development Bank loans and seven Uganda Commercial Bank loans totalling $491,000 had been approved by the Bank of Uganda, and 12 more applications were in the pipeline.

## C. The Economic and Political Environment

President Museveni was installed as President of Uganda in January 1986 following the civil war during which the Mission was closed for eight months. The change in government, which proceeded to install a system which included some democratically elected representation at the local level, has given the country an opportunity to collect itself politically and move forward.

Throughout the truly active years of the project, 1986 through 1992, inflation was high, reaching over 200 percent per annum during a part of this period. The foreign exchange rate was controlled with the official rate about one fifth of the parallel exchange rate in 1988. IMF and World Bank stabilization and structural adjustment programs were accepted and established, and have begun to work during the past two years. Conditions are now relatively stable.

## III. FINDINGS AND CONCLUSIONS

### A. ICI Portfolio Status at the Time of the Evaluation

According to the Bank of Uganda, 256 loans were approved under the RPE Project, of which 226 made use of the commodity import facility (see Table 1). One Bank of Uganda document, which lists each of the 226 sub-borrowers utilizing the import facility and the work order number under which commodities were procured, indicates that the last sub-borrower to receive commodities under the commodity import facility was Luma Enterprises, Ltd., whose loan was approved on July 3, 1989.

**Table 1**

**ICI LOAN PORTFOLIO**

| | Uganda Commercial Bank[1] | Uganda Development Bank[2] | Bank of Baroda |
|---|---|---|---|
| Total Number of RPE Loans | 175 | 75 | 6 |
| Number Repaid in Full | 15 | 6 | 6 |
| UShl Amount of Loans Repaid | 230.7 million UShl | 186.9 million UShl | Not available |
| Present Number of RPE Loans | 158[3] | 69 | 0 |
| Total Amount Disbursed | 4,030 million UShl (of the 158 loans) | 227 million UShl (DFF) US $4.4 billion (LCF) | Not available |
| Total Amount Repaid | 931 million UShl | 186.9 million UShl | |
| Number of Borrowers Classified as Willful Defaulters | 45 | 39 | 0 |
| Arrears | 6,785 million UShl | 2,198 million UShl | 0 |

The evaluators include in this section the interest rates and foreign exchange rates applicable throughout the life of the RPE Project to show their effect upon sub-borrowers at the time when the majority of the loans were being approved, and later, when payments became due.

On December 31, 1993, the Bank of Uganda showed its LCF loan portfolio under RPE, advances to the ICIs reflecting the countervalue of the commodities imported, as UShl 4.4 billion in principal and UShl 1.2 billion in interest for a total of UShl 5.6 billion. Arrears in payments from the ICIs 60 days or more were UShl 2.0 billion principal, UShl 1.2 billion interest, a total of UShl 3.2 billion.

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[1] As of 6-30-93.

[2] As of 9-30-93.

[3] Two (2) loans were dropped before any substantial amounts were disbursed.

A paper prepared by the Bank of Uganda relative to the eventual use of the LCF, post-RPE, states that US$12,969,707 was disbursed for imported commodities during the active life of the project. The countervalue given for this amount is UShl 4,685 million. Interest earned (by the LCF at Bank of Uganda) is UShl 2,438 million. Total recoveries in the LCF has been UShl 1,543 million. This represents a recovery rate of 32 percent on the original principal, and 22 percent on principal and interest. It should be pointed out that Bank of Uganda figures cover only the LCF (USAID's primary interest), and that the interest rates charged sub-borrowers are substantially higher than the rates at which Bank of Uganda is accruing (see Table 2).

**Table 2**

**LOCAL CURRENCY FUND LOAN PORTFOLIO AT BANK OF UGANDA -- ADVANCES TO THE ICIs**
(as of December 31, 1993)

| | |
|---|---|
| Principal | 4.4 billion UShl |
| Interest | 1.2 billion UShl |
| Total Value of LCF Loan Advances to ICIs | 5.6 billion UShl |
| Amount Disbursed for Imported Commodities | 4.7 billion UShl |
| Interest Earned by LCF at BOU | 2.4 billion UShl |
| LCF Arrears at ICIs 60 days or more | 3.2 billion UShl |
| Principal | 2.0 billion UShl |
| Interest | 1.2 billion UShl |
| Total Recovery of LCF Funds by ICIs | 1.5 billion UShl |

USAID required that the ICIs classify the RPE loans in their portfolios in Project Implementation Letter (PIL) 91 and requested reports from the ICIs with respect to their classifications. The information which follows is taken from these reports which were prepared in late 1993 and provide some subjective insight into the status of each loan beyond the mere numbers (see Table 3 on the following page).

Table 3

**LOAN PORTFOLIO
DISTRIBUTION OF LOANS**

| Category/Sector | Number of Loans | % Rounded |
|---|---|---|
| Crop | 112 | 49.6 |
| Dairy | 46 | 20.4 |
| Mixed | 31 | 13.7 |
| Poultry | 14 | 6.2 |
| Oil Seed Processing | 7 | 3.1 |
| Beef | 6 | 2.7 |
| Hatchery | 3 | 1.3 |
| Coffee Processing | 2 | 0.9 |
| Food Processing | 2 | 0.9 |
| Pineapple | 1 | 0.4 |
| Jaggery (Sugar) Processing | 1 | 0.4 |
| Horticulture | 1 | 0.4 |
| **TOTAL** | **226** | **100%** |

## 1. Uganda Commercial Bank

Uganda Commercial Bank made 175 of the 256 loans under the project that were tabulated individually in the loan classification report prepared in November 1993. Fifteen loans which totalled UShl 230.7 million have been completely repaid. Two projects were dropped before any substantial amounts were disbursed, so Uganda Commercial Bank has on its books 158 active loans.

In connection with the remaining 158 loans, a total of UShl 4,030.2 million was disbursed of which UShl 931.2 million had been repaid as of June 30, 1993. This is a repayment rate of 23.1 percent on the original amounts disbursed. However, given interest accrued and owing, Uganda Commercial Bank's arrears, as of June 30, 1993 total UShl 6,785.1 million. In other words, after having made payments of almost a billion shillings, RPE borrowers owe Uganda Commercial Bank almost 1.7 times the original amounts borrowed.

Forty-five of the 158 sub-borrowers with loans outstanding were considered to be willful defaulters. Almost all of these borrowers have made at least token payments on their loans, but the bank does not foresee further loan repayment from them. That represents 28 percent of the total borrowers. However, the vast majority of remaining borrowers, except those with new loans, presently owe an amount greater than the amount of the original loan, even though they have been repaying when they can.

## 2. Uganda Development Bank

The Uganda Development Bank approved 75 loans under RPE; six have been repaid in full. As the Uganda Development Bank has reflected its figures in a fashion different from the Uganda Commercial Bank, one cannot calculate the percentage amount repaid against the foreign exchange amounts disbursed. Total disbursements are broken down into US dollar and local currency components. All repayments are shown in Uganda Shillings, but the foreign exchange rates used to establish the shilling loan countervalue of the commodity import loan aren't known.

Under the commodity import facility, Uganda Development Bank disbursed $4.4 million. Funds disbursed from the DFF total an additional UShl 226.8 million. Repayments have totalled UShl 186.9 million up to September 30, 1993. The amount of payments in arrears over three months as of the same date totals almost UShl 2.2 billion. Of its remaining 69 sub-borrowers, Uganda Development Bank has classified 34, or 45 percent, as willful defaulters, and is pursuing legal remedies in the majority of those cases. A number of these individuals or firms have discontinued their projects.

## 3. Bank of Baroda

The Bank of Baroda made six loans under the project which have been repaid in full. In effect the Bank of Baroda made only slight use of the credit line and then opted out of the project. As a result we have not requested details regarding their portfolio.

## 4. Recovery of Non-Performing Assets

In March 1994, a bill was submitted by the Minister of Finance and Economic Planning to the Parliament to establish The Non-Performing Asset Recovery Trust to purchase non-performing assets from the Uganda Commercial Bank. The bill was still under debate at the Parliament, and the wording of the bill is vague on operational and procedural details.

A World Bank loan was planned to fund a Non-Performing Assets Recovery Fund which would be under the jurisdiction of the Trust. It would provide the wherewithal to purchase Uganda Commercial Bank's bad assets on some unspecified terms and conditions.

The evaluators met briefly with Mr. A.N. Nair, I.D.A. Advisor in the Development Finance Department at Bank of Uganda, who has been named as the future Administrator of the Trust. He is a former Chairman of the Bank of Baroda. Mr. Nair could not or would not disclose any operational details except to note that the Cooperative Bank is to be included in the loan purchase scheme along with Uganda Commercial Bank. The Uganda Development Bank is not included, nor is Nile Bank.

Since Uganda Commercial Bank loans made under RPE (assets) have a corresponding liability to Bank of Uganda (either to the LCF or the DFF), the evaluators were interested in learning whether the Trust's funds used to purchase RPE loans from Uganda Commercial Bank would be paid to cover Uganda Commercial Bank's liability to Bank of Uganda, as would occur in a normal loan repayment. Mr. Nair could not be certain if such would be the case.

It may be some weeks before Parliament approves the bill, which only contains organizational detail on the appointment of the Chairman, the Board of Trustees, and their powers. Then, possibly, the working details will be settled by the professionals and the World Bank.

## B. The Effect of the Environment on Project Progress

### 1. Contentious Economic Issues

There was great concern in USAID/Washington and in the Mission with the "windfall profit" inherent in the use of the commodity import facility particularly during the early years of the project, with the parallel foreign exchange rate five to six times the official foreign exchange rate. Commodities imported under the RPE facility were purchased at the official rate and, furthermore, entered the country duty free. What if the sub-borrower were to sell the equipment rather than use it for its intended purpose?

There was also great concern about the decapitalization of the banks if interest rates remained negative to the inflation rate (which they were for many years). PIL 20 of March 31, 1987, addressed this latter concern by requiring that sub-loan appraisals include the requirement for a positive economic rate of return (the projected income stream calculated against the parallel foreign exchange rate) in addition to the financial rate of return (calculating expected returns against the official foreign exchange rate).

The foreign exchange rate for determining the amount of the UShilling loan to be repaid was fixed at the foreign exchange rate applicable at the time of a disbursement by Citibank under their letter of credit. Later, this was amended (PIL #55 3/14/89) to fix the local currency loan amount at the time a commodity was released from customs to conform with the existing practices of the ICIs. Finally, in 1991 the foreign exchange risk was transferred to the borrowers by a PIL amendment requiring that the unpaid balance of the principal amount of loans outstanding be adjusted to reflect the change in the exchange rate.

### 2. The Issue of Interest Rates

While the Mission and Washington were concerned about the creation of economic distortions through negative interest rates, the Ugandan sub-borrower was concerned about his ability to pay the interest rates charged by the ICIs which were as high as 40%.

There is good justification for both points of view. At this time, let us take the farmer's side. Interest rates are high or low relative to inflation. However, the ability to repay principal at a rate of interest depends upon the income from the productive loan which is generated. Herein lies the problem. In most cases, the income forecasts in the loan approval applications were not realized for one reason or another. The imported cattle died, the lorry ran out of spare parts and the farmer could not borrow more money to buy spares, or the farm implements for which the farmer had taken a loan did not work in the Ugandan environment. A significant percentage of the 50 cases studied in the Commodity End-Use Survey reflect these outcomes. If a survey were made of the entire sub-borrower universe, one would probably find that only a handful of loan beneficiaries received what they wanted in terms of commodities, put them to work, and experienced the economic returns that had been forecast.

Undoubtedly, there were malingerers. There was probably a degree of misappropriation of assets for gain as well. However, based upon review of the loan classification reports, the majority of farmers, appear to have been trying to make a go of it. Many have paid what they can against their loan, but owe more now than they did originally. This is a factor of the interest rate and time.

The interest rates applied on RPE loans throughout the life of the project are shown below. Table 4 shows the interest rate charged by the Bank of Uganda to the ICI and applies to both the imputed UShilling loans from the LCF and to the local cost UShilling loans from the DFF. It then shows the interest rates the ICI charged the sub-borrower at various times.

**Table 4**

| | Bank of Uganda to ICI | ICI to Sub-Borrower |
|---|---|---|
| Up to 7/23/87 | 15.2 percent | 38 percent |
| 7/24/87 to 6/30/88 | 10 " | 25 " |
| 7/1/88 to 3/6/89 | 14 " | 35 " |
| 3/7/89 to 6/27/90 | 16 " | 40 " |
| 6/28/90 to 2/18/91 | 14.4 " | 36 " |
| 2/19/91 to 8/11/91 | 12.8 " | 32 " |
| 8/12/91 to 3/23/92 | 14.8 " | 37 " |
| 3/24/92 to 4/23/92 | 15.2 " | 38 " |
| 4/24/92 to 1/12/93 | 16 " | 40 " |
| 1/13/93 to 6/30/93 | 9.2 " | 23 " |
| 7/1/93 to 12/31/93 | 10.8 " | 27 " |
| 1/1/94 to present | 8 " | 20 " |

As can be seen, the sub-borrower was charged high interest rates throughout. These rates were negative versus inflation until 1992. However, agriculture is a low margin business, and the major hedge against inflation is land which did not factor into the RPE Project. Farmers simply did not make sufficient operating profit, over and beyond their direct costs, to service their loans with any degree of consistency, even though high internal rates of return were projected.

## 3. The Foreign Exchange Rate Issue

Uganda has had officially established foreign exchange rates throughout most of the life of the project. The Uganda Shilling countervalue for the LCF loan was calculated at the time that imported commodities cleared the Uganda Customs Office. From 1988, when the foreign exchange rate assumed importance as imported goods began to be received, until the beginning of 1992, the Bank of Uganda established the official foreign exchange rate from time to time.

Beginning in February 1992, the official rate was established at a weekly auction. Finally, in November 1993, the foreign exchange rate was allowed to float. However, by this time, the foreign commodities financed by the USAID grant had cleared customs.

A sample of the selling rates for foreign exchange used to calculate local currency loan amounts are shown in Table 5 below:

**Table 5**

| | | |
|---|---|---|
| May 1987 to June 1988 | UShl. | 61.08/US$ |
| July 1988 to Dec 1988 | UShl. | 153.60/US$ |
| March 1989 to Oct 1989 | UShl. | 204.80/US$ |
| November 1989 to Jan 1990 | UShl. | 378.88/US$ |
| June 1990 to Aug 1990 | UShl. | 450.56/US$ |
| September 1990 to Nov 1990 | UShl. | 491.52/US$ |
| February 1991 to Mar 1991 | UShl. | 614.40/US$ |
| June 1991 to Jul 1991 | UShl. | 716.80/US$ |
| October 1991 to Jan 1992 | UShl. | 936.96/US$ |
| March 26 to Mar 27, '92 | UShl. | 1,187.26/US$ |
| June 8 to Jun 12, '92 | UShl. | 1,189.87/US$ |
| September 21 to Sep 25, '92 | UShl. | 1,209.94/US$ |
| Present (fluctuating) | UShl. | 940.00/US$ |

At the time the mid-term evaluation was done in 1988, the evaluator made strong note that the parallel foreign exchange rate was more than five times the official rate and that there would be great temptation on the part of sub-borrowers to realize a windfall profit on duty free imports brought in at the official foreign exchange rate. There was also considerable concern about this in the Mission and in Washington. Secondly, the evaluator pointed-out that the ability to repay loans might be impaired if the farmers had to repay loans in the future at much higher Shilling amounts than originally calculated.

The initial concern regarding windfall profits was to some extent ameliorated by registering all vehicles in the name of the lending bank until the loan had been repaid. Some transfers probably took place, but the new owner was not be able to obtain legal title to the vehicle. Animals and other movable items could be sold. The degree to which this took place is not known, but the commodity end-use survey points out that a majority of the exotic animals were reported to have died.

The second concern, the ability of borrowers to repay loans, was more problematic especially after the requirement that repayments be adjusted to reflect changes in the exchange rate. For example,

> Namuddu Farms Ltd. submitted its feasibility study (which showed an internal rate of return of 70 percent) to Uganda Development Bank in August 1988 and was approved by Bank of Uganda in April 1989. $30,275 was disbursed for a tractor with equipment and

lorry, ordered on work order #10. In addition, UShl 9.8 million was borrowed for local expenses. Namuddu has not yet made any repayment, but is only UShl 1.5 million in arrears due to the grace period. Uganda Development Bank loan classifiers made the comment last December that the farm is operational and the project under implementation.

At the time the loan was approved in April 1989, the dollar was at UShl 168.96. Assuming the tractor and lorry arrived in 18 months, their calculated shilling value would be UShl 14.9 million. Together with the shilling loan component, the sub-borrower now owes an estimated UShl 24.7 million in principal and, in addition, has estimated accrued interest payable of approximately UShl 26 million in the three years since the equipment was delivered, from the end of 1990 to the end of 1993, using simple interest at an average rate of 35 percent. One suspects that this loan could eventually go bad as crop farms have had difficulty depending upon local weather in the last several years.

The evaluators, from their interviews and field visits, had every reason to believe that many of the problems in repayment stem from a combination of high interest rates and the foreign exchange effect described. Poor loan monitoring and collection efforts by the ICIs, and a lack of field technical assistance, were, however, the major reasons for the poor portfolio performance. Willful defaulters represented a significant, but not overwhelming, percentage of the poor loans.

