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UNITED STATES OF AMERICA

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AGENCY FOR INTERNATIONAL DEVELOPMENT

REGIONAL ECONOMIC DEVELOPMENT SERVICES OFFICE FOR EAST AND SOUTHERN AFRICA (REDSO/ESA)

United States Postal Address
U.S.A.I.D.
BOX 221
APO NEW YORK 09675

International Postal Address

POST OFFICE BOX 30261
NAIROBI, KENYA

Official File Copy

1 April 1987

Mr. Donald Thomas
President
Agricultural Cooperative Development
International (ACDI)
50 F Street N.W., Suite 900
Washington, D.C. 20001

Subject: Cooperative Agreement No. 617-0108-A-00-7001-00, Uganda Rural Economic Recovery Project

Dear Mr. Thomas:

Pursuant to the authority of the Foreign Assistance Act 1961, as amended, and the Federal Grants and Cooperative Agreements Act of 1977 the Agency for International Development (hereinafter referred to as "the Government", or "A.I.D.") agrees to compensate Agricultural Cooperative Development International (hereinafter referred to as "the Recipient") an amount not to exceed three million nine hundred ninety four thousand seventy dollar ($3,994,070) to support the rehabilitation of rural income generating activities in Uganda by making available to residents of war-damaged areas necessary commodities and credit as detailed in the Schedule and the Program Description, which are appended hereto as Attachments 1 and 2, respectively.

This Cooperative Agreement is effective and obligation is made as of the date of this letter and shall apply to commitments made by the Recipient in furtherance of program objectives through March 31, 1990.

This Cooperative Agreement is conditioned upon the Recipient's administration of funds in accordance with the terms and conditions set forth in the Schedule, the Program Description and the Standard Provisions (Attachment 3) which are appended hereto, and to which the Recipient agrees by acknowledging receipt of this Cooperative Agreement through authorized signature below.

Please sign the original and five (5) copies of this Cooperative Agreement and return the original and four (4) copies to the undersigned as soon as possible.

Sincerely,

Laura K. McGhee

Laura K. McGhee
Agreement Officer
REDSO/ESA

Attachment 1 - Schedule
Attachment 2 - Program Description
Attachment 3 - Standard Provisions

ACCEPTED

Agricultural Cooperative Development International (ACDI)

BY: Donald R Crane

TITLE: ACTING PRESIDENT

DATE: 4/23/87

FUNDS AVAILABLE
RFMC-NAIROBI, KENYA
DATE 4/7/1987

Fiscal Data

Project No.	:	617-0108
PIO/T No.	:	617-0108-3-60007
Appropriation	:	72-1161021
Budget Plan Code	:	GDAA-86-21617-AG13
Earmark Control No.	:	U560478, U560479, U560480
Amount Obligated	:	$3,994,070
Source of Funds	:	USAID/Kampala

COOPERATIVE AGREEMENT
No. 617-0108-A-00-7001-00
Attachment No. 1

ARTICLE NO.	TITLE
I	Authority, Purpose and Program Description
II	Total Estimated Costs and Method of Payment
III	Understanding of AID's Substantial Involvement in Project Implementation
IV	Period of Agreement
V	Reports and Evaluation
VI	Financial Plan
VII	Overhead Rate
VIII	Special Provisions

Attachment No. 1

SCHEDULE

I. Authority, Purpose and Program Description

A. Pursuant to the Foreign Assistance Act of 1961, as amended, and the Federal Grants and Cooperative Agreements Act of 1977, A.I.D. hereby agrees to support the program of the Recipient for the Rural Economic Recovery Project in Uganda as set forth in Attachment 2 entitled Program Description.

B. A.I.D will compensate the Recipient for expenses incurred in execution of the project in accordance with this Schedule, the Program Description, and the Standard Provisions. In case of inconsistency between the Program Description and terms and conditions of the Schedule and Standard Provisions, the Schedule and Standard Provisions shall control.

II. Total Estimated Costs and Method of Payment

A. Funds Obligated for Cooperative Agreement

Total obligation for the Cooperative Agreement is $3,994,070, inclusive of contingency and inflation, to support the Recipient's implementation of the Project through the entire period of the Agreement. Of this total, $2,381,900 has been earmarked for small-scale commodity purchases which will be distributed and sold in Project areas, $100,000 has been earmarked for support commodities to participating ICIs, and $100,000 has been earmarked for project commodities. Funds for the independent evaluations and the audit have been budgeted outside of the amount for the Cooperative Agreement.

It should be noted that the total obligation also includes the dollar equivalent for local costs (support staff, supplies, rent, printing and vehicle operating and maintenance) for the first year only. To the extent possible, all local Project costs will be covered from local currency deposits in the Special Account. At this time, it is not clear whether there will be sufficient local currency in the Special Account to cover local Project costs during the first year.
Any budgeted dollars not used for this purpose will be available for reprogramming for other activities under the Project. Such reprogramming will be done in consultation with USAID and GOU. All eligible local costs after the first year are expected to be covered from the Special Account and will be excluded from the dollar budget.

B. Payment

Payment provision for U.S. dollars applicable to this agreement is "Payment Letter of Credit Advance," of the Standard Provisions.

