PDBBR 984

AGENCY FOR INTERNATIONAL DEVELOPMENT

PROJECT DATA SHEET

1. TRANSACTION CODE: A (A = Add, C = Change, D = Delete)

Amendment Number

DOCUMENT CODE: 3

2. COUNTRY/ENTITY: UGANDA

3. PROJECT NUMBER: 617-0111

4. BUREAU/OFFICE: AFRICA 06

5. PROJECT TITLE (maximum 40 characters): COOP AGRICULTURE/AGRIBUSINESS SUPPORT

6. PROJECT ASSISTANCE COMPLETION DATE (PACD): MM 09 DD 30 YY 94

7. ESTIMATED DATE OF OBLIGATION (Under 'B:' below, enter 1, 2, 3, or 4)

A. Initial FY 88 B. Quarter 2 C. Final FY 91

8. COSTS ($000 OR EQUIVALENT $1 = Sh.60)

A. FUNDING SOURCE	FIRST FY B. FX	FIRST FY C. L/C	FIRST FY D. Total	LIFE OF PROJECT E. FX	LIFE OF PROJECT F. L/C	LIFE OF PROJECT G. Total
AID Appropriated Total						
(Grant)	(2,500)	(-)	(2,500)	(20,000)	(-)	(20,000)
(Loan)	(-)	(-)	(-)	(-)	(-)	(-)
Other U.S. 1.	-	-	-	-	-	-
Other U.S. 2.	-	-	-	-	-	-
Host Country	2,500	1,033	1,033	-	7,786	7,786
Other Donor(s)	-	-	-	-	-	-
TOTALS	2,500	1,033	3,533	20,000	7,786	27,786

9. SCHEDULE OF AID FUNDING ($000)

A. APPROPRIATION	B. PRIMARY PURPOSE CODE	C. PRIMARY TECH. CODE 1. Grant	C. PRIMARY TECH. CODE 2. Loan	D. OBLIGATIONS TO DATE 1. Grant	D. OBLIGATIONS TO DATE 2. Loan	E. AMOUNT APPROVED THIS ACTION 1. Grant	E. AMOUNT APPROVED THIS ACTION 2. Loan	F. LIFE OF PROJECT 1. Grant	F. LIFE OF PROJECT 2. Loan
(1) ARDN	100	03	-	-	-	2,500	-	20,000	-
(2)									
(3)									
(4)									
TOTALS				-	-	2,500		20,000	-

10. SECONDARY TECHNICAL CODES (maximum 6 codes of 3 positions each): 010 | 079 | 011 | 014 | 200

11. SECONDARY PURPOSE CODE: 130,150,240

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

A. Code	BF	COOP	TGN	TECH	PART		
B. Amount							

13. PROJECT PURPOSE (maximum 480 characters)

To (a) increase agricultural productivity and production through increased supply of agricultural inputs; (b) help place input supply and marketing on a sound commercial basis; and (c) to stimulate agribusiness development.

14. SCHEDULED EVALUATIONS

Interim MM 03 YY 90 | MM YY | Final MM 03 YY 94

15. SOURCE/ORIGIN OF GOODS AND SERVICES

[X] 000 [X] 941 [X] Local [ ] Other (Specify)

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

17. APPROVED BY

Signature: Richard L. Podol

Title: Mission Director USAID/Kampala

Date Signed: MM 02 DD 11 YY 88

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

AID 1330-4 (8-79)

Cooperative Agriculture and Agribusiness
Support Project
(617-0111)

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Annexes

*Note: These project analyses are available with USAID/Kampala and can be provided on request.

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LIST OF ACRONYMS

ADO	Agricultural Development Officer
ACDI	Agriculture Cooperative Development International
APC	(Presidents) Agricultural Policy Committee
AID	Agency for International Development
AID/EOB	Agency for International Development, Export Opportunities Bulletin
AID/W	Agency for International Development, Washington
AID/W FM	Agency for International Development, Washington, Financial Management
BOU	Bank of Uganda
CAAS	Cooperative Agriculture and Agribusiness Support Project
CAAS/SC	Cooperative Agriculture and Agribusiness Support, Steering Committee
CIP	Commodity Import Program
CL	Coopers and Lybrand
COP	Chief of Party
CPA	Certified Public Accountant or Accounting Firm
EMAU	Evironmental Management Advisory Unit
DHS	Deloitte Haskins and Sells
FPSP	Food Production Support Project
FX	Foreign Exchange
GOU	Government of Uganda
ICU/AG SEC	Inputs Coordination Unit, Agricultural Secretariat
IFDC	International Fertilizer Development Center
IG	Inspector General
IMF/WB	International Monetary Fund/World Bank
IQC	Indefinite Quantity Contract
IQC/PSA	Indefinite Quantity Contract/Procurement Services Agent
L/C	Local Currency or Letter or Credit
L/COM	Letter of Commitment
MA	Ministry of Agriculture
MC	Ministry of Commerce
MCM	Ministry of Cooperatives and Marketing
MCM/PU	Ministry of Cooperatives and Marketing, Planning Unit
MISR	Makerere Institute of Social Research
MIT	Ministry of Industry and Technology
MFAD	Manpower for Agricultural Development Project
MPED	Ministry of Planning and Economic Development
NICU/ASEC	National Inputs Coordination Unit, Agricultural Secretariat
PSA	Procurement Services Agent
REDSO/ESA	Regional Economic Development Services Office, East and Southern Africa
RFTP	Request for Technical Proposal
SA/BOU	Special Account/Bank of Uganda
SER/OP	Program and Management Services Bureau, Office of Commodity Management
TA(pm)	Technical Assistance (person months)
UCA	Uganda Cooperative Alliance
UCB	Uganda Commercial Bank
UCA/BSL	Uganda Cooperative Alliance Business Services Limited
UCA/DCD	Uganda Cooperative Alliance, Department of Cooperative Development
UCA/ETP	Uganda Cooperative Alliance, Education and Training Program
UCA/GS(S.G)	Uganda Cooperative Alliance, General Secretary (Secretary General)
USAID	United States Agency for International Development