## C. Implementation Issues

### 1. Management Effects on Project Progress

#### a. Effects of USAID's Systems and Decisions

Given the civil war, the closing of the Mission, and the urgency to proceed with RPE when the Mission re-opened in the Spring of 1986, much of what transpired is understandable. A viable design prepared by a consulting firm with extensive experience with agricultural credit systems in the developing world was modified. It was difficult to debate the assumption that expedient decision making by the Mission and other participants, due to the urgent needs of the time, overrode the prudent pre-project set-up, training, and the TA called for in the 1984 PP that would have provided a thorough understanding of procedures to be followed by all concerned parties.

The office within the Mission responsible for overseeing the design of the project, and the management of the project from inception until April 1993, was the Project Development Office (PDO). The project could have crossed departmental lines as it involved both the Ugandan financial system and the agricultural sector. Yet, there was no evidence that the Agricultural Office within the Mission was asked to provide input or assistance in the management of the project at any time.

Direct Management by Mission

Given the absence of an institutional contractor to coordinate the project, USAID was obliged to manage the project via the Project Implementation Letter (PIL) mechanism which was the only way in which a Mission can give official instructions concerning the rules and procedures through which a project is carried out. One hundred twenty-eight PILs had been issued under the RPE Project at the time of the final evaluation. A good number of these were confusing, incorrect, or in conflict with previous PILs or policies, which exacerbated matters in the Bank of Uganda and the ICIs.

An institutional contractor could have intermediated many of the problems which arose, negotiated mutually agreeable solutions, and consulted with USAID only on major matters. PILs issued by USAID were the "law" concerning the topic covered, and there was no nuance, or mechanism by which problems of subjects that may have needed interpretation could have been discussed and resolved in a way that fostered mutual understanding and cooperation between all parties involved.

The Project Development Office had only itself to fall back upon. The Bank of Uganda, in its capacity as Implementing Agent, had direct communication with the Mission on every issue and problem. The ICIs, while the flow of credit business was directed toward the Bank of Uganda, felt that they had a right to direct contact with the Mission because they did not "report" to the Bank of Uganda in a pyramidal sense. The central bank is a publicly-owned commercial bank and development bank from which the ICIs considered themselves to be independent, with a right to communicate with USAID directly. There was evidence that the Mission tried to force all communication through the Bank of Uganda, and that this effort did not succeed. Sometimes two PSC advisors also reported periodically to the PDO as well as to the Bank of Uganda where they worked and to whom they were contracted. As a result, due to poor, inaccurate or conflicting communication, issues were often only partially understood, or misunderstood, and PILs would be issued which were confusing or incorrect.

Throughout all of this, only the ICIs had any contact at all with the farmers, and that contact was not enough. The sub-borrower level was where "the chickens came home to roost," and no one listened to them until their problems reached gigantic proportions.

This shortage of technical advice and support had several results:

1) Procedures to be followed by the banks (ICIs), or prospective borrowers had not been covered in any depth by anyone. The TA institutional contractor who was to have established these had been eliminated. The reduction of the technical assistance component in the amended PP, and again in the PP Supplement, eliminated much of the help which was to be given to the ICIs with respect to setting standard operating procedures, accounting records, reporting mechanisms, and the appraisal of loan applications. All of the technical assistance planned for prospective sub-borrowers in farming or animal husbandry, farm management, and even in the preparation of a farm plan to be submitted with the loan application was dropped. Assistance to the Bank of Uganda to help establish the mechanisms through which it would fulfill its responsibilities as Implementing Agent was reduced, and at the beginning of the project, no dedicated TA was available.

2) In October 1986, a PSC agricultural financing specialist was assigned to the Uganda Development Bank. Three months later, he was transferred to the Bank of Uganda under

PIL 15. This left the Uganda Development Bank without assistance. The PP Supplement called for the addition of two long-term advisors for the ICIs, and for a mix of short-term technical assistance. When one additional long-term advisor was finally obtained, in 1989, he was assigned to the Bank of Uganda as well. The Uganda Commercial Bank never received resident TA.

3) Mission acceptance of existing Uganda Commercial Bank and Uganda Development Bank lending manuals as meeting the condition precedent in the RPE Grant Agreement which called for the preparation of a standard Operations Manual applying to the RPE Project was documented in a Mission letter to the Bank of Uganda on May 22, 1986. The TA to prepare this manual was not available at the time. A comprehensive manual of instruction for the Bank of Uganda and the ICIs covering the project was never prepared. An operations manual would have covered accounting, control, and procurement procedures in addition to the applicable loan use and loan application appraisal criteria and methodology. Lack of clear, coherent and common procedures was a serious impediment to progress under the project.

## Shifts in Project Purpose

During the course of the project, the purpose shifted several times. The resulting lack of focus seriously complicated the already difficult communication between project entities.

The PP Supplement included a list of nine beneficial impacts which were to be achieved in association with the increase in income for the rural poor. These were:

- Increased employment of the rural poor
- Increased income for smallholders through improved markets
- Increased availability of basic food commodities at lower prices
- Improved nutrition and health among the rural poor
- Increased real wages paid to the rural poor
- More efficient use of family labor (women and children)
- Increased or more effective participation of women in enterprises financed
- Improved economic return to small producers, processors, or intermediaries through reduced government intervention
- Increased return to cooperative members through improved economies of scale

However, the target recipients for loans to purchase imported commodities according to the PP Supplement continued to be medium and large private, commercial farms or ranches, dairies, or poultry operations, as well as agribusiness and agroindustry. Loans to about 200 enterprises were forecast.

The issue was further clouded when, in response to the mid-term evaluation in 1988, which called the rural poor objectives unattainable, the Mission again returned to increased agricultural production as the primary purpose of the project. The shifting of project priorities gave the impression to other project participants that USAID was uncertain of its objectives.

Conclusion

In conclusion, project management had a serious impact on project progress:

- The decision to do away with an institutional contractor to coordinate the project led to (1) the need for micro-management by the Mission rather than project oversight; and (2) the absence of an institution obligated to provide long-term TA as recommended from time to time. Personal Service Contracts avoid lengthy bureaucratic procedure, but are uncertain as regards obtaining the necessary physical presence when needed. The second advisor contracted in 1989 was known to the Mission only because he was in-country and became available after completing a contract with another institution.

- The tacit assumption at the inception of the project that the ICIs did not need TA was rapidly shown to be erroneous. However, dedicated TA was never provided to them. The preparation of a standard, project-specific, operating and procedures manual, to have been undertaken by the missing institutional contractor as required in the initial design, and included in the Grant Agreement as a condition precedent, was waived by the Mission, which accepted instead the lending manuals of each of the ICIs. As a result, the ICIs and the Bank of Uganda were never reading from the same page when it came to loan appraisal, loan accounting, and reporting. This remained true through the end of the project.

- There was the de facto assumption that the sub-borrowers, as commercial farmers, did not require TA. Nothing could have been further from the truth. Most sub-borrowers, many of whom owned land but were "farmers" in name only on a part-time basis, had never cultivated more than a small percentage of their acreage using traditional methods.

- U.S. Government contracting procurement regulations require complex and time-consuming procedures for selecting a contractor. This was the case in the selection of the purchasing agent for RPE imported commodities. The project was underway before the final selection was made. No face-to-face planning of the procurement mechanism or discussion of the procedures to be followed took place between the affected parties. The results of this will be discussed in Section III C.2.

The evaluators believe that these comments address issues which were basic in nature and have had a pervasive negative effect on project performance throughout.

### b. Perspectives of the Implementing Institutions: Bank of Uganda and the ICIs

What follows is a series of reports based on interviews between the evaluators and groups or individual officers of the Development Finance Department (DFD) of the Bank of Uganda, the Uganda Commercial Bank, and the Uganda Development Bank. In the case of DFD, each of the officers was involved with RPE from the beginning. This series of reports includes the implementing institutions' perspective of what happened, what they learned, and how they experienced the development process that unfolded under RPE. Their perspective is integral to the final evaluation given the role each played from 1986 to 1994. It is included because it sheds light on some of the more subtle complexities of their experience with RPE. A more complete version is in the appendices.

1. The Experience of the Bank of Uganda Development Finance Department

<u>Administration/Management Issues</u>

When RPE began in 1986 the DFD was the department through which the project was implemented on behalf of the Ugandan government.

RPE was the first credit project administered by the DFD. It was their first experience overseeing the process of an intermediate term loan project from application appraisal and approval, disbursement, tracking and reporting, and finally recovery. RPE <u>created</u> a relationship between the ICIs and the DFD that had not existed before. As with any central bank, the Bank of Uganda had a supervisory relationship to commercial banks. But RPE placed the staff of the DFD in the position of being the final authority on the work submitted by the ICI staff. It put them in the position of being implicitly responsible for supporting the development of the ICI's capacity to administer intermediate term lending and foreign lines of credit. It also meant that they would have to interact frequently with ICI staff because of the nature of the loan process. In sum, the DFD staff of eight found themselves administering an intermediate term lending process for the first time; they were supervising, interacting with, and had authority (at least in principle) over commercial banks involved in RPE; and they were learning the guidelines and operational procedures of USAID and how to comply with them.

Though it was the department's first hands-on experience with credit implementation, individuals in the department had training and backgrounds in various aspects of agricultural production, banking and government. A number of officers in the department had attended a three-month training course at the University of Bradford in the U.K. on project management, identification, appraisal, and monitoring.

When RPE began, agricultural research and extension services were practically nonexistent, and the marketing and infrastructure systems had been severely weakened by years of civil strife. The RPE design did not create a working relationship among the Ministry of Agriculture and Animal Resources, the Bank of Uganda and ICIs, nor did it seek to increase the Ministry of Agriculture's capacity to monitor and supervise agricultural credit delivery. The result is that between 1986 and 1988, the DFD received most of its direction on how to administer RPE through project implementation letters (PILs) initiated by USAID. USAID was its primary source of information and guidance regarding the diverse issues and problems associated with agricultural credit and its administration. One serious shortcoming is that USAID managed RPE through its Project Development Office and later its General Development Office (GDO). The agricultural division within the Mission was not involved in the design or implementation process of RPE (this was true to the end of the project). Hence, the PILs were being generated by an office whose primary area of expertise was not banking, agriculture, or agricultural credit delivery systems.

Relationship Issues

Between 1984 and 1987, the nature of the relationship between USAID and the Bank of Uganda took shape as USAID managed the overall administration of the project through directives contained in 34 PILs sent to the DFD. As the implementing institution of RPE, the DFD had its own ideas about how to appraise projects. At times there were differences between the department's view of how to administer RPE and USAID's view. The DFD, for example, had a strong interest in monitoring. Individuals in the department wanted to be able to check some of the applications submitted by the ICIs when something struck them as questionable.

According to DFD officers, USAID encouraged them to focus on administering RPE by directing their questions and concerns to the ICIs. Their role (Development Finance Department) as USAID perceived it, was not to do site visits or to be involved in monitoring and appraising applications from the standpoint of what was happening on the ground with the farmer. That was to be the role of the ICI staff. Their job was to focus on the administration of the project (this included much of the paper work associated with reporting requirements and tracking) and to duly appraise the applications sent to them by the ICIs. When questions arose regarding what was contained in an application, the DFD staff should rely on their own experience and knowledge and also speak to the appropriate ICI.

The result of this definition of roles and responsibilities between the DFD and the ICIs is that there was a lot of traffic back and forth because of differing views about what a particular farmer needed and the overall viability of his business plan. This also delayed the loan approval process as the DFD staff would sometimes change the commodities package requested in the application and the particular ICI involved refuted the change.

The problem that arose, according to Development Finance Department officers, is that the technical adviser had no authority over the ICIs and he was unable to get them to comply with the procedures he wanted them to follow. The poor working relationship between the technical assistant and the ICIs and the fact that these problems occurred relatively early in the history of the project and were not resolved, contributed significantly to the difficulties in the long-run administration of RPE. It also shows that capacity building is not just a function of having technical assistance in place with know how. The person(s) providing the technical assistance must gain the confidence and trust of the groups they seek to assist; otherwise, their suggestions, no matter how good, will not be successfully implemented.

Development Finance Department officers state that by 1991 when the problems in RPE had multiplied and were becoming increasingly serious, they at the Bank of Uganda, hoped they might work more closely with the ICI staff to put records in order and work on some of the weaker aspects of the loan administration process. PIL 101, dated August 1991, had already limited the credit line because of these problems and new lending was prohibited. According to DFD officers, however, USAID discouraged them from working with the ICIs and told them that they would contract Technoserve to help ICI staff in monitoring, evaluation, and loan collection procedures. A loan recovery target of 70 percent was discussed. Instead of assisting the ICIs, Technoserve was brought in to provide technical assistance to the Nile Bank. The lack of a satisfactory explanation on the part of USAID for why Technoserve's assistance was provided to Nile Bank and not the ICIs as originally envisioned is still a point of contention among the Development Finance Department officers. It is worth noting that PIL 123 dated June 23, 1993, officially terminated the RPE credit program. On the very next day, PIL 124 dated June 24, 1993, was issued informing the Development Finance Department that Nile Bank would be participating as a fourth commercial bank in the RPE project.

2. The Uganda Commercial Bank Development Finance Credit Group

Administration/Management Issues

The Development Finance Credit (DFC) group at the Uganda Commercial Bank was created in 1983 to administer external lines of credit for development finance. By 1986 when RPE was initiated, DFC had already had experience administering large external lines of credit from the World Bank and the EEC. The DFC had about 80 staff members and was divided into five departments: accounts, procurement, agriculture, industry, and loan implementation monitoring and evaluation (or LIME). RPE applications were handled and processed along the same channels as any other credit application handled by the group. This meant that at different stages in the application process, each application passed through one of the various loan departments.

In the early stages of RPE there was pressure on the part of the Government to utilize the funds provided by USAID as quickly as possible. As a result, the Uganda Commercial Bank did not insist that RPE applicants meet the lending criteria and guidelines. The primary requirement was that the applicant own land which could be used as collateral.

Relationship Issues

One of the problems USAID had faced at the very beginning of RPE was that the project was originally designed with Grindlays and Barclays banks as the implementing institutions. These banks declined to participate in RPE. At the last minute, the two government owned banks, Uganda Commercial Bank and Uganda Development Bank were asked to be a part of RPE. The timing of the invitation and the initiation of the project did not allow for an adequate assessment of each institution's capacity to administer such a program. The project paper dated May 9, 1985, stated in a section on institutional analysis that the Bank of Uganda requested that Uganda Commercial Bank be included in RPE and that the request had come during the final stages of preparation of the project paper; thus, there was not enough time to complete an assessment of its institutional capacity.

A report submitted by the technical committee on agricultural financing (which consists of officers from Uganda Development Bank, Uganda Commercial Bank, Bank of Uganda, Bank of Baroda, and the Ministry of Agriculture and Animal Industry) noted that before 1986, funding for term loans to the agricultural sector were practically nonexistent. Because of the lack of available funds, some of the applications had been pending at banks (which included Uganda Commercial Bank and Uganda Development Bank) for quite some time. The creation of RPE opened up a line of credit that fit the needs of this very group of applications. The number of applications in response to the announcement of RPE was, therefore, very large.

As with the Development Finance Department, the number and quality of PILs was also perceived as an administrative burden.

3. The Uganda Development Bank

Administration/Management Issues

When RPE began in 1986 the Uganda Development Bank Operations division had already acquired experience in managing agricultural credit projects.

Between 1972 and 1980, the Uganda Development Bank financed a number of agricultural development projects. These included crop farming, dairy farms, animal feeds, agro-processing, and poultry. In a speech by the managing director of the Uganda Development Bank to the Uganda Commercial Farmers' Association, it was noted that the majority of loans made during this early period were repaid and were repaid on time. Agricultural production was still buoyed by the prosperity experienced during the 1950s and 1960s. Under these conditions, a reasonable return on agricultural investments was possible. Problems began to arise during the latter part of the 1970s for a number of reasons including a raging inflation rate. Agricultural productivity, along with other sectors of the economy, began to decline. As a result, the number of Uganda Development Bank loans to the agricultural sector decreased.

Interest in agricultural investment began to rise at the beginning of the 1980s, but the resources for financing agriculture were primarily from external lines of credit. In the mid-eighties, Uganda Development Bank managed a six million dollar line of credit for agricultural loans to farmers. RPE began in 1986.

According to Uganda Development Bank officials, a number of problems and issues had a significant impact on the nature of their experience as one of the implementing institutions of RPE.

Relationship with AID

One issue is the way they were included in RPE. In short, they were "strongly encouraged," at the last minute, to be a part of RPE. Secondly, the allowable profit margin for the banks was too low. The combination of these two factors has strong implications for incentive and motivation. The other problematic area was their relationship with USAID. Their assessment is that USAID did not help them build their capacity to administer intermediate term credit as a participating ICI under RPE. Thirdly, the PILs were too numerous. The rules of how and what was to be done kept changing with each successive PIL, and this caused confusion. They never knew what to expect. Fourthly, the administration of RPE was too bureaucratic. Finally, all of the problems stemming from the procurement arrangement, confusion regarding the determination of the grace period, the setting and timing of interest rate calculations on loans, farmers' perception that RPE was grant money and why was interest being charged on "free" funds, significantly complicated the administration of RPE.