C. Local Cost Financing with U.S. Dollars

Conversion of U.S. dollars to Uganda shillings to cover local currency costs will be allowable, as necessary, during the first year only. In subsequent years, eligible local costs will be covered by local currency from the Special Account in accordance with withdrawal procedures established jointly by the GOU and USAID.

D. Local Contributions to Rural Credit Scheme

It is estimated that participating ICIs will spend about 1,620 million U.Shs.($1.2 million) establishing and operating their respective credit schemes. These expenditures will cover primarily office set-up and operating costs and personnel costs.

III. Understanding of AID's Substantial Involvement in Project Implementation

A. The Recipient agrees to consult with the USAID/Kampala Office as concerns the implementation of the program funded by this Agreement, with the understanding that such consultations may be limited in accordance with the Federal Grants and Cooperative Agreements Act of 1977.

B. Under the terms of this Agreement substantial involvement is anticipated, therefore it is mutually agreed and understood that USAID will review and approve:

1. any agreements between the Recipient and the GOU;

2. annual work plans, including benchmarks for future evaluation;

3. terms of reference for commodity selection and distribution surveys;

4. terms of reference for internal evaluation (also AID participation in evaluation);

5. original selection of and changes to expatriate (specialist) staffing;

6. list of commodities to be procured;

7. plans for and implementation of commodity distribution, including support commodities to ICIs, and sales mechanism;

8. procedures for deposits of local currency into the Special Account;

9. Project-related disbursements from the Special Accounts; and

10. any other design or major implementation changes.

C. Two independent evaluations of the Project, one about 18 months after Project obligation (or about 12 months after commencement of Recipient's activities under the Cooperative Agreement), and the other about 30 months after obligation (or one year after the first evaluation). The terms of reference, timing and choice of evaluation team will emerge from a collaborative process between AID, the Recipient and the GOU. In addition, one independent audit will also be conducted.

D. Site visits by AID personnel with notification to the Recipient will be permitted for the review of Project progress and future strategy.

E. Continual Project monitoring by AID will be conducted throughout the life of the Cooperative Agreement.

IV. Period of Agreement

This agreement is effective and obligation is made as of the date of the Agreement letter and shall apply to commitments made by the Recipient through March 31, 1990.

V. Reports and Evaluations

A. Reporting

The Recipient will submit the following reports to USAID/Uganda commencing with the start of Project activities:

1. a semi-annual progress report including, but not limited to, a substantive discussion of the status of the project activities, progress during the preceding six months, implementation problems and recommended solutions, plans for the coming six months (with specific reference to the Annual Work Plan and the Recipient's provision for technical services, commodities and related other costs) and the Recipient's administrative and financial position (actual expenditures since the effective date of the Agreement, over the preceeding six months and estimates for the next six month);

2. a final report, to be submitted within 90 days of the completion date of the Agreement, summarizing accomplishments and implementation problems and recommending a course of action for further work necessary to rural economic recovery;

3. quarterly financial reports which will include all project operating/personnel costs (U.S. dollar and local currency) and commodity procurement for the Recipient's office, for the ICIs, and for Project sales;

4. quarterly reports summarizing ICIs' disbursements of credit; and

5. quarterly reports summarizing small-scale commodity procurement, distribution, sales, and inventory, and the generation of local currency and its deposit with GOU.

B. Evaluations

AID regulations for the conduct of grantee evaluations will be applied during the term of the Cooperative Agreement.

1. Implementation Progress Evaluations. The first of these evaluations funded by the Project will take place approximately in March, 1988, and the second approximately in March, 1989. USAID/Uganda will collaborate with the Recipient and the GOU in developing the terms of reference for the evaluation and in the selection of evaluators.

2. End of Project Evaluation. An end-of-Project evaluation will be undertaken by the Recipient unless USAID/Uganda determines that such an evaluation is not necessary. USAID/Uganda will collaborate with the Recipient and the GOU on the terms of reference and evaluation team for this evaluation.

VI Financial Plan

The total financial plan for this Cooperative Agreement is set forth as follows: Revision to this plan shall be made in accordance with the Standard Provision entitled "Revision of Financial Plans."

Financial Plan

LINE ITEMS	YEAR I	YEAR II	YEAR III	TOTAL
1. Salaries	52,362	50,255	52,767	155,384
2. Post Differential	10,500	11,025	11,576	33,101
3. Payroll added costs	15,720	14,807	18,040	48,567
4. Allowances	61,675	20,680	21,085	103,440
5. Travel, transport & per diem	49,494	25,212	33,300	108,006
6. Consultants	50,584	27,696	25,700	103,980
7. Local and Other Direct Costs	104,580	14,800	15,130	134,510
8. Subtotal	344,915	164,475	177,598	686,988
9. Indirect Cost Rate @ 36%	124,169	59,212	63,935	247,316
10. Contingency	41,891	42,821	42,822	127,534
11. Total Recipient Budget	510,975	266,508	284,355	1,061,838
12. Subagreement (DPI)	209,510	140,822	-	350,332
13. Subtotal	720,485	407,330	284,355	1,412,170
14. Commodities	1,390,950	1,190,950	-	2,581,900
15. Total Agreement Budget	2,111,435	1,598,280	284,355	3,994,070

VII. Overhead Rate

Pursuant to the Standard Provision entitled "Negotiated Indirect Cost Rate - Provisional," a provisional indirect cost rate(s) shall be established for each of the Recipient's accounting periods during the term of this Agreement. Pending establishment of a final rate(s), the parties have agreed that provisional payment on account of allowable indirect costs shall be at the rate(s), on the base(s), and for the period shown below.