## Appraisal Issues

In retrospect, Uganda Development Bank officials readily admit that their department was weakest in the areas of implementation and monitoring. In addition, there was a tendency to be overly optimistic in the appraisal process. This optimism is linked to the very real problem of what one official called "the gap between reality and economic theory." Ugandan farmers in 1986 were essentially at a level where they were more familiar with managing small holdings. Given this, small incremental increases in capital equipment and credit would have been best. However, when a farmer was developing a business plan to be submitted under RPE, it appeared to be **economically and theoretically possible** to increase productivity by significant amounts based on economic estimates of yields for a particular amount of inputs and land. So a farmer might argue that he could produce " x" amount of maize on "y" acres of land if he only had a tractor, plow, and other inputs, for example. Theoretically, the relationship between x and y exists. The problem is that increasing production is not just a function of acquiring inputs. Also, it is important to investigate what the numbers and the theory are based on. Crop estimates were based on results attained at research stations. However, the conditions at these stations were essentially "ideal." Uncertainties associated with drought, bad weather conditions, disincentives due to price controls, and ineffective management are all factors that impact production levels in the real world. Hence, one of the problems associated with the appraisal process in RPE was that decisions made about production levels were essentially based on theoretical parameters without adequate consideration of the problems affecting the farmer.

In more instances than not, many farmers and loan officers as well, were unaware of the broader issues and factors that influence and actually determine production levels. Consideration was not given to the farmer's ability to effectively manage a commercial farm (which requires a vastly different set of skills and know-how from small holder farm management). Questions were not posed about the farmer's knowledge of the activities he must undertake before using, and also in conjunction with, the inputs he expected to acquire under RPE. What appears to be economically and theoretically feasible in terms of levels of agricultural productivity, is difficult to manifest **in reality**, because the factors that can affect outcome in the real world are not factored into the models and theory.

Another factor noted by Uganda Development Bank officers was that many RPE loan recipients were farmers only in theory. In many cases, a civil servant gained access to or acquired land and applied for an RPE loan. The individual requested a tractor, plow, and numerous other large pieces of capital without being aware of what was required or how to use them. Even if he employed someone to manage his farm, this person generally lacked the necessary skill and know-how.

One of the assumptions that worked its way into the loan approval process was that farmers were better off if they were made to be as self-sufficient as possible. Uganda Development Bank officials note that it was this kind of thinking that led appraisal officers to approve a particular package of capital equipment to farmers. In fact, a standard package was allocated to crop farmers. This package eventually consisted of a tractor, disc plow, maize sharer, lorry, iron sheets, and cement. This was not initially the case, however. For example, a farmer received a tractor. But later on, he complained that he was losing his money to middle men who were transporting his goods to markets. The bank decided to give him a lorry or pick-up along with the tractor so he could provide his own transportation and cut costs. The next problem that arose was storage. The bank's solution was to provide the farmer who got a tractor and a lorry or pick-up with cement and iron sheets so he could build his own storage facilities as needed. The combination of these items was a package.

One result of their experience with RPE, according to Uganda Development Bank officers, was that they became more cautious about appraisal. They became better able to assess the individual applicant's capability and plan, and they learned to apply a different set of criteria before recommending that an applicant be provided capital equipment. They stated that they had learned that certain crops were not viable, and they had a better understanding of what to finance in particular sectors, as well as what was necessary in order for a particular crop to be productive. They also realized the importance of the input and assistance of agricultural extension.

### 4. Conclusions on Perspectives of Implementing Institutions

In conclusion, the implementing institutions have a mixed view of their experiences with RPE. The experience of the participating ICIs revealed the complexities and difficulties inherent in agricultural lending. In order for such lending to be effective and sustainable, many variables have to function smoothly in relationship to each other.

Appraisal

There were numerous actors involved in the administration and management of the project at the institutional level. For example: USAID checked over many of the applications, as did the Bank of Uganda and the ICIs.

Working relationships, amongst as well as within these institutions, were critically important to the overall success of the project. For example, one technical advisor was unable to implement many of his suggestions because he did not gain the confidence required to get the cooperation of staff. Each ICI and the BOU had difficulties in their relationships with USAID. Moreover, the Bank of Uganda staff had difficulties in their relationships with the ICIs.

The bankers themselves needed a broader base of knowledge and practical experience to be able to approve the applications with plans most likely to be realized. They needed to develop the ability to discern which crop activities and inputs could be most successful.

The Development Finance Department in the Bank of Uganda was working with its first major medium-term lending project and was placed in the position, as Implementing Agent for the GOU, as both manager and coordinator for the day-to-day operation of the project. The Bank of Uganda had responsibility for reviewing and approving loans that had already been approved by the ICIs. This was time consuming, and troublesome to the ICIs. The Bank of Uganda would make changes in farmers' requests since it had some staff with farming experience. USAID did not create a process by which these difficulties could be resolved.

Development Finance Department staff wanted to go into the field, but the Mission declined permission stating that this was the responsibility of the ICIs. This was in theory correct; however, there were many sub-borrowers who only saw their banker once, and a number who saw their banker not at all.

The Development Finance Department at the Bank of Uganda was overloaded in terms of complicated workload and procurement responsibilities for which they initially had no expertise or experience.

The Bank of Uganda was responsible for accounting for all DFF and LCF loans, and for the local currency project support expenditures through the LCF. Lastly, the Bank of Uganda was in the middle of the procurement muddle, had direct dealings with all concerned and was supposed to know the whereabouts of all commodities ordered. The Bank of Uganda was a principal, rather than a coordinator, in procurement as it issued the work orders and was sometimes the consignee of record. Given the complexity of its role vis-a-vis the ICIs, the Bank of Uganda would have benefitted from a procurement specialist. Although the Bank of Uganda was promised one via PIL, one never arrived.

The ICIs differ considerably in their organization and experience. When the project started, the Uganda Development Bank and the Uganda Commercial Bank had some term-lending experience. Both chose to manage their respective responsibilities centrally; the Uganda Development Bank from its Operation Division, and the Uganda Commercial Bank through its Development Finance Credit Group. Both had difficulty with the position of the Bank of Uganda and would have preferred more independence in managing the project themselves, and their relationship with USAID.

Except for a few months assistance in the beginning at the Uganda Development Bank, neither of the ICIs received the quality or quantity of technical assistance they thought had been allocated to them.

However, bankers were supposed to know how to lend money, which means knowing how to get it back from the borrower. The evaluators noted that the loan approval by committee without individual lending officers being responsible, or in the case of the Uganda Commercial Bank, the branch managers being responsible, resulted in low recovery rates. Accompanying the absence of punishment for approving loans which went sour was a lack of reward for collecting loans, which someone else or a committee approved.

The Uganda Commercial Bank should be chastised for its poor allocation of RPE Project-supplied vehicles and other equipment. There was no excuse for pleading a lack of vehicles for site visits and for loan collection.

## 2. Procurement Issues and Management of Commodities

According to borrowers, the ICIs, the Bank of Uganda, and USAID officials, procurement and management of the imported commodities once a loan application had been approved was the most complex aspect of the project, and perhaps the most damaging to sub-borrowers. The delays in receiving commodities and the problems caused by the introduction of the concept of bulk purchases resulted in serious problems for the farmers.

A contract with African-American Procurement Center, Inc., New York, was signed in February 1987 following competitive bidding. The initial work order (Work Order or PIO/C) for the order of commodities under the RPE was signed on August 21, 1987; the USAID Letter of Commitment in favor of Citibank was not issued until November 24, 1987, and letters of credit in favor of suppliers could not be issued by Citibank until it had received USAID's payment commitment. The supplier did not enter the order into his production schedule until he received assurance of payment, the Citibank Letter of Commitment. Other problems in producer delivery schedules, inland and ocean freight, clearing Mombasa or Dar es Salaam, and inland freight to Kampala resulted, as stated in the mid-term evaluation, in the arrival of only 10 of 308 items ordered ten months after the issuance of the first work order. Subsequent work orders did not fare much better.

A procurement study was called for and performed in July 1988 by Mr. Shashee Joshi, C.P.M., who made a number of recommendations which were adopted. However, the recommendations of the mid-term evaluation regarding the use of a different freight forwarder other than the one selected by African American Procurement Center, which according to Mr. Joshi could not handle the volume of work, were not. Problems related to the arrival and expeditious handling of goods from their arrival in Mombasa or Dar es Salaam, through to Kampala, were never satisfactorily resolved.

It should also be noted that the USAID Project Officer was overly involved in the process of procurement, since the Mission was the consignee of record on every shipment. Procurement should have been a subject of intensive training and preparation by all concerned well before the first work order was prepared and submitted. As many problems as possible should have been foreseen and procedures to remedy them, what action was to be taken by whom, worked out before the fact. This did not happen.

### 3. Impact of Commodities on Loan Recipients

In April 1994, IMPACT Associates, Ltd., was commissioned by the USAID Mission to conduct an end-use commodity survey to determine the current location and condition of the commodities procured under RPE and to establish their past and present use. A sample of 50 enterprises dispersed among 13 districts was selected. What follows are the findings of the survey team as presented in its final report to the Mission.

Commodities in the agri-business and agri-industry categories are generally more accessible because they are "urban" based. Most commodities (50%) were found to be in working condition with 45 in nonworking condition. Of the 266 cattle received by 14 farmers in the survey sample, only 98 or 43% were still alive. Many of the Friesians that died did so without leaving offspring. Only 44% of the equipment had been regularly serviced, though some farmers (28%) had engaged full time technical personnel to help maintain their equipment. Fifty-eight percent of the farmers in the sample reported an increase in their output due to commodities received under RPE and 28% did not.

The survey team noted that there was a considerable discrepancy between the initial use of equipment and its actual use, particularly in the transport category. The diversion of commodities to other uses was most common for items like lorries, tractors, and Toyota pick-ups of which 68%, 35%, and 39% respectively, were in commercial use.

One reason given was that many of the projects were located in remote rural areas, and this meant farmers had limited access to markets for their goods. Other reasons for the diversion of commodity use were high interest rates, the diversity of commodity use and functional mobility of some equipment, and the low rate of return for agricultural investments. Some projects were no longer viable and farmers chose to use their commodities for commercial purposes. Forty-three percent of the commodities are at present being used for their intended purpose; 11% were diverted to commercial use; and 15% of the items were transferred to other locations, were sold, or were from abandoned projects. Some of the reasons for commodity disuse included natural constraints, structural discrepancies, delivery of wrong specifications to loan recipients, wear and tear, and poor management on the part of some borrowers.

The final evaluation team completed a total of 12 site visits. Of the 12 farmers visited, at least four of them had received commodities they had not requested. At least one farmer did not receive the commodities he had requested and was unable to execute the work intended under his original business plan. All 12 of the farmers visited had used the cement they received under RPE to build structures related to their farm operations. As previously stated, dairy farmers suffered the greatest loss of productive inputs under RPE. The site visits revealed that constructive use had been made of the transportation equipment.

The evaluation team identified two difficulties resulting from the way commodity procurement was managed--specifically bulk purchases. Bulk purchase was not part of the initial project design. But the 1988 procurement study recommended bulk purchase of a number of commodities. The bulk purchase of lorries, for example, in advance of a specific request for a lorry by a sub-borrower, was what probably resulted in the concept of the "package".

The "package" concept was developed in the Uganda Commercial Bank, and was agreed to by the Bank of Uganda, but was foisted upon subsequent sub-borrowers and may not have been uniformly suited for each circumstance. The package included a lorry, tractor, and various farm implements. The banks made the selection of the "package" which the farmer needed, and the farmer had little or no say in the matter. The ICIs prepared the project plan and budget for the farmer and structured the cash flows to demonstrate the farmer's ability to repay the loan. That was why, for example, some sub-borrowers had water pumps but didn't have a supply of water (several didn't have the electricity to run the pump either).

Another problem which wasn't created, but was exacerbated by bulk purchase, was the staggering of arrivals of commodities ordered. Staggered shipment was one of the recommendations in the Joshi report, and forms a part of the bulk purchase concept. This meant that a sub-borrower was almost certain to receive his tractor before his plow arrived, or the reverse. The foreign exchange value of the loan was calculated in UShillings when the first item to arrive cleared customs, so interest started accruing on assets purchased which were unusable until the other components arrived. Complaints about the serious impacts of this aspect of RPE were universal among those sub-borrowers questioned.

They provided at least partial explanation of the problems with the use of commodities found in the survey.

Delay in receiving commodities is one of the principal reasons given as a cause of default: cases in which interest became due before the commodities were received and put into production. The matter was not addressed by USAID until PIL 54 was issued in March 1989, and the ICIs did not adjust to the new grace period regime for some time.

A sub-borrower delinquent in his payments would not be eligible to receive further assistance from the ICI until his arrears had been covered. In many cases, this was impossible because the sub-borrowers lacked working capital and, as a result, these projects were never to achieve their potential (see Visits, Annex 1).

## 4. Training Findings and Analysis

Training was one key input of the project that required separate attention. The evaluation team assessed training in the banking and farming sectors:

Banking -- The individual participant's assessments
-- The effect on the administration of RPE loans
Farming -- The type and quantity of training provided to farmers

### a. Banking

Interviews with numerous individuals in the Bank of Uganda and ICI staff who received training under RPE, revealed the following:

- An overall very positive response. Most respondents stated that they had gained a great deal from the training they received.

- Not only did they benefit individually, but they felt that they were able to return to their jobs and apply what they had learned in very concrete ways. In addition, they shared their knowledge with fellow workers and staff.

- At least two individuals received promotions and have assumed positions of greater responsibility as a direct result of the training they received. One individual has been promoted to the position of manager of a newly created loan appraisal and implementation division at his bank. Another was promoted to the position of assistant chief manager and has been given more responsibilities in one of the bank branches.

- One loan appraisal officer participated in a study tour of commercial farming in Zimbabwe during which he had an opportunity to study the lending system for large commercial farms. Since his return he has appraised three large commercial flower projects and one of them is now exporting flowers to Europe.

While beneficial to the participants, the training did not significantly improve the capacity of the Bank of Uganda and the ICIs to administer RPE loans, because it was not coordinated with or designed to address these programs.

The majority of the workshops and seminars attended were not part of a training package designed to fit the special problems associated with RPE lending nor were they based on an assessment of the strengths and weaknesses of the staff of each ICI and the Bank of Uganda. Hence, Bank of Uganda and ICI staff training, though it was beneficial in relation to other aspects of credit administration, did not help **improve** RPE loan administration.

The midterm evaluation conducted in 1988 stated that "Only minor efforts have been spent on training. At the present time, no one has yet developed a training plan indicating the types of training needed and when, where, and how the training should be provided. Given the state of knowledge and experience of the staffs at the ICIs working on RPE, it appears that only very specialized training would contribute much to RPE project execution at this late date. **What is needed is on-the-job training in methods and procedures, particularly as they relate to implementation...A comprehensive training plan should be prepared for the remainder of the project. It should indicate the deficiencies to be corrected, the kind of training desired, and how the training will contribute to project goals and objectives."** This recommendation was not implemented by USAID.

The majority of the training received by staff at the Bank of Uganda and ICIs was short term (from one week to eight weeks) and occurred between 1991 and 1993. By this time the problems in administering RPE loans had become serious and numerous. While the topics of training seminars and workshops appeared to have been appropriate, and it appeared that the appropriate staff attended (senior bank officers, appraisal officers, etc.), most of the courses and seminars came too late in the project to have a meaningful impact on the problems and the direction that had already developed in the administration of RPE loans.

Many of the individuals who received training in 1992 or even as late as 1993 returned to their jobs and by then had little or no relationship to RPE loan administration because the foreign exchange financing of commodity imports for RPE subloans approved or conditionally approved had already been limited to no more than $15.5 million as of PIL 101 in August of 1991. In addition, even though there was still a considerable amount of work to be done supervising, monitoring, and collecting RPE payments, the rules informing the Bank of Uganda and the ICIs of the administrative actions they should take kept changing with each PIL.

For example, PIL 103 (September 1991) established criteria and feasibility analysis requirements for use of the remaining $8.75 million of the project credit line. The PIL informed the Bank of Uganda that the credit line could only be used to finance subprojects involving one or more of the preference items listed in the PIL. PIL 107 (June 1992) formalized the prohibition of charging compound interest on subloans as of April 1, 1992. PIL 111 (November 1992) informed the Bank of Uganda that an incentive mechanism for early payment of loans had been established. Rebates for borrowers who had repaid by a particular time were to be given. Calculations associated with the different rates of rebate were included. PIL 113 (November 1992) laid out procedures for annual inventories of all commodities held by RPE sub-borrowers with ongoing or abandoned projects and of all undistributed commodities currently held in warehouses. PIL 123 issued in June 1993 prohibited any further lending under RPE.

Had consistent training with follow-up for ICI and Bank of Uganda staff taken place at the beginning of the project (1986 to 1988), it could have possibly had a positive impact on the project's direction.

### b. Farming

Table 6 below shows the type and quantity of training provided to farmers between 1989 and 1992.

**Table 6**

**Training Received by Farmers***
**1989-1992**

| Sector/Farmer | Number | Subject |
|---|---|---|
| Tractor operators | 27 | Tractor/lorry operations |
| Lorry operators | 17 | Tractor/lorry operations |
| Dairy farmers | 42 | Dairy farming |
| Tractor operators | 52 | Tractor operator's workshop |
| Farmers | 3 | Ticks/tickborne diseases |
| Poultry farmers | 5 | Hatchery management |
| **TOTAL** | **146** | |

* Locations: Uganda and Kenya

Interviews with farmers revealed the following:

- Most expressed the opinion that the training they received was not effective. In December of 1989, a total of 44 tractor and lorry operators received training in tractor/lorry operations. Approximately a year and a half later in July of 1991, 52 tractor operators attended a workshop on tractor operations. However, between 1989 and 1991 a total of 134 tractors and 121 lorries were received by farmers. Those farmers who participated in the 1989 training did not have a way to learn more about their tractor or other related equipment for over a year after receiving the equipment.

In addition, farmers needed more than just equipment and training in how to use it. They were receiving large infusions of capital to produce yields significantly larger than any level of production most had ever achieved. Farmers needed training in management, planning and logistics so they could more effectively manage their status as commercial farmers.

The mid-term evaluation noted that out of the 52 applicants that were going to receive tractors, only 16 had any experience with them. The evaluators argued that by using tractors and increasing their hectareage, farmers were, in effect being transformed from small holder farmers to large commercial farmers. "Such a transformation requires different management, planning, logistics. This will be impossible to accomplish before several years." (p. 24) The point is that given that farmers were not familiar with tractors, they needed more frequent, hands-on, extensive training in order to be able to use the equipment they received most effectively.

In June 1990 a second amendment to the project was signed. This amendment increased the life of project funding and extended the project to June 30, 1994. The project amendment proposal states, "The revised budget provides a substantial amount of funding for in-country training... **training in management, machinery use, maintenance and repair and a simple enterprise accounting system will be provided to subborrowers."** (p. 16) This project output was not achieved and there is little evidence that USAID addressed the problem in a thoughtful, comprehensive manner.

## D. Effects and Impacts of RPE

### 1. Effects on Medium-Term Lending Capacity in Uganda

Prior to RPE, there was no intermediate term agricultural credit delivery system in Uganda. A cooperative credit scheme (which began in 1961) was the primary means through which credit was provided to the agricultural sector. This scheme financed seasonal inputs and experienced a relatively high rate of recovery. In addition to the cooperative credit scheme during the 1960s other external resources for agricultural credit included: tea development loans, tobacco barn loans, Masaka/Ankole Ranching Scheme Loans, and dairy development loans.

By the mid-seventies, farmers received loans from the Uganda Commercial Bank under the Agro Credit Scheme and the Beef Ranching Development Programme. The Uganda Development Bank had also acquired some experience in administering agricultural credit using donor funds prior to RPE. Nevertheless, the line of credit under RPE provided the largest resource available for medium term financing for commercial farming. Hence, the participating ICIs were relative newcomers to this type of lending and the risks and pitfalls involved. Domestic funds for term lending were not available and most lending had been, and continues to be, short term.

If the capacity to administer term lending is measured in terms of an increased rate of repayment over a period of time, one would conclude that the capacity of the ICIs did not increase and in fact, the administration of the loan portfolio in many ways became more encumbered as time went on. However, one interesting finding was the perception on the part of the participating institutions that their capacity had increased. Officials directly involved in the RPE project (some of whom had been involved from its inception) stated in interviews that they felt they (speaking on behalf of their institutions) had learned a great deal from being involved in RPE despite all of the difficulties encountered by the project. As one official noted, the banks had not had experience with this type of lending but now, years later, they had "learned by doing", and they were in a much better position today than they were in 1986 to administer an intermediate term lending program.

One way to measure the extent to which "learning by doing" took place is to evaluate the extent to which policies and procedures have been put in place to prevent some of the more serious and glaring RPE problems from occurring in non-RPE credit portfolios at the Bank of Uganda and the ICIs. In other words, what are they doing differently in terms of credit administration as a result of their experience with RPE? Some factors to consider include developing effective reporting systems for the status of loan portfolios, standardized rules and procedures regarding appraisal, sufficiently high repayment rates, and an efficient management information system. Each institution's experience with "learning by doing" is discussed below.

The Bank of Uganda

The Bank of Uganda appeared to have increased its capacity to administer credit as a result of RPE. In October 1991 (two months after the termination of the RPE commodity line of credit), the Bank of Uganda established the Export Refinance and Export Credit Guarantee Scheme as a division within the Development Finance Department (the implementing department under RPE). The division makes short-term loans for nontraditional exports. A number of the officers who appraised projects under this scheme worked on RPE loans. This division produced weekly statements in the form of a memorandum. These statements contained information on the number of applications received and processed, the name of the exporter, bank, commodity, value, and date received. It also included the loan approval committee's decision, the date of the decision and any remarks regarding the borrower. Disbursements made during the week to particular banks in specified amounts were also included. Repayments received during the week from particular banks in specific amounts were duly noted. The memorandum also stated the total number of applications received as of the memorandum's date, total number of approvals, disbursements, repayments, and funds approved but not yet disbursed. The loan recovery rate was also included. In a memorandum dated May 11, 1994 the loan recovery rate was 85.7%, and it had increased to about 88.2% by May 26.

The export finance division also produces a monthly report containing the information listed above. The loan approval committee meets every Wednesday. Applicants are encouraged to submit their applications on Fridays. Mondays and Tuesdays are used to appraise their applications, and the decision is made at the committee meeting on Wednesday. The applicant is thus able to find out in one week's time whether or not he or she will be granted a loan. Bank of Uganda officials noted that the recovery rate is high, in part, because loan officers are better at screening applicants as a result of their RPE experience and training. Also significant is the fact that export finance is not subject to the same types of risks and uncertainties as agricultural lending.

The Uganda Commercial Bank

RPE loans have been administered by the Uganda Commercial Bank's Development Finance Department. The evaluators were unable to obtain evidence of improvement in capacity that was as apparent as that of the Bank of Uganda and its export finance division. An official noted that the departments and committees most involved in the administration of RPE have not changed or modified their procedures or operations in other areas of credit as a result of experience with RPE.

The Uganda Development Bank

The Uganda Development Bank does appear to have increased its capacity to administer credit programs. It centralized its appraisal and implementation divisions which produce reports on various aspects of the status of a particular loan and the action that needs to be taken. Previously, depending upon the nature of an application, the agricultural division would handle it or, if it involved agribusiness, the industry division would handle it. At the time of the evaluation, within this new unit there were agriculturalists, agribusiness specialists and individuals with other areas of specialization who share knowledge related to appraisal and implementation.

Uganda Development Bank officials stated that they were much more cautious when appraising applications. More stringent criteria such as an applicant's access to working capital and the degree to which the applicant had made clear, concrete effort towards the realization of his business plan were applied before approving a loan and allocating capital equipment. Uganda Development Bank officials also clearly and honestly assessed their own capacity and readily admitted that their institution was not structured to finance agricultural credit to large numbers of farmers because the time and effort required and the transactions and administrative costs involved in recovering these loans were beyond their capacity. Uganda Development Bank officials noted that they realized the vital importance of the involvement of agricultural extension. Their experience also helped them be more discerning in assessing viable and non-viable crops. The results of these assessments influence their decisions regarding whether or not to finance a particular farmer. All in all, it appears that the Uganda Development Bank's experience (not only with RPE) has enabled them to make use of a broader base of knowledge and insight about the nature of agriculture, and this has had strong and positive implications on their decision-making process.

In sum, the Bank of Uganda and each of the ICIs appears to have learned lessons from their experience with RPE. The most significant lessons appear to be in the area of project appraisal. To varying degrees, the Bank of Uganda and the Uganda Development Bank appear to have more effective, operational subloan appraisal and approval systems in place which take into account credit history, management capability of the borrower, and the technical and financial/economic feasibility of subproject proposals. Tracking, recording, and reporting mechanisms associated with these systems have also been developed to varying degrees. The Uganda Development Bank's pursuit of legal action against approximately 26 RPE borrowers reflects its efforts to develop an effective, operational subloan supervision and collection system.

For Uganda as a whole, medium-term lending capability for agriculture has been improved, but certainly falls short of what it might have been if dedicated, professional TA had been available to the ICIs and the Bank of Uganda throughout the life of the project.

## 2. Macro Effects on Agricultural Productivity

Although the team cannot definitively measure production increases within the various categories of sub-borrowers, the Mission has accepted the team's assumption that the RPE has been of sufficient size and influence to positively impact national milk and crop production. There was a strong initial impact that has not been sustained.

### a. Cattle Yields

Tables 7 and 8 show that a total of 1,474 beef breeds and milk producing livestock were received by farmers under RPE between 1988 and 1992. The majority were milk producing cows.

**Table 7**

**Beef Breeds and Milk Producing Livestock Financed Under RPE**

**1988-1992**

**Beef Breeds**

| Type | Number |
|---|---|
| Boran bulls | 23 |
| Boran Heifers empties | 59 |
| Boran in-calf heifers | 560 |
| **TOTAL** | **642** |

**Table 8**

**Milk Producing Livestock**

| Type | Number |
|---|---|
| Friesian bulls | 16 |
| Friesian in calf heifers | 816 |
| **TOTAL** | **832** |
| **Total Number of Livestock** | **1,474** |

Source: Bank of Uganda, Development Finance Department

The following table shows national levels of milk yields and the cattle population. Data for the cattle population includes both the Boran and Friesian (considered exotic) cows:

**Table 9**

**Estimated National Milk Production and Cattle Population**

| Year | 1989 | 1990 | 1991 | 1992 |
|---|---|---|---|---|
| Cattle Population (Mill) | 4.78 | 4.95 | 5.12 | 5.20 |
| Exotic | 0.14 | 0.15 | 0.15 | 0.16 |
| Crossbred | 0.24 | 0.25 | 0.26 | 0.26 |
| Indigenous | 4.40 | 4.55 | 4.71 | 4.78 |
| Milking Animals (Mill) | | | | |
| Exotic | 0.04 | 0.04 | 0.04 | 0.04 |
| Crossbred | 0.05 | 0.05 | 0.05 | 0.05 |
| Indigenous | 0.44 | 0.46 | 0.47 | 0.48 |
| Milk Production (Mill litres) | | | | |
| Exotic | 129.06 | 133.65 | 138.24 | 140.40 |
| Crossbred | 71.70 | 74.25 | 76.80 | 78.00 |
| Indigenous | 197.89 | 204.93 | 211.97 | 215.28 |
| | 408.74 | 423.28 | 437.81 | 444.65 |

Source: Background to the Budget 1993-1994, Ministry of Finance and Economic Planning, June 1993.

Notes: 1-Cattle population based on Background to Budget
2-Composition of cattle population based on Livestock Census Data from 1987
3-Milk yields based on Agricultural secretariat of Bank of Uganda survey data conducted biannually
4-All figures are estimates

Though the estimates of exotic milking animals remains steady at 0.04 million from 1989 to 1992, the number of exotic animals increases throughout that period and the quantity of milk produced by exotic animals increases steadily from 1989 to 1992. The increase between 1991 and 1992 is smaller than between any other years. This decrease coincides with the finding that the Friesian cows were dying and the increase in milk production would be less significant.

### b. Parent Poultry Stock and Poultry Operations

Fourteen, or 6.2 percent of RPE loans were for poultry farming. The final evaluation team visited 3 poultry farms. Though one farmer was unable to execute his original business plan because he received commercial layers instead of parent stock, the visits revealed that in general, poultry farmers experienced increases in production under RPE and benefitted from the higher selling price of eggs produced by parent stock. Parent stock are still imported to Uganda. However, the finding that some RPE poultry farmers are now in their third or fourth generation of parent stock (beginning with the original parent stock received under RPE) is a positive impact of RPE in the poultry sector.

### c. Maize Production

A total of 112 (49.6%) loans for crops (primarily the production of maize) were approved under RPE. It is the largest category of loans. The table below indicates the number of crop inputs financed by RPE between 1988 and 1992.

**Table 10**

**Crop Inputs Financed by RPE**
**1988-1992**

| Type | Number | Number of Spares |
|---|---|---|
| Disc Plow | 134 | 106 |
| Planters | 130 | 58 |
| Disc Harrow | 121 | 58 |
| Maize Shellers | 99 | |
| Weeder w/Cultivator | 91 | 20 |
| Groundnut Lifters | 14 | |
| **TOTAL** | **589** | |

Source: Bank of Uganda, Development Finance Department

National levels of maize production both in terms of area planted and tons of production increased significantly from 1988 and 1989 as indicated in Table 11. There were decreases in both aspects between 1989 and 1990 but production and area planted began to increase again in 1991. While the contribution of RPE farmers to total maize production is difficult to quantify, the 112 farmers who received crop loans and the 31 mixed crop loans made under RPE probably contributed to national levels of area planted and production during this period.

**Table 11**

**Area Planted and Production of Maize: 1988-1992**

| Year | Area Planted ('000 hectares) | Production ('000 tones) |
|---|---|---|
| 1988 | 345 | 440 |
| 1989 | 430 | 624 |
| 1990 | 401 | 602 |
| 1991 | 420 | 567 |
| 1992 (estimate) | 441 | 706 |

Note: Estimates are of economic production, i.e. after making allowance for post-harvest losses, not of harvested production

Source: Ministry of Agriculture, Animal Industry and Fisheries and Statistics Department, MFEP

### d. Transportation Equipment

The following table shows that a total of 471 transportation vehicles were financed by RPE.

**Table 12**

**Transportation Equipment Financed by RPE: 1988-1992**

| Year | Number | Number of Spares |
|---|---|---|
| Tipping Trailers | 136 | 107 |
| Tractors | 134 | 108 |
| Tata Lorry | 121 | 83 |
| Pick-ups and spares | 71 | |
| Nissan Pick-up | 5 | |
| Tata Pick-ups | 4 | |
| **TOTAL:** | **471** | |

Source: Bank of Uganda, Development Finance Department

National levels of new registration of transportation vehicles are indicated in the following table:

**Table 13**

**New Registration of Vehicles by Type, 1988-92**

Private (includes project vehicles for all
years and diplomatic vehicles for 1992 only)

| Vehicle Type | 1988 | 1989 | 1990 | 1991 |
|---|---|---|---|---|
| Trucks | 498 | 795 | 315 | 306 |
| Pick-ups & 4-wheel drive | 1,418 | 1,617 | 1,443 | 1,434 |
| Tractors & other | 685 | 699 | 535 | 86 |

Source: Planning Unit, Ministry of Works, Transport and Communication

Though the national transportation data covers the entire country and loan recipients were concentrated in Luwero, West Nile, Lira, Masaka and Mbarara, it is apparent that a significant increase in new transportation vehicles occurred between 1988 and 1989. An RPE audit covering the period of January 1, 1988 to June 30, 1991 showed that transportation equipment (lorries, tractors, and other vehicles) had a total value of $8,150,368. Whereas, an audit for the period June 1, 1991 to May 31, 1993 showed that tractors, lorries, plows and trailers had a total value of $489,408. These figures show that there was a significant decline in the number of transportation commodities financed by RPE after 1991 and the largest increase was during the period between 1988 and 1991. The influx of transportation equipment under RPE contributed to the increase in the national level of transportation equipment between 1988 and 1989.

Whether this resulted in changes in agricultural productivity is problematic.

While productivity initially rose, the increases were not sustained for reasons related to poor weather conditions, decreases in the market price for output, farmers' lack of experience with this type of lending, lack of agricultural extension and support, and the loss of productive inputs. Poultry and agribusiness enterprises appeared to have fared much better and did not experience the multitude of problems encountered by dairy and crop farmers.

## 3. Impact on Loan Recipients

The impact of RPE on individual loan recipients was both positive and negative. Of all the parties involved in RPE, loan recipients experienced the most problems. The majority of farmers who received a loan experienced **at least one**, if not a combination, of the following problems to varying degrees:

- delays in project appraisal and loan approval;

- inappropriate sequence in the delivery of commodities which caused major production problems;
- delays in the delivery of commodities after having already expended funds in preparation for their arrival;
- receipt of commodities not ordered but for which they are now in debt;
- receipt of commodities in poor condition;
- insufficient number and inappropriate type of spare parts;
- insufficient working capital to finance everyday needs and maintain equipment;
- inconsistencies in the determination of the grace period being applied to their loan;
- a continually escalating interest rate which, because of compounding, significantly increased the total value of the loan (simple interest was instituted in 1992);
- little or no relationship to a loan officer or agricultural extension agent who could troubleshoot with the banks on their behalf regarding their problems;
- increases in the amount of their indebtedness because of changes in the exchange rate;
- decline in expected income because of differences between input prices and the reduction in producer prices due to changing market demand;
- inability to produce according to an original business plan because the bank did not supply the commodities they ordered; and
- decreases in expected profit due to the loss of productive capital which was not replaced.

Despite these difficulties, when asked if they had received any benefit whatsoever from RPE some farmers answered affirmatively and noted that the impact of RPE was not totally negative. Many of those interviewed stated that prior to RPE they did not have access to a line of credit for intermediate term lending, nor did they have foreign exchange to purchase imported commodities necessary for large scale commercial farming. RPE was implemented in the wake of a period of civil unrest and there was very little credit available for this type of lending. The extent to which the commodities enabled them to increase output by increasing the amount of cultivated land or adding productive inputs is considered a positive impact.

Farmers who were interviewed stated that at least initially, within the first year or so of receiving commodities or animals under RPE, their productivity increased. As a result, their demand for labor increased and women and members of the larger community benefitted because they found employment and also because of the increased availability of milk or other produce. Loan recipients (and their families to some extent) benefitted from the fact that cement was available under RPE, and farmers were able to rebuild homes which had been devastated by the war. They also noted that in general, the infusion of tractors, lorries, and pick-ups improved the transportation system in the rural areas and gave them (and even some non-RPE farmers) access to other markets and trading centers. Hence, at the **macro** level in terms of the initial increases in output, construction for residential and business purposes, and transportation, the impact can be said to have been positive.

Kinom Produce Ltd. Mr. Bruno Matovu, Owner

Mr. Matovu was one of the first group of RPE loan recipients having received his loan in 1988 from UCB. He applied for an RPE loan to rehabilitate his enterprise. He stated that he received a package of commodities he did not request. What he requested was a tractor. He received not only a tractor but a planter, disc plow, disc harrow, weeder, sprayer, lorry and other items which he is unable to use. The disc plow arrived in May and the tractor in October which caused problems.