Rate 36%
Period Until amended
Base - Modified total direct costs including (1) sub-contracts under $25,000, excluding sub-contracts over $25,000 (but the costs to manage and administer to be budgeted and charged as direct costs), and (2) local currency provided by USAIDs when currency is to be planned, budgeted and administered by the Grantee (which should be determined during any negotiations).

VIII. Special Provisions

A. Employee compensation (i.e. the employee's base annual salary) which exceeds the maximum salary level of Foreign Service Class 1 (FS-1) or the equivalent daily rate, as from time to time amended, will be paid only with the approval of the AID Agreement Officer.

B. Applications for vehicle purchase waivers will be submitted by the Recipient as necessary.

C. All local currency generations and related earned interest or other earnings will be submitted to GOU and deposited into the Special Account in accordance with procedures established jointly by GOU and USAID.

D. All proposed procurement will be submitted to AID for approval prior to execution.

E. Prior to disbursements of funds for the procurement of support commodities for individual participating ICIs, each respective ICI will furnish to the Recipient, in form and substance satisfactory to AID, an implementation plan which demonstrates that the Project commodities provided to the ICI will be used to achieve the Project's objectives during the life of the Project. Implementation plans for each participating ICI must be received within nine months of the date of the Project Grant Agreement (September 23, 1986) or the ICI will not be eligible to receive commodities in support of its rural credit scheme.

F. Nonexpendable equipment is defined as having an acquisition cost of $500 or more per unit and a useful service life of more than two years. For the purpose of this Cooperative Agreement, such nonexpendable equipment shall include, but not be limited to, motor vehicles, computers, office equipment and furniture. It is understood that title to all nonexpendable equipment shall vest in the Recipient untilsuch time as USAID/Uganda makes a final determination for disposition. It is anticipated that this decision will be made in the third year of this project.

G. Evacuation of the Recipient's foreign-based U.S. and third country national (TCN) staff shall be governed by the policy and guidance of the USAID/Uganda Mission Director. Reimbursement of allowable evacuation expenses shall be governec by the Department of State Standardized Regulations.

H. All air travel funded by this Cooperative Agreement will be on a commercially scheduled economy class basis.

I. Title to all property purchased under this Agreement shall be vested in the Recipient until transferred in accordance with procedures set forth in Attachment 2 entitled Program Description.

J. The authorized geographic code for procurement of goods and services under this Agreement is 941.

Attachment No. 2

Program Description

A. Objectives: Goal, Purpose

1. Goal

The goal of this Project is to provide residents of war-damaged areas of Uganda with the opportunities to rebuild their lives and resume economic growth and development over time. Given the country's wealth of natural and human resources. The potential has been severely constrained over the past 10 - 15 years by social and political disturbances and uncertainty. With the assumption that political stability can be maintained, the provision of opportunities is one of the most important types of assistance which can be offered. Already, over the past few months since the ending of major hostilities, residents who have been absent from their home areas for up to five years have returned and have made good progress reestablishing their lives. It is apparent that with the necessary support their progress along these lines will be reatly improved.

2. Purpose

The Project's purpose is to support the rehabilitation of rural income generating activities by making available to residents of war-damaged areas, both necessary commodities and credit. Eligible commodities include not only directly productive goods, but also construction materials used in the building or rehabilitation of farm buildings, worksheds, etc. In addition, small-sized tractors have been included as eligible commodities (under a separate arrangement with the Ford distributorship). To achieve the Project purpose, USAID will engage in an institution-strengthening exercise whereby technical assistance will be provided in the design and implementation of the credit scheme. Also, on the commodity side, technical assistance will be provided both to handle procurement and to supervise distribution, and in doing so will support the rehabilitation of commercial trading channels.

Commodities, labor and cash are all in short supply in the target area. Shops in the so-called "Luwero Triangle" continue to operate in large trading centers only. In other parts of the Triangle shells of buildings are frequently all that remain. Where shops do operate, both in Luwero and in the other Project target areas, stocks of inputs are small, often limited to some chemicals and a few hand implements. Domestic production of agricultural inputs and of other productive goods has been at an extremely low level for a number of years, in many cases dropping to 5% or less of capacity. Thirty percent of capacity would represent an unusually high level of production in Uganda over the past five years. Similarly, imports of productive goods have been low due to the inability of firms to gain access to foreign exchange.

Small commercial farmers and other small-scale rural entrepreneurs do not have ready access to cash or credit. However, they are in need of both goods and labor in order to reestablish their enterprises. Thus, as part of this Project, credit will be provided through established channels for the purchase of goods imported under the Project, for goods available through other sources both imported and locally produced, and for labor.

In addition, farmers in Uganda have a history of using mechanized farm equipment, but over the past few years that equipment has not been readily available. The importation of tractors under this Project will provide not only the individual tractor owners with necessary capital equipment, but also other, small commercial farmers with access to tractor services. Common practice in Uganda is that tractor owners who do not have full-time need for their tractors rent out their services to others in the area. Discussions with farmers in the target area indicate that such services were commonplace in the past, and are considered a necessary component of a farming regimen for many cash crop plots.

Finally, it should be noted that in the design and approval of this Project more than narrow economic concerns were considered. First, to a large extent the Project is intended to meet a humanitarian need for assistance to residents in war-damaged areas. Second, it is in the interest of the United States to extend support to the Government of Uganda at a critical time in its reconstruction efforts. Finally, the project includes an important element of institution-strengthening which is not readily analyzed through the use of standard economic methods.

Three major concerns were raised during the review of this Project within AID. First, with regard to the commodity components, if pricing is based on the current, overvalued exchange rate, windfall gains to the distributors and/or final purchasers are certain. Additionally, those in the target population who originally purchase the commodities, if at a relatively low price, may resell them within or beyond the target areas, and this could undermine achievement of the Project purpose. Through a pricing mechanism for the smaller commodities based on market values, and through registration of larger commodities (e.g. tractors), attempts to overcome these problems will be made. Also, analysis shows that in representative cases the discounted present value of short to medium term financial returns expected to accrue to the use of the imported commodities is expected to exceed the benefits of resale. However, the GOU is addressing the exchange rate problem as a component of the Ugandan economic reform program, under discussion with the IMF and IBRD and scheduled to be implemented in April 1987. In the event that an economic reform package which addresses the current exchange rate disequilibrium is not implemented in Ugandan prior to the arrival of project commodities purchased by the Recipient, USAID/Kampala and the Recipient may mutually agree to review the commodity sales program as currently designed.

Second, current commercial interest rates range between 36-42%, but the estimated inflation rate is over 100%. Thus the real interest rate is negative. This will result in a decapitalization of the loan fund over time, but it will not affect achievement of the Project goal and purpose, which are aimed at relatively short term economic recovery.

Finally, the security situation in Uganda has not completely stabilized, but the primary Project target area continues to be stable, and Project activities in other areas will be dependent on the situation at the time of implementation.

B Summary of Project

1. Introduction

This Project has four major components: (1) the importation of commodities for use by small commercial farmers and other rural entrepreneurs to support the recovery of income-generating activities; (2) the importation of tractors for sale through an established distributorship in Uganda; (3) the provision of credit (local currency only) to those farmers and entrepreneurs to purchase their necessary inputs; and (4) the provision of technical assistance for the management and monitoring of commodity procurement and distribution, and of the credit scheme. The Life of Project is four years, with a Project Assistance Completion Date (PACD) of September 30, 1990, and LOP funding is $5,482,000. (Note regarding the exchange rate: this Project includes both dollar and local currency (l.c.) expenditures, with the latter funded when possible from l.c. generations within the Project. Where there may be a direct conversion of dollars to l.c., the exchange rate of 1400 Ugandan Shillings to one U.S. dollar has been used; the GOU is expected to devalue the Shilling before mid-year, at which time the new official exchange rate will be used)

It is important that Project design allow for flexibility in implementation because conditions in Uganda continue to be unsettled and there may be a need to adapt Project components to changing circumstances. For example, the geographic focus now includes specific war-damaged districts. It is possible that this focus will be revised to accommodate different areas as security conditions change and as the potential for meeting the Project goal and purpose are better understood.

2. Geographic focus

This Project includes as its potential target area selected regions of the more severely war-damaged areas of Uganda. These are the "Luwero Triangle" (Luwero, Mubende, and Mpigi districts), the southwestern districts of Masaka and Mbarara, the northern central districts of Gulu, Lira, Apac, and Soroti, and the northwestern districts of Moyo and Arua. These areas have been selected on the basis of need and of economic growth potential. It is intended that most project activities will be phased to begin in selected areas of Luwero, Mubende and Mpigi districts and then to expand to other areas over time, based on such considerations as the demand for rural credit and commodities, the ability of participating ICI's and traders to meet the demand, the speed with which residents of the project areas are able to resume commercial income-generating activities, and the amount and nature of recovery assistance offered by other donors in Project areas. Arua and Moyo are already the focus of another USAID project which includes the provision of low-cost commodities, and thus may require only the availability of credit and tractors from this Project. In this way, the two projects would complement each other.

3. Target population

The target population within each Project area will be relatively small commercial landholding (e.g., 30 acres or less) and/or entrepreneurial families with little or no productive resources or capital to work with as a result of recent disturbances in Uganda. Since many families in some of these Project areas were once relatively prosperous (particularly by developing country standards) and since some of these areas hold the potential for great economic growth to help fuel the recovery of much of the rest of the country, much of the target population are those who show good potential for economic recovery and growth.