According to Mr. Matovu the lack of working capital has been a major constraint. In 1989 he had a good crop of maize which is what his farm produces. His demand for labor increased and he employed people from the local population on his farm. He had approximately 60 employees and about 15 of them were women. He paid them 10,000 UShl for harvesting the maize per tractor trailer. Two women could do this in one day and get 10,000 each. The problem he faced at that time was that the selling price of maize was 30 UShl a kilo. When he was planting it was selling for 150 UShl. His income from his maize production was considerably less than expected. By 1990 he had no more working capital and did not have enough money to continue to cultivate maize. That is when his problems began.

The land his farm is on was initially bush. Mr. Matovu readily admits that RPE helped him get started. Yet, because of the lack of income he is presently only using about a third of his land for cultivation. About 350 to 360 acres are idle though a total of 500 acres had originally been cleared. He is presently using about 80 acres.

To acquire income he sold some of his land and received about 3 million shillings. Mr. Matovu has decided to experiment with a variety of crops. He now has about 70 acres of maize cultivated this season and about an acre each of banana and coffee. He also cultivates cassava. He employs 22 people who work on a contract basis for a given period of time. Mr. Matovu eventually hopes to be able to get a maize mill to produce maize flour.

The overall impact of RPE on farmers was far less than it could have been for the following reasons. One was that many of the increases in production and income were not sustained. This was particularly true for dairy farmers who lost most (if not all) of the imported exotic cows purchased under RPE. Farmers who received Friesian cows initially experienced a significant increase in daily milk yields. One farmer whose daily milk yield had been between 100 and 120 litres a day decreased significantly after his cows died. The widespread decrease in milk production because of the deaths of the Friesian cows made the increase in income and employment temporary.

Secondly, for many farmers included in the evaluation site visits, income generated by RPE was not a source of investment for their enterprises because the lack of working capital forced them to use their income to maintain their enterprise or solve their problems associated with production (e.g. pay for a veterinarian). Additional macro level problems such as decreases in the selling price of maize left them with little income to invest in the expansion of their operations.

Thirdly, the impact of RPE on farmers was also negatively affected by changes in selling prices for particular crops. Loan recipients who planted maize during 1986 or 1987 did so with the expectation of receiving a high price. Crop loans were the largest category under RPE (112 our of 226 were crop loans). The increased supply of maize caused output selling prices to fall.

The earlier section which discussed the impact of RPE on the participating ICIs noted that the banking sector was not experienced in the type of lending set up by RPE. The same is true for farmers. Many borrowers were not accustomed to receiving agricultural credit from commercial banks and the large amounts of capital equipment they received was unprecedented. Their lack of experience with this type of lending is the fourth reason why they were unable to effectively manage RPE loans.

A fifth reason why the impact of RPE was less than it could have been was that, prior to RPE, farmers had no access to agricultural research and extension services. RPE did not change this.

Hence, to the extent that farmers did not develop the **capacity** to manage increased output and commercial farming, increase their **knowledge** of how to use capital intensive equipment effectively, and acquire positive **experience** with intermediate term lending from commercial banks, the impact of RPE was lessened. For farmers who already had experience with commercial farming, commercial banks, and managerial know-how, RPE was probably more beneficial. Nevertheless, it was the experience of the average RPE farmer that clearly highlighted the interconnectedness of problems involved in financing agricultural production.

For example, under RPE, a dairy farmer who received 25 Friesian cows was unaware of the amount of water they consume, so he made no provisions for water. He was also unaware of the amount and type of nutrients they needed, so he had also not taken care of this aspect of his production. Thus, when the cows came, he was essentially unprepared to manage them and to provide what was needed. As his cows began to die, he was unable to find solutions. This scenario highlights problems in the **appraisal** of the dairy farmer's application; problems with the lack of **agricultural extension and research**; problems with **management capabilities**; and even problems with **project design** and the **lack of participation**.

## 4. Impact on Women

The precise impact of RPE on women is difficult to ascertain for a number of reasons. The first is that all but a few of the loans (approximately 4 or 5) were given to men. Second, less than seven percent of Ugandan women own land and therefore most did not qualify to receive RPE loans. Women constitute approximately 80 percent of the agricultural labor force. They typically manage their husband's farms and harvest the crops. Because of the lack of agricultural employment data, it is not possible to quantify the extent to which the employment of women increased due to RPE. In addition to harvesting crops and managing the farms, it is primarily women who engage in small and medium-scale trading. What we can say is that given their position in the agricultural economy, increased production of maize, beans, and other crops produced with RPE loans would have affected the demand for their labor and this has implications for increased income.

While difficult to quantify, farmers (except dairy farmers who tended to employ men) who were interviewed stated that increased yields led them to employ more labor to harvest the increase and many of those employed were women. On some occasions where women were not able to receive payment in cash, they were paid in kind either with clothes or school materials for their children.

In general, the midterm evaluation did not address women's issues nor were women a targeted group of the original design. This is a serious omission given the project's emphasis on alleviating rural poverty and increasing income and productivity.

Though it does not appear that RPE, at any time, focused attention on gender issues or attempted to institutionalize gender-related concerns in the project design and implementation, women's issues did receive some attention and funding. A total of 14 women, ten of whom were from the Bank of Uganda and the ICIs attended a two-week course entitled, "Leadership and Management Skills for Women" in April 1993.

Using RPE funds, four women participated in a study tour of credit schemes for women in Kenya in September 1993. Two of the four participants were from the Bank of Uganda; the other two were from the Uganda Women Finance and Credit Trust. The one-week study tour gave them an opportunity to learn how financial services for women were provided in Kenya. They also studied the credit delivery system and numerous projects aimed at providing access to credit and financial services for women. One of the Bank of Uganda participants interviewed stated that she found the study tour extremely helpful and she is now involved in a study of women's access to credit in Uganda's financial and non-financial institutions with the hopes of using the findings to formulate and recommend policies to the Bank of Uganda.

# IV. RECOMMENDATIONS ON CLOSE OUT ISSUES

With the end of the RPE Project approaching, the time to change tactics, add resources, or make modifications in project methodology is past. There are a number of open items and issues to be discussed, and decisions to be made before September 24, 1994.

## A. The Status of the Project's Working Components

The evaluators have been provided with specific questions regarding the status of some of the project's working components and the future actions which the Mission needs to take to resolve these questions before September 24, 1994.

### 1. The Development Finance Fund (DFF)

The DFF is controlled, by virtue of possession, by the Bank of Uganda, but the ownership is unstated. The DFF was funded from two principal sources, a UShl 500,000,000 grant from the GOU, and secondly, by an additional reserve requirement on the deposits of the commercial banks operating in Uganda which was to be calculated on the level of deposits of each bank at the end of each calendar year.

Without benefit of counsel, the evaluators recommend that, in the absence of coverage of the matter in Statutory Instruction 6, the funds be returned to the commercial banks at the termination of the project in proportion to the amounts which each bank, respectively, has contributed to the DFF over the years. Statutory Instruction 6 should be cancelled as there will be no further need for the DFF after the conclusion of the project. The basis for this conclusion is that the commercial bank payments were made more as an additional reserve requirement rather than a tax, and that the contributors have been receiving periodic payments of interest from the DFF. The GOU payments to the DFF were in grant form, as required by USAID's Grant Agreement, and are therefore considered to be without obligation of repayment.

The future repayments of Shilling loans made out of the DFF which are received either through normal repayments by sub-borrowers, or through the eventual purchase of non-performing assets should be deposited into the LCF for future relending.

Discussions regarding the disposal of DFF funds, and the eventual closure of the DFF, should take place between USAID, the Bank of Uganda, and perhaps the GOU prior to the end of the project.

### 2. The Local Currency Fund (LCF)

The LCF is another matter. The intention of the RPE Project was that the LCF be formed to receive loan repayments from the participating ICIs when loan repayments were received from the sub-borrowers. These funds would then be relent to other sub-borrowers for the purposes of continuing development in the agricultural sector.

The fund is owned by the Bank of Uganda, with no obligations of repayment to USAID. However, the Bank of Uganda is bound by the provisions of the Grant Agreement and the purposes of the RPE Project to which it ascribed, to continue to utilize these funds as long as they last for purposes mutually agreed between USAID and the Bank of Uganda, as agent for the GOU.

Therefore, discussions between USAID, the Bank of Uganda, and possibly, the GOU should take place to reach a mutual understanding as to the future use of LCF funds.

### 3. The Non-Performing Assets Recovery Trust (a Bill before Parliament)

Such discussions regarding the LCF are especially important in light of the upcoming parliamentary debate on the formation of the captioned Trust which is to purchase non-performing assets from the Uganda Commercial Bank, and possibly from the Cooperative Bank.

We have been told that the debate in the Parliament will probably not take place during this session. That will postpone decisions on the operation of the fund, the essential details, until well past the expiration of the RPE. However, it may be possible to reach an understanding concerning the return of funds relating to the financing of imported commodities under RPE to the LCF.

The funds from the Trust which are used to purchase non-performing RPE loans from the Uganda Commercial Bank should logically flow to the LCF to cancel the Uganda Commercial Bank's liabilities to the Bank of Uganda. This would boost the balance of the LCF considerably. The expansion of Trust activities to include the Uganda Development Bank could add additional balances to the LCF in the future.

We recommend that USAID remain as well informed about the status of the Non-Performing Asset Recovery Trust Bill as possible, and discuss the matter with the Bank of Uganda, GOU, and perhaps the World Bank before both broad decisions and operating details become finalized.

## B. Other Issues to be Worked Out

### 1. The Issue of Compound versus Simple Interest

Given the extreme complexity of this issue, which includes the Bank of Uganda, the ICIs and the sub-borrowers, the evaluators conclude that a status quo solution is probably the most reasonable and least costly. The parties should accept that "what has been paid has been paid" even if this prejudices those that have made payments on their loans during the era of compound interest.

Our conclusion is based on the following undeniable fact: relatively little, in terms of the sums loaned, has been repaid. Only 15 of 175 loans at the Uganda Commercial Bank have been fully repaid, 6 loans from among 75 at the Uganda Development Bank, and all of the 6 made by the Bank of Baroda.

## 2. Future Loan Collection and Repayment

Notwithstanding the future activities of the to-be-formed Non-Performing Asset Recovery Trust, many RPE loans will remain outstanding on the books of the Uganda Commercial Bank and the Uganda Development Bank.

The evaluators recommend that discussion take place between the Bank of Uganda, the ICIs, the future Administrator of the Non-Performing Asset Recovery Trust, and the Commercial Farmer's Association (USAID is out of the lending business under the RPE) to resolve the situation. Focus should be on a determination of the degree of non-performance which the Trust will recognize, and then consider offering the remaining sub-borrowers either:

a. the collection of principal only, or

b. a date is selected and the amount to be collected is frozen as of that date without the further accrual of interest.

All of the funding for the project, except for the extra commercial bank reserves required under Statutory Instruction 6, were in the form of a U.S. Government grant and a Government of Uganda grant. The only loser, if further loan repayments are not received, is Uganda's ability to continue making agricultural sector, or agri-business sector loans, or other loans determined by discussion between the Bank of Uganda and USAID (see A-2 above), utilizing the balances in the LCF.

Repayment of a portion of the amounts due is better, in terms adding resources for the future operations of the LCF, than no repayment at all.

## V. LESSONS DERIVED FROM THE RPE PROJECT

### A. Lessons Related to Project Management, Design, and Administration

1. In the case of complex projects, particularly those in which institution-building is a key objective, USAID Mission management should be supplemental by another comprehensive and long-term management mechanism, e.g., an institutional contractor.

   In the case of the RPE Project, the lack of an institutional contractor as had been planned forced the Mission to manage the project directly; inhibited the Mission's capability to obtain TA Specialists; and meant that bank staff and farmers did not obtain pre-loan preparation and training.

2. The design of RPE did not address the issue of loan recovery and repayment.

   **All possible recourses lending institutions have at their disposal to increase loan repayment rates should be carefully researched and incorporated into the project during the design phase.** This might mean providing assistance to legal institutions or the legal department of the lending institution. It might involve establishing and accepting new or nontraditional forms of collateral or creating mechanisms that reward repayment and loan recovery. It might mean structuring the disbursement schedule so that the size of the loan and payments are made incrementally. Ultimately, credit is a contract between the borrower and lender. The design should incorporate mechanisms by which this contract can be enforced.

3. The design established a complicated procurement and appraisal process between the Bank of Uganda and ICIs.

   **Agricultural credit projects should be designed in such a way that the process from application to disbursement and ultimately collection is as simple as possible in order to minimize administrative and transactions costs for both the implementing institution and the loan recipient. The more complicated this process becomes, the more bureaucracy that is created to administer it. This places an additional burden on the management capabilities of the implementing institution.**

4. It is questionable to what extent farmers clearly understood the rules associated with RPE loans.

   The rules governing the relationship between loan recipients and the implementing institutions must be clear to all the parties involved **from the beginning of the project.** Continued effort must be made throughout the project to clarify these rules and be sure that all concerned or affected have the same understanding. This means, for example, that borrowers should know how interest on their loans is being calculated. The borrower should be able to easily obtain information on the outstanding principal and interest. Implementing institutions **and** borrowers should have the same understanding of the rules regarding repayment and the consequences of late or nonrepayment.

5. The design of RPE brought together institutions that were not used to working together and it took time to develop a cooperative working relationship.

It should not be assumed that agreement on a common objective by different institutions (e.g., Ministry of Finance, Ministry of Agriculture, and the Central Bank) means that they will be able to work together to achieve that goal throughout the duration of a long project. They may not normally work together and possibly would not choose to work together were it not for donor requirements. Institutional differences in culture and decision-making processes should be taken into consideration during the design and throughout the implementation of the project. Careful attention should be given to the way in which the project creates relations of power and authority that might lead to conflict and reduce effectiveness. Mechanisms must be established that enable institutions to work through their differences. When these mechanisms do not exist, the targeted population is the most negatively impacted by the difficulties between the implementing institutions (and donors).

6. The assumptions about farmers and the banks that were incorporated into the design of RPE were never really evaluated.

Throughout the implementation of a project it is important to carefully check and revise assumptions (usually spelled out in the logframe) made during the design phase about the behavior, incentives, and decision-making processes of those involved in the project. For example, the following assumptions were made about the factors that influence farmers' **ability to repay** (weather conditions will allow them to produce projected yields, they know how to use the inputs efficiently, the yield and the selling price will be high enough for them to make a profit so they can repay the loan, continue to invest in their enterprise, and maintain their standard of living); **incentive to repay** (they are profit maximizers so profit would motivate them to want to use the inputs provided by the project in order to produce more), and **decision to repay** (they will not divert income to other sources). These assumptions worked their way into the project design and implementation.

Following through on this example, the same set of questions could be posed regarding the factors that influence a bank's ability, incentive, and decision to increase its effectiveness in loan administration and its rate of repayment. Given that commercial banks are profit-oriented institutions, the allowable profit margin for their involvement in an agricultural credit project either reduces or increases their incentive to aggressively pursue loan repayment. Commercial banks have a history of being hesitant to lend to farmers because the risks and costs are high while expected profits are low and uncertain. This history and these incentives must be taken into consideration.

7. The lack of TA at the beginning of RPE and the fact that even when TA arrived it was not the most effective TA had a lasting impact on RPE.

The lack of appropriate staff in project management and technical assistance positions (particularly at the beginning of a project) significantly decreases the long run impact of the project.

8. The midterm evaluation could have been a turning point. There is a significant body of experience from all the other credit projects that have been tried which could have been tapped for ideas about how to make a difference.

Donors must make greater effort to learn from the experiences and lessons of previous agricultural credit projects implemented by themselves and other donors as well. The design of new projects should more carefully and analytically utilize the lessons derived from previous evaluations of similar projects. Attention must be given to how to best utilize and follow-up on findings of midterm evaluations, reports, or studies that have relevance to a particular project.

## B. Lessons Based on People-Level Impacts

9. In a study of the end-use of commodities purchased under RPE, researchers revealed that there was a difference between the goals and targets of RPE and the aspirations and desires of the farmers whose own perception of their needs was much more basic.

Participation of the targeted group is a critical element for project success and sustainability. Without their participation (during the design and implementation) a project can not and does not adequately reflect their priorities, needs, and objectives. They should help define the goals and objectives of the project and also help find solutions to the problems that arise during the course of the project. This participatory process contributes significantly to the long-term sustainability and overall success of a project. The less the targeted group participates, the greater is the probability that the project will experience many problems and may completely fail in the process.

10. Social and cultural variables have an impact on project outcome and donors should make an effort to identify and understand them.

An agricultural credit project such as RPE is impacted by, for example: attitudes towards credit and formal financial institutions; perceptions of grant monies as "free" money; agricultural household decision-making processes that determine how income will be used and the priorities among different uses; inexperience with the "culture of borrowing" from formal institutions; perceptions of the benefit to be derived from repaying credit received in the informal sector versus credit received from a commercial bank with grant money; and the "time" in the sense that RPE began after the war and farmers may have perceived RPE as a sort of free assistance from the government.

11. Meaningful capacity building can only occur when the parties involved share the same perspective on the goals to be achieved, the priorities among these goals, and the means by which they will be achieved.

Without mutual agreement on these basic, fundamental aspects of the process that brings parties together, capacity building cannot take place. Individuals whose skills and experience put them in a position to offer suggestions will find themselves with no authority to have them implemented nor will they be able to get the cooperation of the group(s) they seek to assist if this mutual agreement has not first taken place. A critical prerequisite to capacity building is that everyone must participate equally in **defining** the nature of the problem to be solved and the process involved. In other words, the definition of exactly what "capacity" is being developed must be mutually derived.