4. Project components

The following is a brief discussion of each Project component:

a. Commodity Import Component through Cooperative Agreement

An illustrative list has been prepared which includes the types of commodities eligible for import under this Project component, and appears as an annex hereto. Total Cooperative Agreement commodity purchases will total about $2.5 million. A needs assessment survey will be completed prior to commodity procurement. The types of commodities which will be eligible are those which are inputs (excluding pesticides and herbicides) or implements related to agricultural production or other commodities in some way related to small-scale commercial rural income-generating activities. The Recipient will conduct the needs assessment survey, procure the goods, and arrange for their distribution to the Project areas.

b. Private Sector Commodity Imports outside the Cooperative Agreement

About $1.4 million worth of Ford tractors, ancillary equipment, and spare parts will be imported and offered for sale by the Ford distributorship located in Kampala. The distributorship has established a separate credit facility which can be used to provide credit for tractor purchases. Sales of these tractors will be targeted to the eleven districts identified as Project areas. The local currency generated by the sale will go to the Special Account. It is expected that this Project component will provide a relatively quick injection of local currency to the Special Account which then will be available both for covering Project local costs and for lending through the credit scheme.

c. Provision of credit

The sale of commodities will generate shillings which will then be available for programming. The primary uses of these shillings will be twofold: to cover the local costs of the Recipient under the Cooperative Agreement after the first Project year and other Project local costs, and to fund a credit scheme which will provide loans to small commercial farmers and rural enterpreneurs. Shillings not needed for those purposes will be utilized by USAID and the GOU for other development activities. The Recipient will coordinate and monitor the management of the credit scheme. The loan application and disbursement processes will be administered by local participating ICI's.

It is expected that most loans by UCB and UDB will be in the range of 3,000,000 to 10,000,000 Ushs, and by UAFA (through primary cooperative societies) in the range of 300,000 to 500,000 Ushs. Amounts larger than 10,000,000 Ushs may be loaned dependent on special approval. The Project will provide both technical advice and commodity support, through the Cooperative Agreement, to the ICI's for Project implementation. The interest rate will be within two or three points of the commercial rate, and the loan repayment period will depend upon the loan purpose. The Recipient will be responsible for reviewing the credit schemes of each participating ICI to ensure consistency with Project objectives.

d. Provision of technical assistance

The Project will provide technical assistance for both the commodity and credit components through the Cooperative Agreement. There will be two technical specialists, one for commodity procurement and distribution, and one for credit. These two specialists will be in-country for at least two years. They will establish an office and have Ugandan counterparts. The commodity specialist will be responsible for the needs assessment survey, for procurement, and for organizing and monitoring the distribution system. Distribution will be handled by private sector distributors (including cooperatives) through commercial channels which themselves may require rehabilitation, in particular loan capital for shop reconstruction and restocking. The credit specialist will be responsible for coordinating, monitoring, and advising the individual ICI's in their implementation of the credit scheme. As discussed above, the scheme's implementation will be the responsibility of the individual ICI's. The actual make-up and organization of the office will be based on Recipient's application and proposal.

As indicated in the above summaries of each component, Project design includes an institution-strengthening element related both to rural credit institutions and to commercial trading channels. First, the technical assistance provided by the Recipient and the credit funds made available to the participating ICI's will supplement the efforts of those ICI's to establish a viable rural credit system. It is important to note that the institutions have initiated these efforts independent of this Project. Second, reestablishment of trading channels will be encouraged through the Project's commodity distribution.

5. <u>Local currency generations and use</u>

The local currency generated by the sale of commodities imported both under the Cooperative Agreement and the private sector commodity import component will be deposited into a Special Account in the Bank of Uganda to be used to cover both Recipient's local costs and this Project's rural credit program. The balance to be programmed into development activities as mutually agreed upon by USAID and the GOU. Procedures governing local currency deposits into the Special Account must be established by the Bank of Uganda and USAID, and be provided to the Recipient and the private sector importer.

Disbursements from the Special Account to defray local costs associated with the Recipient office will be the responsibility of the GOU and USAID jointly, and will follow a schedule established through the agreement of all parties concerned. Disbursements to participating ICI's to be used as loan capital for the rural credit scheme will be the responsibility of the GOU and USAID jointly, upon recommendation by the Recipient credit specialist. Upon Project completion, remaining funds in the Special Account will be either disbursed to the ICI's on the basis of a distribution plan prepared by the Recipient and agreed to by the GOU and USAID, or used for other development purposes mutually agreed to by USAID and the GOU.

C. <u>Outputs and End of Project Status</u>

Life of Project outputs are expected to be the following:

a) 8,000 small commercial farm and rural enterprise loans, totaling the Ugandan shilling equivalent of at least $2.5 million, and
b) the availability in war-damaged areas of about $2.3 million worth of commodities for farms and rural enterprises, and about $1.4 million worth of small-sized tractors, ancillary equipment, and spare parts.

By the end of the Project, it is expected that the following will have been achieved:

a) The productive capability of small-scale commercial farmers will have been reestablished, and thus their capacity for income generation improved.

b) Non-farm productive enterprises will have been rehabilitated, resulting in a growth of income earning opportunities.

c) Commercial trading channels, both wholesale distribution and retail sales, will have been rehabilitated, and there will be an expanded input delivery system.

d) The institutional capacity on the part of participating ICI's for the administration of small-scale rural credit will have been improved, and the foundation laid for the future development of such credit.

D. Project Parameters and Key Assumptions

1. Parameters

a) There are few goods available to support the rehabilitation of rural income-generating activities including farms; domestic production of inputs and manufactured goods is low; and access to foreign exchange for imports is severely constrained.

b) Trading centers in some areas have been virtually destroyed, so the distribution of goods may be from shops which are at times a distance from the end user.

c) There has been no recent experience with small-scale farmer credit in Uganda, so although two of the three credit institutions have been operational for some time they are entering a relatively new field.

2. Key Assumptions

a) The supply of credit is currently a constraint to increased production, and potential borrowers will be willing and capable of assuming the responsibility for repayment.

b) Farmers and other small-scale entrepreneurs are experienced in their respective fields, are aware of their specific needs, and will make productive use of the credit extended to them.

c) The participating ICI's, with Project assistance, will be capable of implementing a credit scheme which will provide timely assistance to the

d) Recipient can develop adequate input supply channels into the target areas, and retail trading operations will be capable of reaching the target population.

II Project Description: Cooperative Agreement Activities

A. Project Components

1. Commodity Selection, Procurement and Distribution

One of the two major components of this Agreement consists of the selection, procurement and distribution through commercial channels of small-scale commodities (inputs into private or cooperative income-generating activities). The Recipient's responsibilities under this component are discussed below.

a. Commodity Selection

The Recipient's first activity under this component, once staffing requirements are met, will be to conduct a needs assessment survey in the Project's geographic area. This survey will identify those commodities which are in demand and which fall under the category of eligible commodities for the purpose of this Project, but which are currently unavailable or in short supply. Eligible commodities include inputs (excluding pesticides and herbicides) or implements related to agricultural production, or other commodities related to small-scale commercial rural income-generating activities. Under this latter sub-category falls construction materials used in the building or rehabilitation of farm buildings, worksheds, etc. As part of this activity the Recipient will collect data through visits to project areas and through discussions with Government agencies, private and cooperative importers/distributors, and other donors.

b. Commodity Procurement

Once the kinds of commodities to be procured are selected, the Recipient will develop precise procedures and specifications for all procurements. All procurement will be completed within two years of the award of this Agreement.

(1) Tendering procedures. Negotiated procurement procedures will be used by the Recipient. Requests for Quotations (RFQs) will therefore be issued by the Recipient to solicit potential suppliers. Although many different inputs will be purchased, the consolidation of these items by the Recipient into single solicitations with a limited number of procurement transactions will simplify the program and ease the Recipient's implementation burden. Suppliers will be required by the Recipient to provide All Risk Marine Warehouse to Warehouse Insurance in the amount of 120 percent of the C&F value of the commodities.

(2) Applicable AID regulations. The Recipient may use its own procurement policies and practices for the procurement of goods and services provided they conform to AID guidelines as contained in AID Handbook 13, Chapter 4. These guidelines govern ocean and air transportation, eligibility of commodities and suppliers, geographic sources and notification to U.S. small business firms of pending procurements.

(3) Source and origin. As Uganda qualifies as a Relatively Least Developed Country (RLDC) the officially authorized source and origin for all Project goods and services will be the U.S. and Code 941 countries. Therefore, except as may be specifically approved or directed in advance by AID, all goods and services covered by the Cooperative Agreement shall be procured in and shipped from within the authorized geographic area.

(4) Method of payment. The method of payment for commodities financed under the Commodity Component of the Cooperative Agreement will be by Letter of Credit (LOC) to the Recipient in accordance with the Standard Provision entitled "Payment-Letter of Credit". Under this technique, AID will open a Letter of Credit in the amount of funding obligated by the Cooperative Agreement, against which the Recipient may draw cash only for immediate disbursement needs. Commodity suppliers will be paid by the Recipient against standard commercial payment documents (i.e., supplier's commercial invoice, bill of lading or other evidence of shipment, supplier's certificate (form AID 1450-4), and any other documentation such as insurance receipts and packing lists as the Recipient's purchasing office may require). The Recipient will comply with reporting requirements as outlined in the Standard Provision entitled "Payment-Letter of Credit".

(5) Implementation schedule. Commodity procurement cannot be expected to begin until such time as the Recipient has met its staffing requirements for the purchasing office and an initial inputs need assessment has been finalized

which identifies specific types and quantities of commodities to be procured. Based on past experience, a procurement lead time of 8 to 10 months can be expected for U.S. source and origin commodities from time of issuance of a supply contract with the supplier to arrival of the commodities. However, it is anticipated that the bulk of all procurements will be from Kenya and other Geographic Code 941 countries.

(6) Arrival and disposition. It is the responsibility of the Recipient to initiate documentation required for customs clearance of all commodities financed by the Cooperative Agreement prior to their arrival in Uganda and to insure that documentation is made available to permit goods to be moved from the port of entry promptly upon arrival. Likewise, it is the responsibility of the Recipient to inspect goods upon arrival and to document any shortages or damages so that a viable insurance claim can be initiated promptly.