## C. Lessons Based on the Relationship Between Institutional Capacity Building and the Management of External Lines of Credit

12. Careful attention must be given to the ways in which agricultural credit delivery systems that use commercial banks to administer external sources of funds impact financial intermediation.

Donor financed lines of credit, even when implemented through indigenous institutions, function to some extent outside of the mainstream of banking operations because they create their own separate category of financial administration and bureaucratic management (e.g. PILs and procurement). The greater the separation between the problems affecting the mainstream operations (e.g. efficiency in check clearing, solvency, deposit mobilization, customer service and confidence) and those associated with donor financed operations (e.g. repayment rates, attainment of targets, adherence to guidelines and regulations), the less sustainable is donor impact on financial intermediation. When the project finishes and the donor line of credit leaves the institution, what aspects of its experience with administering the donor line of credit increase, support, or contribute to its mainstream operations and growth. Depending on how the project is designed, and depending upon how it is managed, the goal of increasing the capacity of commercial banks to administer intermediate term credit using donor funds may not necessarily contribute to (and in some cases may decrease) their capacity to effectively function in their primary role which is financial intermediation.

13. Fundamental questions such as:

- How can financial institutions effectively mobilize savings that will be used to finance agricultural growth and productivity?
- How can the linkages between financial intermediation and agricultural development be strengthened?

are not addressed often enough by donor financed agricultural credit projects that channel funds through commercial banks. Donor intervention can actually weaken the already difficult relationship between financial intermediation and agricultural development if it causes commercial banks and other financial institutions to substitute donor support for locally mobilized savings.

## D. Lessons Related to the Use of Donor Lines of Credit to Increase Agricultural Productivity and Income

14. Lack of credit is not the **only** or necessarily the **key** constraint to increasing agricultural productivity and income.

**Credit driven solutions that fail to adequately consider related problems in marketing, infrastructure, extension services, research, the macroeconomic environment, and agricultural policy may exacerbate farmers' problems rather than provide sustainable long-term solutions.**

15. **The problem of rural poverty (or increasing rural income) is not resolved or addressed by credit driven projects *if* the *result* of the project is a one-time increase in liquidity (or inputs) and not the development of a relationship with an institution that can provide the farmer with continued access to finance as needed.**

16. Donor-sponsored agricultural credit projects often include the alleviation of rural poverty as an objective. Given that the kind of credit available under RPE had not existed before, it is possible that farmers relied to some extent on informal financial markets. Consideration must be given to other options for determining the starting point for efforts to increase agricultural productivity. For example, could RPE have incorporated some aspects of a financial system (informal finance) the farmer was already familiar with.

**More research needs to be done to understand the strengths and weaknesses of rural financial markets and the extent to which these markets can be part of the solution to the problem of alleviating rural poverty and increasing agricultural production and income.**

# ANNEX 1

# FIELD VISITS

## ANNEX 1

## FIELD VISITS

The evaluation team split-up on May 23 and 24 and, each together with a principal of Impact Associates, made site visits to the properties of 12 RPE borrowers. The selection of borrowers covered each of the main productive categories: crops, mixed farms, beef, dairy, horticultural, and agro-industrial. Seven borrowers were those previously interviewed by Impact Associates in their April study on the end-use and condition of imported commodities. The remainder were selected from among lists of borrowers provided by the Commercial Farmers' Association and by the Uganda Commercial Bank. The sample of borrowers was also chosen to provide some geographic dispersion, four districts located within a day's travel of Kampala.

**Robert Laport and Chris Kyerere, Impact Associates**

**KI NA Farm, Masaka District, Mr. Nakedde, Owner**

This cropping property is 161 acres of which 80 are being farmed. The owner sold a smaller piece and purchased this land before applying for credit under RPE. The 80 acres producing were all cleared from bush, partially on local currency borrowing from UCB under the DFF. He now has 15 acres in cassava, 8 acres in maize, 4 acres in soya, 3 acres in passion fruit, an acre in apples on a trial basis (working so far, the trees flowered), and an acre in avocado. He also has about 10 acres in banana and 3 acres in sweet potatoes.

Mr. Nakedde obtained approval on his loan in 1989 and purchased a lorry, tractor, disk plow, planter, harrow, and weeder. In addition, he obtained iron sheets and cement for farm buildings. He never received the cement. The tractor is operable, but several of the implements don't work well in the terrain. He needs a bar cutter to attack the bush.

Before last year's drought, he was earning about US$300 per week during the passion fruit harvest, and $100 per week from chiles. The passion fruit was ruined in the drought and is now being replanted. Last year he earned UShl 1.2 million from maize, UShl 700,000 on cassava, UShl 1 million from potatoes.

Prices are highly volatile. Passion fruit earned UShl 100,000 in April and UShl 6,000 in May for roughly the same amount. Maize and cassava prices also show considerable, but not as dramatic, changes. Mr. Nakedde made the statement that sometimes prices realized in Kampala don't cover gasoline costs.

The farm employs 8 permanent workers and as many as 15 casual laborers for clearing and during harvest. In addition, wives are sometimes employed at harvest time.

He has repaid about UShl 3 million against his loan over time. The farm is not quite breaking even due to the drought last year, and Mr. Nakedde does not have additional capital to make the improvements needed. He is a consulting engineer by profession, but claims that he would like to make the transition to full-time farming.

All production can be considered incremental due to RPE. The small farm that he sold was out of production during the civil war.

**Bayita Farms, Masaka District, Mr. Stephan Matova Bayita, Dir.**

This is a poultry operation whose primary income is the sale of eggs, and secondarily, layers, when after about one year of production, layers are sold and replaced by new chicks (due to the decrease in yields after one year).

Bayita is run by three brothers who, with their wives and children, do all the routine work and keep the books. From time to time they employ casual labor for construction or other heavy work. One of the brothers is an accountant. The brothers purchased a Toyota pick-up from their own cash flow.

Equipment imported to build or repair existing, war-damaged chicken pens, concrete and iron sheets, was imported in 1990 under RPE. Seven hundred chicks were imported in the first batch. The flock was increased over time to 3,000. It presently stands at 2,000 as 1,000 layers had recently been sold. Replacements are expected from Zimbabwe within a month.

Production with 2,000 birds is 900 eggs per day (30 trays). Production is accumulated and taken to market every 10 days with 300 trays. They sell through an agent. The truck then returns to the firm after having purchased animal feed. At UShl 2,500 per tray, grossing UShl 750,000 per trip, poultry feed costs about UShl 370,000, so the gross profit each trip is about UShl 380,000.

They have been making payments on the loan at UCB; our respondent did not know the present status of the loan. They would like to expand the business to 10,000 birds. At present, they have pens for 4,000 birds. To expand the business, they need a water supply and a lorry.

The RPE Project can consider this production as totally incremental since, prior to 1989, while the Bayita family owned the land, they were engaged in coffee and bananas on a small scale.

**Busibo Farmers & Traders Ltd, Masaka District, Mr. Busibo, Pres.**

Property is 297 acres of which 180 acres are in bananas. In addition the farm has 15 acres in inter-cropped maize and beans, 1 acre in cassava, 1 acre in sweet potatoes, and 1.5 acres in mulberry trees. As the farm is more than halfway between Masaka and Mbarara, the country is somewhat more open, so clearing is not a problem. The main problem is a lack of water, the nearest well being about 3km. distance.

They produce matoke from banana on the farm and sell to two agents who come to the farm to buy regularly. In addition, they sell banana on the stem.

The entity took out a loan in 1989 for the full crop package, tractor, lorry, implements, et al. About UShl 6 million has been repaid, but Mr. Busibo says that they are further behind than when they started. He believes that producing silk will help the cash flow. He expects to begin soon as the mulberry trees are mature. He has been getting technical assistance from the Kawanda Agricultural Research Institute and can both obtain worms from and sell output to the Institute.

The lorry is mainly used for commercial purposes but says that breakdowns and spares are very expensive (it is being repaired now). The tractor maintenance is also expensive and a problem. He cannot use his sprayer for lack of water.

Mr. Busibo lives in the small town about six kilometers from the farm. Essentially, he is full-time on the farm, and he employs 12 workers full-time. His wife is a director.

He operated as a proprietorship prior to 1989, but states that RPE assistance has been responsible for large increases in output. For instance, he had only planted 1 acre of maize plowing by hand, and produced 8 to 10 bags per season. Now, with a tractor, he plows 15 acres and produces 70 to 100 bags per season (two crop seasons per year). Formerly, he produced 30 stems of banana per month; now he produces 500.

Mr. Busibo is hopeful that his new silk venture will work out. He would also like to exploit his unused land by bringing in cattle. However, he can't consider that until he has his own water supply. The Impact consultant stated that the cost of drilling a borehole is between US$6,000 and $8,000. Mr. Busibo does not have this kind of money to invest. He feels that he is operating at about the break even point without considering loan servicing.

**Nile Roses, Kampala District, Mrs. Sarah Ssenyonjo Serfusa, Dir.**
**Mr. Kamau (Kenyan) Proj. Manager**

We had been given Nile Roses name by UCB and visited since this is the only purely horticultural project in the RPE portfolio. However, because we had not been properly introduced, and were making a "cold call," Mrs. Serfusa was not forthcoming with detailed financial information as there are many would-be competitors nosing around.

The dollar loans which Nile Roses has taken were provided by DFCU which we were told is a project of the East African Development Bank and the IFC. RPE provided local currency from the DFF through UCB. The project was started in 1993 and has been established one year. The principal owner is Jewish, and technology is primarily Israeli and Dutch.

Production is 4,000,000 stems annually starting in September and extending through May. Production is entirely for export, and this first crop is being shipped via Sabena Airlines three times per week to a buyer in Holland. The principal is presently in Europe seeking other markets. Plans are to increase production to 10,000,000 stems annually. Operations close down for three months in the year except for tending the growing roses.

The cut stems are graded and bundled in packs of 20 stems and are then boxed in lots of 500 stems for shipment. The grading and packing process employs about 50 workers, mostly women. Growing takes place in seven dirt-floored, plastic covered sheds, each of which are about 30 x 50 meters in size. The beds are drip-irrigated, and wire frames support the roses and keep the stems straight. We did not enquire as to how many men were employed.

The primary problems related were (a) the interest rate of 14 percent which they are being charged on dollar loans; (b) the recent drop in the US dollar; and (c) freight costs which are up from $135 to $150 per kilo due to recent increases in the landing fees charged Sabena at Entebbe. A fourth problem is the price fluctuation in Holland where prices are high between December and February, but much lower the rest of the time. The highest productive months for Nile roses are April and May.

While RPE didn't finance the dollar component of this project, it participated in the local cost financing. Nile Roses is the first enterprise in Uganda exporting roses, and (see UMA Chapter) there are seven or eight would-be emulators as well as potential projects in the production of other types of flowers.

**Kasanga Mixed Farms, Kikandwa Cty., Dr. Jersey Turyakikayo, Owner**

Dr. Turyakikayo owned his 148 hectare farm prior to the civil war but was forced to leave. He is a retired veterinarian. In 1986 he applied for an RPE loan of UShl 423,200 under DFF for clearing the land which had grown over into partial bush. In November 1987 he began clearing by hand.

In 1988, he applied for refinancing and for new money which was refused by UCB. He tried to develop the farm on his own, but by the time one paddock was cleared, the older paddock would be grown up again. He was finally able to obtain a tractor through the Veterinarians' Association, outside the RPE. He now has 50 hectares cleared as paddock.

In 1991, he applied for a loan for 30 heifers from the funds remaining unutilized under his original loan approval. Due to inflation, UCB told him that he could only buy 4.5 cows. He bought 13 Ugandan-born Frisians on the local market for UShl 4.94 million. Five subsequently died even though he did everything he knew to save them.

In 1992, he made an additional financing proposal for pumps and pipe costing UShl 8 to 10 million. The bank refused this request also. No banker has ever visited the farm, and the Doctor states that none of the bankers with whom he has spoken have any experience in farming.

Present milk production is 110 litres per day, hand milked. The milk is then shipped to Kampala by taxi or bus. Milk is the only commercial production on the farm. He would like to clear about 5 acres on his property bordering a river and plant eucalyptus and install beehives to produce honey.



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The Doctor lives on the farm with his 16 workers (there is no farm house). They have chickens and about 4 acres of banana which provide their food. He has not been able to pay either interest or principal on his loan, so the original UShl 432 thousand loan is now a debt of UShl 10 million. Nevertheless, the Doctor believes that he can break even in about two years and begin to service the loan.

Dr. Turyakikayo could use one of the rotary cutters which many borrowers have, but don't use, since they are unsuitable for clearing bush. The Doctor only needs to control the elephant grass which continually tries to overgrow his paddocks.

While RPE didn't contribute greatly in this instance, being involved in only a small loan from the DFF, it is a valuable lesson in that it shows how bankers ignorant in farming had the upper hand in controlling a person knowledgeable in the field in which he planned to practice. They didn't provide sufficient resources in a timely fashion, and the client never got ahead in the game. Inflation, of course, helped create the unfortunate circumstances which persist today.

**Tatenda Animal Feeds, Kampala, Mrs. Ann Mugerwa, Director**

Professor Mugerwa, Dean of the Department of Agriculture at the University, and his wife run this business. Mrs. Mugerwa is the primary operating executive. They applied for a loan through UDB under the RPE in 1987 and finally received their mill in 1990 when they were able to start business.

Professor Mugerwa developed a formula for poultry feed which includes oyster shell, maize, maize bran, fish meal soya beans, cotton-seed or sunflower-seed cake, vitamin supplements, and salt as inputs, and which according to his wife, has gained a good reputation among poultry farmers and is in demand.

They make 1 to 2 tons (14 to 28 bags) of feed per day, a fraction of the capacity of the mill. In 1993 they sold 300 tons. They presently employ four people and sell through two distributors. Why are operations at this low level if the product is in demand? Transportation difficulties.

The Mugerwas originally asked for a lorry in their imported component package, but this was turned-down by UDB. They were given a one-ton pickup truck. Neither the loan officer, nor the loan committee, could see that one ton of input equals one ton of output (since all the mill does is mix component inputs), so that the sale of one ton of feed requires two tons of transport, one ton in and one ton out. Production of two tons per day requires four trips by a one ton pickup, two trips for inputs and two trips to distribute the product output. The Mugerwas have asked repeatedly for a lorry and have always been turned down.

In 1983 a firm named Ugachick entered the market and has gained a sizable piece of market share because Tatenda could not supply the market. Mrs. Mugerwa states that the Uganda Feed Corporation, a parastatal just down the street, is not very competitive due to problems of quality. Given the number of lorries foisted on farmers who would only have need for a lorry a small percentage of the time, one finds it difficult to understand the refusal of the bank to provide finance to a company that could easily occupy two or three lorries for its own needs on a full-time basis.

According to Mrs. Mugerwa, they originally borrowed UShl 12 million and have repaid UShl 18 million in interest, but still owe UShl 20 million. In this context, Mrs. Mugerwa went on to say that in 1992 or 93, the professor went to the bank and offered to sell some land to prepay the loan; he was discouraged from doing so. The UDB apparently either didn't want prepayment or threatened to apply high prepayment penalties which discouraged the Professor from going through with the land sale.

**Patricia Walker and Andrew Turiho, IMPACT Associates**

**Kangave Progressive Farm, Luwero District**
**Mr. Ndugga Musazi, Manager**

Kangave is a dairy farm. Mr. Musazi has been a dairy farmer since 1970 and took an RPE loan from UCB to rehabilitate his farm which is about 2.5 square miles. He requested 25 Frisian in-calf heifers under RPE but received 18. From the original 18 only one is still alive; the other 17 have died. Mr. Musazi noted that he had to use his own funds to pay a veterinarian to try to cure the cows when they began to fall ill. He presently has 6 heads of cattle-one exotic, one local, and four crossbreeds.

According to Mr. Musazi, he was the only milk producer in the area. Everything was going rather well during the first year of his loan when he received the cows. He used to sell the morning milk at 300 UShl to the local population and the afternoon milk at the same price in Kampala. For about one year he employed as many as 50 workers at his farm and paid them 4000 UShl per day. Roughly five employees were women. One Frisian yielded about 30 litres a day, whereas the other breeds yielded between 15 and 20 litres a day. He produced approximately 100 to 120 litres of milk a day. This amount included his own local stock as well as the Frisian and crossbreeds. But in general, he was employing people, supplying milk to the local community, increasing his own income, and repaying his loan. (He has paid between five- and seven-million shillings). The second year, the cows began to die, and milk yields decreased significantly.

Mr. Musazi plans to get out of dairy farming and wants to experiment cultivating maize and soy beans. He has about 60 to 70 acres cleared for cultivation.

Mr. Musazi received a disc harrow which he did not request and he did not receive the sprayer requested. He also received only a portion of the total amount of cement and iron sheets originally requested. He received a water pump but was unable to build a water system as planned because he lacked the working capital needed to get it going. He received one million UShl for working capital. He has not used the planter, disc harrow or GI pipes.



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**Katikamu Dairy Farmers Cooperative Society**
**Mr. Wilson Musaazi, Secretary/Manager and Mr. Kaggwa Kibuuka, Member**

Katikamu is a dairy cooperative. The cooperative had initially sought to apply for a RPE loan from UCB as a cooperative but were told they had to apply as individuals. A total of 18 member received RPE loans in 1988 but most of the Boran and Frisian cows they requested came in 1992. Each individual requested their own commodity package. One individual received as many as 11 cows and the least received by any individual was 3. Many did not get what they wanted, and Mr. Musaazi stated that the allocation depended on the bank's assessment of the individual's application. Most of them have died, though not all. Six farmers lost all of their cows. Many of the commodities individual members received are no good to them without the cows so the equipment is sitting idle.

Before the cows died, milk yields were about 200 to 280 litres a day, and they were sold at 250 to 260 UShl per litre. One benefit Mr. Musaazi noted was that the supply of milk in their own homes and within the community increased. In addition, the increased income earned from the supply was used to pay school fees and buy clothing for children. Employment also increased as they hired labor to maintain fences, look after the cows, and do the milking. Women are members of the cooperative though none of them received a loan because they did not have title to land which was required. In general, women were not employed. Now, milk yields are roughly 35 to 60 litres and they sell it at 300 shillings, so supply has decreased significantly, although the price has increased. Mr. Musaazi stated that the cooperative is now operating at a loss. The cooperative sells the milk at 300 UShl per litre and the individual member receives 280 UShl, so the cooperative retains 20 shillings as profit. Each member brings the milk collected to the cooperative and receives a lump sum of money at the end of the month. The cooperative has been in existence since 1966 and requested the RPE loan to rehabilitate their enterprise.

Mr. Musaazi noted that some of the animals they received were bulls, not heifers, and some of the Boran which were supposed to be in-calf were empty. There were problems from the very beginning. The first group of cows came at the dry season and could not handle the weather. The cows were old and were unable to adapt. Drinking water for the animals was also a problem. The loans to cooperative members total about 76 million UShl (principal only) and they have repaid about 5 million.

**Allied Farm Ltd., Kampala, Mr. Karya Rugookwe, Managing Director**

The visit with the managing director was necessarily brief because of a prior engagement on his part. Allied Farms is a poultry farm. Allied received 5 million UShl for working capital and a loan of 38 million. Mr. Rugookwe stated that he has paid 21 million but still owes 110 million in interest. He received an RPE loan because he had experienced problems getting day-old commercial chicks, so he wanted parent stock to generate his own supply of commercial chicks. He noted that the parent stock chickens he received under RPE were of good quality. He now employs 12 people (which is about a 50 % increase over his previous RPE level), sells eggs, and raises parent stock. Mr. Rugookwe readily admitted that the benefit of RPE is that he achieved his goal which was to produce day-old chicks. But the escalating interest rate and inconsistencies and problems in the repayment period have caused difficulty.

**Nehemiah Products, Kampala, Mr. Charles Male, Manager**

Mr. Male has been in poultry farming since 1975. He requested an RPE loan to expand his poultry operations. At that time he had commercial layers. He wanted to use the RPE loan to get parent stock of layers and broilers. His request was denied, and instead he was given day-old commercial layer chicks. This caused numerous problems. One problem is that the chicks came in batches instead of coming all at one time. He had also requested material for a hatchery but did not receive it. The bank from which he received his loan, UCB, told him that because his property was residential, they could not approve a hatchery. A tray of 30 eggs from a commercial layer sells for about 2500 UShl, whereas a tray of 30 eggs from parent stock sells for about 6000 UShl. Hence, Mr. Male's profit is much lower than he had expected. In addition, he noted that the cost of feeding and maintaining the chickens is the same regardless of the type, so his operating costs have remained the same but his profits have not increased. He employs 6 people.

Mr. Male received a pick up which he still uses to work on the farm, and the cement was used to build 3 buildings to house the chickens.

Before RPE he had 500 commercial layers, and he produced 10 trays of eggs per day. Now he has about 3000 (about 2450 of which are commercial layers and 600 or so are parent stock) chickens in total and produces a little more than 50 trays of commercial layer chicken eggs a day. Though his production is greater, he is not making the profit he expected because the trays sell at a lower price than a tray of eggs from parent stock. He is on about the third generation of commercial layers but he plans to phase-out the commercial layers and work only with parent stock. Mr. Male used his own funds to buy parent stock and now has about 600 of them (200 of which are cocks). He estimates that in August he will get the eggs of the parent stock and they will probably yield about 13 trays a day. The larger community benefits from his farm in that they use the litter for fertilizer. He did not feel he had benefitted much from RPE because he did not get what he wanted.

**Maggwa Dairy Farm, a subsidiary of Kalega Enterprises, Kampala**
**Mr. Eriya Musoni, Assistant Manager**

Maggwa farm is actually owned by one of the ministers in the Ugandan government. The 60-acre farm is relatively new and has been around since about 1988. There are 10 employees. The assistant manager had only been working there for one year so he was not sure of the total number of Frisian cows and other inputs the farm had received under RPE, but he did know that all of them had died except for five. There are now a total of 30 cows on the farm. The remaining 5 are aged and he stated that he felt they would soon die though they still produce milk. The farm produces about 70 litres of milk per day and sells the milk in Kampala at 300 shillings a liter.



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The cement received under RPE has been used to construct three buildings, one of which is a staff house. The pick-up and water pump are in good condition and are being used.

**Kinoni Produce Ltd., Mr. Bruno Matovu, Owner**

Mr. Matovu was one of the first group of RPE loan recipients having received his loan in 1988 from UCB. He applied for an RPE loan to rehabilitate his enterprise. He stated that he received a package of commodities he did not request. What he requested was a tractor. He received not only a tractor but a planter, disc plow, disc harrow, weeder, sprayer, lorry and other items which he is unable to use. The disc plow arrived in May and the tractor in October which caused problems.

According to Mr. Matovu the lack of working capital has been a major constraint. In 1989 he had a good crop of maize which is what his farm produces. His demand for labor increased and he employed people from the local population on his farm. He had approximately 60 employees about 15 of whom were women. He paid them 10,000 UShl for harvesting the maize per tractor trailer. Two women could do this in one day and get 10,000 each. The problem he faced at that time was that the selling price of maize was 30 UShl a kilo. When he was planting it was selling for 150 UShl. His income from his maize production was considerably less than expected. By 1990 he had no more working capital and did not have enough money to continue to cultivate maize. That is when his problems began.

The land his farm is on was initially bush. Mr. Matovu readily admits that RPE helped him get started. Because of the lack of income, he is only using about a third of his land for cultivation. About 350 to 360 acres are idle though a total of 500 acres had originally been cleared. He is presently using about 80 acres.

He sold some of his land and received about 3 million shillings. Mr. Matovu has decided to experiment with a variety of crops. He now has about 70 acres of maize cultivated this season and about an acre each of banana and coffee. He also cultivates cassava. He employs 22 people who work on a contract basis for a given period of time. Mr. Matovu eventually hopes to be able to get a maize mill to produce maize flour.

**Summary**

Our visits have highlighted most of the good and the bad in the execution of the RPE Project over the years. The visits included both de novo operations, operations which have been rehabilitated, and operations which existed previously, but where the owners have taken advantage of RPE to change their venue and/or the focus of their productive enterprise.

The farms and other enterprises have experienced increases in production of their respective crops or products without exception. Farm employment has increased in almost every instance.

However, none of the early sub-borrowers have been able to repay their loans and are, at least financially, worse-off than they were before they became involved with RPE. Possibly only Nile



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Roses, which started operations last year after some semblance of macro-economic stability in the economy began to be felt, will be in a position to handle its debt burden.

Problems with procurement are virtually unanimous. Farmers failed to receive equipment needed, or were turned down at the ICIs at the time of the initial loan application. Others received, and assumed debts to pay for, equipment that they didn't need or couldn't use as they did not have the proper infrastructure.

The 12 farms visited during the course of this final evaluation represent a sample of 5 percent of the universe of RPE sub-borrowers. The sample was not random given the time and transportation constraints of the evaluators. We also wanted to make use of the Impact Associates principals who had done the imported commodity end-use survey as they could increase our efficiency considerably and overcome the language barrier which turned out to be essential in the majority of the cases.



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## ANNEX 2

## LONG-TERM AND SHORT-TERM TECHNICAL ASSISTANCE PROVIDED UNDER THE RPE PROJECT

## ANNEX 2

## LONG-TERM AND SHORT-TERM TECHNICAL ASSISTANCE PROVIDED UNDER THE RPE PROJECT

### Long-Term Technical Assistance

The original Project Paper called for 17 person-years of long-term TA, but this was reduced to 7 person-years. The approximately seven person-years have been supplied through the personal services mechanism by the following advisors:

| | | | |
|---|---|---|---|
| Credit Specialist | David Edding | 6/27/86-10/30/91 | 5.3 years |
| Supv & Collection | Dr. P.R. Behl | 7/25/89- 3/31/91 | 1.6 years |

Mr. Edding was originally assigned to the UDB where he assisted in the consolidation of the Livestock and Crop Departments in the Agriculture Department, a condition precedent under the Grant Agreement. Thereafter, he was assigned to the Development Finance Department in the BOU. He provided important assistance in helping to set up loan appraisal mechanisms for BOU and assisted in the accounting system development. However, as has since been learned, Mr. Edding was not a "credit specialist." He had never been trained as a banker. For this reason, the BOU people were very kind, but silent, in response to questions regarding Mr. Edding, and the only positive comments were, "When you had a question about computers, ask Mr. Edding." He had not won their confidence on matters of making or collecting loans.

Dr. Behl spent his 20-month TA in the Development Finance Department of the BOU where he prepared manuals on loan supervision and collection. He also participated in a number of workshops and seminars which were considered very successful by his supervisor. However, Dr. Behl was of Asian origin which, according to several sources, inhibited his ability to be of real assistance to the Project.

TA considered to be important as reflected by a number of PILs was not forthcoming:

- the need for a procurement specialist (PIL 12 of 10/86);
- the same again (PIL 25 of 7/87);
- PIL 27 of 7/87 mentions need for agricultural credit TA in each of the publicly-owned ICIs (two additional specialists);
- the need for a long-term credit advisor for UCB and an agricultural credit field specialist to work with UCB branches and customers (PIL 29 of 8/87).

This is not the complete list, but it highlights the Mission's efforts to deal with problems of various types which surfaced as the RPE Project gained momentum between late 1986 and throughout 1987. With the exception of the 20-month contract for Dr. Behl, none of the additional expertise considered desirable in the PILs was obtained. We find little evidence that vigorous attempts to obtain additional long-term TA were made; we also find little evidence of complaint by the ICIs except on procurement issues.

The Project Paper does not mention the reason for the reduction of TA time, nor the reason for doing away with the institutional coordination which is a component in the original design. One can only speculate, in hindsight, that the urgency to mobilize RPE upon the re-opening of the Mission in the Spring of 1986 following the civil war did not give sufficient time to carry-out the protracted procedures required by contracting regulations.

**Short-Term Technical Assistance**

In 1986, Deloitte-Touche was contracted to provide assistance to the Bank of Uganda to review their data processing and accounting system, and to adapt it for project use. Deloitte then trained the appropriate BOU personnel in its use. The cost of this TA was $62,058.

Deloitte-Touche assistance to the Nile Bank was contracted in 1991 to review the NCR computer system in the bank. While current accounts had been on-line since the inception of the bank, and internal general ledger accounts were being produced, the Deloitte-Touche team found that the system was considerably under-utilized, and numerous applications valuable to bank management could be obtained if the system were properly more fully utilized. The team did some re-programming, and left with a number of recommendations which have since been partially implemented.

In 1993, TechnoServe subcontracted some credit training at Nile Bank and invited Management Advisory Services, Seattle, to teach a series of courses. While USAID was not directly involved, MAS's payment was indirectly made by the RPE Project.

David Edding was given two consecutive 45-day short-term contracts to extend his stay after the expiration of his PSC with the BOU.



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# ANNEX 3

# INTERIM AND FINAL FINANCIAL AND OPERATIONAL AUDITS

ANNEX 3

## INTERIM AND FINAL FINANCIAL AND OPERATIONAL AUDITS

Price Waterhouse, Nairobi, was contracted to do two interim and one final audit of Project accounts. The first was performed in January 1989 and covered accounts from the inception of the project through March 31, 1988.

As of 3/31/88, the use of RPE funds from inception had been:

| | |
|---|---|
| Credit usage of Imported Commodity Credit Line | $ 147,860 |
| Technical Assistance | 273,299 |
| Short-term Consultants | 49,687 |
| Travel and Transportation | 5,523 |
| Training | 75,938 |
| Equipment, Material, & Supplies (Project Support) | 290,003 |
| **Total Expenditure** | **$ 842,310** |

The audit comments that progress has been made toward the primary objectives of the project, stimulation of the agricultural sector and the improvement of the ICI's capability in agricultural lending. However, the audit goes on to state that procurement is a problem. Commodities are not received on a timely basis. It recommends that sub-borrowers procure their own commodities with assistance from BOU where practicable.

It states that the RPE technical advisor is not effectively utilized, and recommends that he be reassigned to BOU.

Sub-borrowers are deficient in the maintenance of accounting records and recommends that BOU develop a mechanism to provide TA in this respect to the sub-borrowers. The ICIs and BOU accounting system is also deficient; the audit recommends that USAID require BOU to establish an accounting system for the Project immediately.

The audit identified one problem that was to plague the project throughout. The late delivery of imported commodities, and the fact that individual orders were received piecemeal, resulted in (a) cost overruns as the Shilling loan counterpart is calculated at the time goods clear customs, and devaluation resulted in larger than projected loans, and (b) installments on loans beginning to become due before the project began production. Lastly, goods received on a W/O were not distributed to the proper sub-borrowers.

The first audit noted that conflicts on loan repayment existed and that capitalization of interest was being handled differently by the ICIs. Whereas the BOU loan agreement called for capitalization of interest during the one-year grace period (as established by USAID), UDB did not as is their practice. The loan agreement called for semi-annual installments of principal and interest, but UCB tried to collect monthly repayments and UDB quarterly repayments. Since local procurement occurs before the receipt of imported commodities, there was general misunderstanding on when loan repayments should start.

Other problems noted were a lack of site visits to sub-borrowers, improper loan documentation by UCB, and the misuse of project vehicles and other equipment by UCB.

**2nd Audit March 1992**

A number of the same criticisms were raised in the second audit. Key is the apparent inability of the Development Finance Department in the BOU to extract discipline and standardization of procedures among the participating ICIs. Payments to the BOU are delinquent, and record keeping in the ICIs is inaccurate and incomplete, particularly with respect to the location and usage of project support commodities.

A spot-check of the end-use of imported commodities revealed:

- Some are operative and productive -- others were in disrepair.
- There was the unauthorized sale of imported commodities in three instances.
- Some sub-borrowers were unlikely to repay loans.

Between January 1, 1988 and June 30, 1991, commodities totalling $11,574,683 had been accepted for financing under the RPE Project. Major categories of imports ordered were:

| | | |
|---|---|---|
| Tractors and Implements | $4,144,121 | 36 percent |
| Lorries | 3,098,329 | 27 " |
| Other Vehicles | 907,918 | 8 " |
| Beef Animals | 885,573 | 8 " |
| Building Materials | 852,306 | 7 " |
| Dairy Animals | 782,740 | 7 " |
| Other Farm Equipment | 290,139 | 3 " |
| Feed and Oil Mill | 172,937 | 1 " |
| Poultry Equipment and Chicks | 115,124 | 1 " |

While the terms of reference of the audit did not call for an audit of the Local Currency Fund (LCF) nor the Development Financing Fund (DFF), the balances outstanding as shown on the books of the BOU were, on October 2, 1991:



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**Local Currency Fund (in '000 UShl)**

| | Principal | Interest | Total |
|---|---|---|---|
| Bank of Baroda | 99,911 | 16,317 | 116,229 |
| UCB | 2,325,110 | 316,034 | 2,641,144 |
| UDB | 1,070,180 | 114,274 | 1,184,454 |
| Total | 3,495,201 | 446,625 | 3,941,827 |

Bank of Uganda reported arrears of over 60 days at UShl 514,288

**Development Financing Fund (in '000 UShl)**

| | Principal | Interest | Total |
|---|---|---|---|
| UCB | 558,014 | 9,815 | 567,829 |
| UDB | 146,759 | 6,838 | 153,597 |
| Baroda | -0- | -0- | -0- |
| Total | 704,773 | 16,653 | 721,426 |

Arrears for 60 days or more on BOU's Books UShl 3,478,371

**3rd and Final Audit April 1994**

The final audit included reviews of the Imported Commodities Credit Line (ICCL), the LCF, and the DFF, all as of May 31, 1993. Audits of the activity in the LCF and DFF were from inception on May 14, 1986.

Imported commodities under ICCL between July 1, 1991 and May 31, 1993 totalled $715,951. This brought the total of imported commodities financed by RPE to $12,438,494 from inception to May 31, 1993.

The Local Currency Fund's (LCF) Accountability Statement prepared by PW covering the period 3/14/86 to 5/31/93 reflects total revenues $3,781,036, total disbursements $2,725,946, and a balance of $1,055,090. Revenues are principal and interest loan repayments for commodity imports, and redemption of and interest on treasury bill investments. Disbursements are new local currency loans, the purchase of treasury bills, local currency expenses to support the project, and inter-fund transfers. A small amount of LCF expenditure, maintenance on RPE assets $1,089, was considered ineligible.

The Development Financing Fund (DFF) Accountability Statement covering the same period (3/14/86 to 5/31/93) showed revenues of $12,874,268, disbursements of $12,052,992, and a balance of $821,276. Revenues were contributions from GOU, the 5 percent additional reserve on deposits with commercial banks, as calculated annually at the end of the calendar year, the redemption and interest earned on treasury bills, and repayments made on the local currency portion of RPE loans. Disbursements were the local currency component of RPE loans ($2,476,090), interest paid on the commercial bank reserves, the purchase of treasury bills, and inter-fund transfers. Ineligible costs totalled $2,846,926 of which $2,605,555 represented the payment of interest on reserves which had not been covered in the operational procedures for the DFF. Disbursements unsupported by proper documentation and approvals totalled $478,015. As of May 31, 1993, contributions to the DFF by Ugandan commercial banks were delinquent in the amount of UShl 5.4 billion.