Commodities will be stored in warehouse space under the Recipient's administration and supervision, or in space arranged as part of the distribution agreement. The Recipient will be responsible for maintaining inventory and distribution controls, sales records, and accounting procedures for all commodities procured by the Recipient. Recipient will also be responsible for insurance of goods from the time they are warehoused in-country to their distribution by sale or consignment.

Title to all commodities financed under the Cooperative Agreement shall be vested in the Recipient, subject to the conditions set forth in the Standard Provision entitled "Title to and Use of Property (Grantee Title)" until such time as commodities are sold to other entities and local currency payments have been received. Any commodities remaining in the Recipient's possession at the end of the Project will be turned over to the Government of Uganda as specified by USAID for continued use in follow-on distribution activities in the Project area.

c. Commodity Distribution

(1) For the distribution and sale of the commodities to end users within the Project areas, the Recipient will seek to establish agreements and arrangements with private sector firms or traders and/or with cooperative societies. This will require first a survey of those firms, traders and societies to ascertain their interest in and capability for handling the commodity distribution, and to identify ways in which title transfer will occur. With regard to this latter point, commodities could be sold to the

distributors and then resold to retailers or to end users, or commodities could be handled by distributors on consignment, with the proceeds of the final sale (less distribution costs) accruing to the Recipient for submission to GOU and deposit into the Special Account.

Once the distribution survey is completed, it will be the responsibility of the Recipient to design and implement the distribution system. It should be noted here that this Project activity is not merely concerned with moving commodities, but rather is meant to be developmental in that the reestablishment of trading links and the rehabilitation of trading mechanisms are to be actively promoted. Additionally, in cases where loans are provided through the Project credit component to individuals who wish to rehabilitate their former retail outlets, it is anticipated that loan funds will be made available also to restock the outlet with commodities.

(2) Local currency generations. All local currency proceeds from the sale of commodities financed under the Cooperative Agreement will accrue to the Government of Uganda. This local currency will be placed in a Special Account which is described in detail above.

(3) Commodity pricing. With regard to commodity pricing, it is important to note that the exchange rate in Uganda was recently unified from a dual rate of about 1,400 shillings to the dollar for priority imports and 5000 Ugandan shillings to the dollar for other imports, to a single rate of about 1400 Uganda shillings to the dollar. However, a strong case can be made that the price level of imported goods in Uganda reflects an exchange rate different from that which the GOU has recently set, i.e. one closer to the previous rate of 5000 shillings to the dollar. In this situation, goods imported and priced using the 1400 shilling to dollar exchange rate would be greatly underpriced, and thus could be the basis for large windfall profits to distributors/retailers, and could be quite profitably re-exported illegally. If goods imported under this project are to reach the target populations and remain within the target area, the price level of those goods must reflect the general price level operating in the country.

To overcome the problems inherent with an overvalued exchange rate, there will be an agreement between the Recipient and USAID as to how Project goods will be priced. The preferred position of USAID is that the pricing mechanism will be based on market conditions, and that the inevitable windfall profits will be captured, at the original point of sale or distribution by the Recipient, and will be deposited into the Special Account from which the Credit Component and other local cost activities will be funded. In this way, the price to distributors will be one which will be in line with overall market conditions. It will be the responsibility of the Recipient to monitor exchange rates, commodity sales, and market prices on an ongoing basis to determine the most appropriate price level to be used in pricing commodities to distributors.

2. Rural Credit Scheme

The design approval, coordination, and monitoring of a rural credit scheme will be the second major component of the Cooperative Agreement. This Project component is intended to provide the necessary credit to small commercial farmers and other small-scale rural enterpreneurs so that they may rebuild their respective commercial income-generating activities. It is expected that three participating intermediate credit institutions (ICIs) will implement the scheme. These three are: Uganda Commercial Bank (UCB), Uganda Development Bank (UDB), and the Uganda Agricultural Finance Agency (UAFA). The responsibilities under this component of the Cooperative Agreement are discussed below.

a. Design Approval

Participating ICIs have made substantial progress towards a final design and implementation schedule for their respective rural credit schemes. It is possible that by the time the Recipient initiates activities under the Cooperative Agreement one or two ICIs will have begun disbursing credit using their own resources. However, the Recipient will be expected to review individual ICI rural credit schemes, to assist in design if necessary, to recommend changes where appropriate, and to advise AID as to the satisfactory nature of the schemes as a precondition to disbursement of funds for procurement of ICI support commodities.

b. Coordination of ICI Implementation

This activity will involve the following tasks. First, the geographic coverage of individual ICI's should be organized such that overall Project coverage is maximized. Second, the distribution of local currency from the Special Account as loan capital to individual ICIs should take into account ICI capabilities, both current and future. The Recipient will advise the GOU and USAID/Uganda as to an appropriate local currency distribution as the need for distributions arises. Third, it will be the responsibility of the Recipient to approve ICI plans in particular for the use of support commodities (e.g. motorcycles, typewriters, computers, etc.)

prior to the disbursement for those commodities, and to determine, with USAID concurrence, an appropriate distribution plan. These support commodities will be distributed as a grant to each participating ICI. Finally, the Recipient will oversee as necessary, the submission of reports, which will be prepared by the ICIs to document the scheme's implementation progress.