In July 1992, an account was opened locally with Grindleys Bank to effect the purchase of a few additional commodities. The account was funded from the LCF. This account had deposits of $183,170 (of which $182,744 came from the LCF), and disbursements through 5/31/93 were $165,097 (of which $165,074 were for commodities). The balance in the account on 5/31/93 was $18,073.

The audit closes with a number of observations on the internal operations and control structure, most of which had been made in the previous audits but had not been fully implemented. A primary criticism was the absence of an RPE Operations Manual. The findings show that an RPE manual called for in the original PP was never prepared, and the early TA provided BOU by Deloitte Touche in setting-up accounting procedures may only have been partially effective. PW's final audit strikes mainly at the lack of a commodity import tracking system; the creation of such a system mentioned in the second audit was underway, but had not been completed and put into service.

The fact that the accounting system is in discrete Lotus files and not linked to the BOU's general ledger accounting system was once again raised in the final audit. This remains the case as of this Final Project Evaluation.

The audit makes one final and probably unworkable recommendation, that the amounts owing to the DFF from the country's commercial banks be vigorously pursued. With the end of the RPE Project in sight, the actual ownership of RPE funds is in doubt. While the GOU made a direct contribution the DFF under the terms of the Grant Agreement, the commercial banks were obliged to make payment to the DFF in the form of an additional reserve requirement on deposits.

**Commodity End-Use Survey**

In 1994, IMPACT Associates, a local consulting firm, was contracted to perform an end-use survey of the commodities imported under the program. The survey covered 50 entities from among the universe of sub-borrowers.

Many of the findings of the survey are included in the section on Project Impacts in the body of this evaluation.



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# ANNEX 4

# ISSUES RAISED IN THE MID-TERM EVALUATION OF JUNE 1988

## ANNEX 4

## ISSUES RAISED IN THE MID-TERM EVALUATION OF JUNE 1988

At the time of the mid-term evaluation, 82 loans had been presented and recommended by the ICIs to the BOU and 70 approved. Approval for 12 recently submitted loans was pending at BOU. A substantial number of additional applications, about 200, had been received by the ICIs, and were being analyzed.

A breakdown of the 82 loans by sector follows:

| | Number | US$ Amount | Av. US$ Amt. |
|---|---|---|---|
| Crop | 35 | $2,170,103 | $62,000 |
| Dairy | 18 | 1,317,428 | 73,000 |
| Mixed Farming | 16 | 1,278,697 | 80,000 |
| Poultry | 7 | 423,883 | 60,500 |
| Beef | 4 | 233,017 | 58,000 |
| Hatchery | 1 | 93,215 | 93,215 |
| Agro Industry | 1 | 6,000 | 6,000 |
| Total | 82 | $5,522,343 | $67,345 |

Source: Mid-Term Evaluation

The dollar loan figures shown in the mid-term evaluation include a Ugandan Shilling financing portion of the loans from the DFF to cover local costs which averaged 26 percent of the total when calculated at the official FX rate of 60 UShls/dollar and 3.5 percent when calculated at the parallel rate of 400 UShls/dollar.

In terms of geographic breakdown, 76 of 82 loans were in the Central and Western regions as the Eastern zone had only recently been secured, and the Northern was not then totally secure.

The evaluation comments that the mix of loans did not follow, at this point, the mix of activities foreseen in the PPS. Agro-industry had only one approved loan, a distillery, and there were no agri-business loan applications (for marketing of inputs or the elaboration and marketing of outputs). Agro-industrial projects would normally exceed the $200,000 limit above which USAID approval would be required. The mission was concerned about the "windfall profit" possibilities accruing to a single borrower, so agro-industrial projects were, in effect, discouraged.

The breakdown of the project status to which loans were applied, the expansion of going concerns (45 percent of the dollar amount), the rehabilitation of war-damaged enterprises (47 percent), and new enterprises (8 percent) was deemed to be in accordance with project guidelines.

The evaluation questioned the amount of machinery (tractors especially) being purchased for crop and mixed farming as the acreage projected to be cropped was a multiple, over 10 times, the acreage formerly cultivated by the applicants. The evaluator predicted under-use, use for other purposes, or sale to generate "windfall profits."

The evaluator also questioned estimates for milk production, stating that it may take some years for projected levels to be reached.

Major criticism of loan appraisals, which improved markedly after TA became available to the ICIs, center on (a) a lack of credit experience of the borrower, (b) experience with project activities not clearly elucidated, (c) no phasing of implementation schedules which all occur within one year, and (d) overly automated production parameters which produce overly optimistic results, replacing judgement. Crop production estimates obtained from agricultural research centers, where crops were grown by experts under ideal conditions, were used to forecast yields to be achieved by the sub-borrowers. Price estimates were based on the Kampala market but didn't take into account the cost of getting the produce to market. Nor did the loan appraisals take into account the downward movement of prices as economic conditions improved and the supply of produce increased.

A comment, not qualified as of great importance at the time, was that of the 82 loans studied, only 24 (29 percent) were approved for farmers. The remainder went to government officials, commercial people, professors, bankers, and military officers. The evaluator recommended that prioritizing the handling of loan applications take place on the assumption that influence was exercised in the first 82 cases.

The African-American Purchasing Center (AAPC) was selected from among 90 bidders to act as procurement agent, and a contract entered into with BOU on February 6, 1987. At the time of the mid-term evaluation, five work orders for commodities purchased by sub-borrowers had been issued to AAPC.

| W/O Number | Date | Amount |
|---|---|---|
| 1 | 8/21/87 | $1,750,000 |
| 3 | 8/26/87 | 3,752,760 |
| 4 | 12/24/87 | 61,000 |
| 5 | 5/12/88 | 651,000 |
| 6 | 5/12/88 | 575,000 |
| **Total** | | **$4,753,760** |

Note: W/O#2 was for institutional purchases for the project

Problems with the purchasing arrangements were multitudinous. For example, W/O #1 covered 308 items. As of the evaluation, ten months later, only eight items against this W/O had been received. According to the evaluation, BOU was not forceful in follow-up with AAPC and did not communicate to demand information on shipping dates, arrival dates, ~~or~~ prices. AAPC did not live up to its obligations under the contract, nor did BOU do its job as Implementing Agent for the Project in this respect. The evaluator recommended that a full-time procurement specialist be assigned to the BOU.

Most serious of the problems caused by delays in procurement was the missing of one, and perhaps two, crop cycles. Furthermore, many sub-borrowers took local currency loans to prepare and clear land to receive assets imported under the project and were then subject to interest payments, and principal payments once the grace period expired, before the assets arrived and could produce earnings. The evaluator predicted problems in loan collection as a result, and indeed, this has come to pass.

The evaluator listed several alternatives for easing procurement problems.

Among the many recommendations made in the mid-term evaluation, the key ones which most affected performance, in the opinion of the final evaluators, are:

- elimination of the rural poor benefit impacts as being inconsistent with a medium-term credit program for medium to large agricultural enterprises.
- improve the RPE management capability of the ICIs and BOU.
- streamline the application processing process in the ICIs (several recommendations).
- USAID should provide a full-time field technical advisor for the implementation phase.
- on-site visit, including evaluation of managers, should be undertaken for every RPE client.
- the separate alternatives for improving the procurement process should be studied, and one adopted.

The mid-term evaluation did not address the possible impact of cuts in the TA budget (in terms of person-years) which had been made on project operations. Nor did it address the elimination of an institutional contractor to coordinate the project as specified in the original PP. The evaluator also softened his feeling on a sub-borrowers "windfall" by correctly stating that borrowers paid prevailing interest rates for agricultural development loans, and that others could purchase imported tractors at the official FX rate, without import duties, under other GOU programs.

# ANNEX 5

# SIGNIFICANT PROJECT IMPLEMENTATION LETTERS

## ANNEX 5

## SIGNIFICANT PROJECT IMPLEMENTATION LETTERS

### Significant Project Implementation Letters (PILS)

On May 22, 1986, (PIL 6) accepted existing UCB and UDB lending manuals as satisfying the condition precedent requiring a Project specific "Operations Manual." This was to have been prepared by a TA advisor (none were yet in place), or according to the original PP, by the institutional TA coordinator. The Operations Manual would have covered accounts to be kept for the project and reporting, in addition to standardized loan analysis criteria for use by the participating ICIs and the BOU. The effort to standardize lending criteria is a subject repeated many times in subsequent PILs throughout the active life of the lending side of the Project, and problems in this regard may have been ameliorated somewhat had standardized criteria and methodology been established at the outset.

On October 14, 1986, PIL 12 sets forth basic procurement methodology in advance of the selection of a purchasing agent and TA in the form of a PSC contractor who had only recently arrived in Kampala to assist the ICIs and their customers on procurement and credit issues. The very complex procurement area has been a problem throughout. This early explanation of procurement guideline requirements is indicative of the pressure of demand for imported agricultural capital inputs.

The additional TA promised in PIL 15 of January 14, 1987, which would have provided a PSC contractor in UCB and UDB within four to six months, in addition to the contractor transferred from UDB to the BOU, was never forthcoming. The participating ICIs never received resident, long-term TA. One additional long-term credit supervision specialist was contracted in 1989 for a 20-month term. That individual was also assigned to the BOU.

TA was also the subject of PIL 27 of July 7, 1987, which lamented the lack of usage of USAID funds under the Grant. Slow loan appraisal at UCB received mention, and the provision of two long-term agricultural credit specialists for UCB (further elaborated in PIL 29) was suggested, one of whom would concentrate his or her efforts in working with UCB credit officers and their clients in the field. We find no evidence that UCB was provided with these TA resources. The expected outcome of this assistance was the reduction of loan application processing to four-to-six months.

While the timely processing of loan applications by the ICIs represented a problem, the Mission, concerned that sub-borrowers might be unable to repay loans if the official FX rate were unified with the parallel rate, instituted through PIL 20 the requirement for demonstration of an economic rate of return in the loan application. As the Mission received no response from the ICIs, the subject was revisited in PIL 30 on September 8, 1987. An "economic rate of return" was subsequently clarified and defined by PIL 33 in November. It required measuring the expected income stream against costs for imported equipment calculated at the Parallel FX rate (a multiple of the official rate) as well as the "financial rate of return" which used the official FX rate. These two IRR calculations were required for all subsequent project loan applications.

By March 9, 1989, when PIL 50 was issued, loan approvals and credit applications in the pipeline exceeded the credit component of the Project, then $15.5 million. The Mission advised the ICIs and BOU to continue approving loans up to a total of $23 million in the anticipation that additional project funds would become available.

PIL 55 of March 14, 1989, reverts to the need for standardization of loan appraisal procedures, the evaluation of the experience of the applicant and farm managers, and the need to make on-site visits. It also fixed the amount of the loan representing the UShilling counter-value of the dollar import at the FX rate at the time that the commodity cleared customs. It further specified that loan repayments would be applied first against past-due interest, then interest, then past-due principal, and finally, against principal.

According to PIL 74 of January 5, 1990, use of the Local Currency Fund (LCF) was to be limited to relending to agriculture, local cost support to the BOU and the ICIs, and local cost support for the long-term TA personnel. "Specific uses" of the LCF were to be cleared with USAID. In this PIL, mention is made that no new loans had been approved since 1988 when applications exceeded the $15.5 million limit in effect at the time. (The credit limit under the project had subsequently been increased to $23.75 million).

As repayment experience under the commodity import program had been poor, the Mission issued PIL 123 on June 23, 1993 to formally end the credit portion of the RPE project. Procurement under Work Order 15 was stopped, and W/O 16 was cancelled.



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# ANNEX 6

# PROJECT PAPER AMENDMENT 3

# ANNEX 6

## PROJECT PAPER AMENDMENT 3
## February 9, 1994

This amendment served to expand the purpose to incorporate venture capital as a project activity consistent with the RPE Project goal since venture capital would enhance agricultural and agro-industrial production. The amendment realigned the project budget to add a line item for venture capital.

USAID/Washington has advised the Mission to incorporate a venture capital financing mechanism into the RPE Project in two phases given the PACD of the project in September 1994. An initial start-up phase of $2 million has been earmarked for the Development Finance Corporation of Uganda (DFCU) for start-up operational costs and to finance the venture capital fund's initial equity investments. The amount will also cover short-term TA, training, and some of the costs of project appraisal.

Investments totalling $1.3 million have already been identified. An additional $300,000 will be available as other investments are approved. Investments which have been at least half disbursed by DFCU prior to the PACD on 9/24/94 will be eligible to receive their remaining funding within 90 days of the PACD, or if contracts for goods and services have been entered into, within nine months of the PACD.

While after the earmarking of $2 million for venture capital there are still approximately $10 million in un-earmarked funds remaining in the project, and while Amendment 3 calls for mechanisms to increase the venture capital component by some $8 million in Phase II to a total of $10 million, we have been told that USAID/W will indeed close-down RPE and re-allocate unused funds elsewhere within the Africa Bureau.

# ANNEX 7

# LIST OF PERSONS INTERVIEWED



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## ANNEX 7

## LIST OF PERSONS INTERVIEWED

### USAID

Mr. Keith Sherper, Mission Director
Ms. Holly Wise, Director, General Development Office (GDO)
Mr. Patrick Fine, RPE Project Manager, GDO
Ms. Jackie Wakhweya, RPE Project Management Assistant, GDO
Dr. Robin Phillip, Economist
Mr. Bruno Komakech, many years involved with RPE Project
Mr. Peter Downs, Uganda Desk Officer, Africa Bureau, USAID/W

### BANKS

#### Bank of Uganda

Mr. Emmanuel F. Bajunirwe-Butsya, Development Finance Department
Mr. Mugumya Bantura, Senior Bank Officer
Ms. Agnes Kamya, Principal Bank Officer
Mr. Fred Karyeija, Principal Banking Officer
Mr. B.M. Kisambira, Manager, Development Finance Department
Mr. Achellis Okema Akena, Ag. Director, Development Finance Department
Mr. A.N. Nair, I.D.A. Advisor, Development Finance Department
Mr. Opio, Accountant, Development Finance Department
Ms. Lydia Semogerere, Development Finance Department
Mr. Joseph B. Wlusimbi, Development Finance Department

#### Uganda Commercial Bank

Mr. Augustine Kyondo, General Manager, Development Finance Group
Mr. Ben O. Opiny, Chief Mgr., Agricultural Products, DFC Group

#### Uganda Development Bank

Mr. Fazal J. Kasujja, General Manager Operations
Mr. A. Sematimba, Manager
Mr. Okello-Dinga, Principal Banking Officer
Mr. Kibirige K. Moses, Manager/Appraisal



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**Nile Bank**

Professor Ephraim Kamunutu, Chairman
Mr. Sam Kanakulyo/General Manager

## TECHNICAL ASSISTANCE GRANT RECIPIENTS

**TechnoServe Uganda**

Mr. Robert Clark, Team Leader and Bank Operations Specialist
Mr. David Morris, Credit and Loan Administration Specialist

**Departed Asians Property Custodian Board (DAPCB)**

Mr. James E. McCoy Jr., Advisor

**Uganda Manufacturer's Association (UMA)**

Dr. William S. Kalema, Director
Ms. Sarah Kitakule, Policy Analyst

**Appropriate Technology International (ATI)**

Dr. Rita Laker-Ojok, Principal, ATI Uganda

## RPE PROJECT SUB-BORROWERS

**Uganda Commercial Farmers Association**

| | |
|---|---|
| Hon. Moses Ali, Vice Chairman | Mixed Farm |
| Mr. Henry Kanyike, Naribule Estates, Ltd. | Dairy Farm |
| Mr. Ruka Atwoki, Kaberya Farms, Ltd. | Mixed Farm |
| Mr. Joseph Buselwa, Ruwule Farm Enterprise, Ltd. | Crop Farm |
| Mr. Martin Kabenge, Nvuma Farmers | Crop Farm |
| Mr. Joseph Matovu, Kawutta Farm | Crop Farm |
| Mr. Fred Senteza, Senteza Mixed Farm, Ltd. | Crop & Dairy |

**Farm Visits**

| | |
|---|---|
| Mr. Nakedde, KI NA Farm, Masaka District | Crop Farm |
| Mr. Stephan Bayita, Bayita Farms, Masaka Dist. | Poultry Farm |
| Mr. Busibo, Busibo Farms, Masaka District | Crop Farm |
| Ms. Sarah Serfusa, Dir., Nile Roses, Kampala | Horticulture |
| Dr. Jersey Turyakikayo, Kasenga Mixed Farm | Dairy |



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| | |
|---|---|
| Ms. Ann Mugerwa, Dir., Tatenda Feed Mill, Kampala | Agro-Ind. |
| Mr. Ndugga Musazi, Kangave Progressive Farm, Luwero | |
| Katikamu Dairy Farmers Coop. Society, Luwero | Dairy Farms |
| Mr. Karya Rugookwe, Allied Farms Ltd., Kampala | Poultry Farm |
| Mr. Charles Male, Nehemiah Products, Ltd., Kampala | Poultry Farm |
| Mr. Eriya Musoni, Maggwa Dairy Farms Ltd., Kampala | Dairy Farm |
| Mr. Bruno Matovu, Kinoni Products Ltd., Luwero | Crop Farm |

**IMPACT Associates, Ltd.**

Mr. Christopher Kyerere
Mr. Andrew Turiho