It should be emphasized that the actual implementation of the credit scheme will be the responsibility of the participating ICI's. The Recipient should not expect to become involved in day-to-day management of the scheme, but rather its relationship to the ICIs will be primarily advisory.

c. Monitoring Function

Monitoring by the Recipient of ICI credit component implementation will focus on credit scheme procedures, the Project's objectives, and use of support commodities. The Recipient will verify that credit application, review and approval procedures are followed correctly and in a similar fashion by all participating ICIs. It will also monitor on a regular basis the achievement of Project objectives. In doing so it will conduct sample surveys of successful loan applications to collect data which will indicate to what extent Project goal and purpose are being met. Finally, the recipient will monitor the use of support commodities by the ICIs. Support commodities will include motorcycles for field use, typewriters for field and head office use, computers forhead office use, and other office equipment and supplies primarily for field office use. Of particular concern in this regard will be maintenance and use of motorcycles.

d. Advisory Functions

The Recipient will advise USAID and the GOU on Project design and implementation matters as they arise, as well as assist the participating ICIs as necessary during implementation.

B. Personnel Requirements and Job Descriptions

1. Specialist Positions and Descriptions

a. Rural Credit Specialist/Team Leader

This person will be responsible primarily for the design finalization, coordination, monitoring and advisory functions described above. In addition, she/he will be team leader, and thus will have overall Project supervisory responsibilities. It is expected that this person will have experience with rural

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credit schemes, ideally those which go through commercial channels and those which go through non-commercial channels, and with project management. Prior African experience is desirable. This position will require travel within Uganda and supervision of local professional and support staff. Finally, familiarity with relevant computer programs used in loan monitoring and administration is recommended.

b. Commodity Specialist

This person will be responsible primarily for commodity selection, procurement, warehousing and distribution as described above. This specialist will have experience with AID procurement practices and policies, and with warehousing and inventory procedures. Prior African experience, as well as experience in work involving the use and promotion of relevant private marketing systems is desirable. This position also will require travel within Uganda and supervision of local supervisory and support staff.

2. Local Staff

a. Commodities

To assist the Commodity Specialist, three supervisory assistants are recommended, one each for contracting, warehousing, and distribution. In addition, a small semi-skilled support staff may assist in particular with warehousing and distribution.

b. Credit Scheme

To assist the Rural Credit Specialist, two professional assistants are recommended, one of whom will monitor credit disbursement and the other credit use. These personnel will work closely with the participating ICIs.

c. General Office Staff

Support staff, such as secretaries and drivers, are also recommended.

C. Logistical Support

The Recipient will be responsible for providing logistical support to its staff and to the project. Funding for housing, utilities, education allowances, international and in-country travel; shipping and/or storage of household effects and privately owned vehicles, and other requirements appropriate for long-term technicians, are included in the budget of this Cooperative Agreement. Office space in Uganda, office equipment, furniture, vehicles, expendable supplies and necessary subproject related commodities are also included in the budget, as well as office and project administrative and operational costs. In all cases where applicable,.allowable costs will be determined according to A.I.D. policy and the Standard Provisions to this Agreement. The total obligation for the Cooperative Agreement referred to in section IV A. herein includes amounts for these logistical support items.

It should be noted that the ICIs have expressed an interest in periodic use of Project vehicles procured by the Recipient under the Cooperative Agreement for its staff. The ICIs anticipate a transportation problem with regard to field visits by headquarters staff, and may request some assistance from the Recipient. It is expected that this assistance will be in the form of coordinating trips to field sites by the Recipient's staff so that ICI headquarters staff may travel at the same time.

Annex to Program Description

Illustrative Commodity Import List, Prices, and Quantities

Item	Est. Unit Price	Quantity	Est. Total
Axe	4.69	1000	4,690
Saw	2.81	1000	2,810
Sledge hammer	7.22	1000	7,220
Construction hammer	5.00	1000	5,000
Digging shovel	3.44	1000	3,440
Panga	2.50	1000	2,500
Slasher	2.81	1000	2,810
Ox plows	106.25	500	53,125
Seeds: 10Kg bags			
maize	7.50	10000	75,000
sorghum	7.50	10000	75,000
wheat	7.50	10000	75,000
groundnuts	7.50	10000	75,000
rice	7.50	10000	75,000
Corrugated iron roofing	3.13	10000	31,300
Nails per kilo	0.63	10000	6,300
Cement	5.00	10000	50,000
Electrical wiring 1mm, rol	53.13	500	26,565
Small tractor tires	250.00	500	125,000
Small tractor batteries	109.38	500	54,690
Small pickup batteries	46.88	500	23,440
Bicycles	100.00	2500	250,000
Small coffee hullers, elec	9375.00	25	234,375
Small posho mills, elec	3125.00	50	156,250
Small oil press	18750.00	10	187,500
Mechanics tool kit	100.00	100	10,000
Carpenters tool kit	100.00	100	10,000
Wheelbarrows	30.00	1000	30,000
Barbed wire	16.56	10000	165,600
Chicken wire	37.50	5000	187,500
Fencing staples	0.69	50000	34,500
Block-making machines	2000.00	25	50,000
Total			2,089,615