UNITED STATES OF AMERICA

AGENCY FOR INTERNATIONAL DEVELOPMENT

U.S.A.I.D. MISSION TO UGANDA

UNITED STATES POSTAL ADDRESS
USAID/KAMPALA
AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON, D.C. 20520

INTERNATIONAL POSTAL ADDRESS
P. O. BOX 7007
KAMPALA, UGANDA.

ACTION MEMORANDUM FOR THE DIRECTOR USAID/KAMPALA

From: Lawrence Odle/PDO Lawrence Odle

Subject: Cooperative Agriculture and Agribusiness Support Project (617-0111)

ACTION: Your approval is requested for a grant of $ 20,000,000 million to Uganda for the Cooperative Agriculture and Agribusiness Support Project (617-0111). It is planned that an initial obligation of $ 2,500,000 will be made during FY 88.

DISCUSSION: The Cooperative Agriculture and Agribusiness Support (CAAS) Project purpose is (1) to increase agricultural productivity and production through increased supply of agricultural inputs; (2) to help place input supply and output marketing on a sound commercial basis, and (3) to stimulate agribusiness development.

Total cost of the project will be $27.8 million. Total AID grant financing for the project will be $20.0 million of which $2.5 million will be provided in FY 1988 with the remainder to be obligated in subsequent years, subject to funding availability. The project has two major components: A commercial commodity import component structured according to the provisions of Regulation 1, and cooperative development. Well over 75 percent of project funding ($15.2 million) is for the Commercial Commodity Import Program (CIP). This CIP is designed to address short-term foreign exchange constraints while increasing the availability of essential agricultural sector inputs. The CIP will concentrate upon those key inputs that are not likely to be provided by other donors and suffer in competition for the GOU's limited foreign exchange. This includes seed, jute, fertilizer and certain types of agricultural elements. Although the cooperative sector is currently the best performing system for distributing inputs to the nation's farmers, its performance is weakened by the under-capitalization and poor management, and hindered by pricing policies left over from the 70's. Participation in the commercially-oriented A.I.D. Regulation 1 CIP will give participating private entities, including cooperatives, an opportunity to re-capitalize and improve their financial standing.

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The CAAS cooperative development component has five elements: 1) policy and planning improvement with the Ministry of Cooperatives and Marketing, the Agriculture Secretariat under the Bank of Uganda, and the Uganda Cooperative Alliance; 2) cooperative accounting, audit and management improvement; 3) cooperative education and training at all levels; 4) an agribusiness support component to help cooperatives diversify; and 5) a primary society matching grants program.

USAID funding ($4.8 million) will cover the foreign exchange cost of technical assistance, equipment/supplies and vehicles for the Ministry of Cooperatives and Marketing, Uganda Cooperative Alliance, Uganda Central Cooperative Union, and the Agriculture Secretariat.

PROPOSED BUDGET

	AID		Local Contribution		TOTAL
	FX	LC	FX	LC	
Technical Assistance Training & Studies					
UCA	2,129	-	-	3,000	5,129
UCCU	898	-	-	-	898
MCM	556	-	-	480	1,036
AG. Secretariat	285	-	-	900	1,185
Makerere University	-	-	-	175	175
Other Costs	-	-	-	2,721	2,721
Evaluation	100	-	-	-	100
Feasibility Studies	300	-	-	-	300
Financial Reviews	90	-	-	-	90
Commodity Imports	15,200	-	-	-	15,200
Inflation & Contingency	442	-	-	510	939
TOTAL	20,000	-	-	7,786	27,786

WAIVERS: Source, origin and nationality waivers are not required for FY 88 development assistance to Africa.

CONGRESSIONAL NOTIFICATION: Congress was not notified through the FY 88 congressional presentation. A congressional notification is required prior to obligation.

CLEARANCE: Both the RLA and RFMC have reviewed the draft Project Paper and their comments have been included in the final version of the Paper. The RLA's comments were received during her December 9-11, 1987 TDY and the draft authorization was received via cable (87 Nairobi 40704). RFMC's comments were received via cable (87 Nairobi 40920).

AUTHORITY: Delegation of Authority 551, Section 4 delegates to principal officers of Africa Bureau field posts set forth in Schedule A the authority to authorize a project if it does not exceed $20 million for the approved life of project, does not present significant policy issues, does not have a life of project over ten years, nor requires issuance of waivers that may only be approved by the Assistant Administrator for Africa ot the Administrator, unless waivers are approved prior to authorizations.

RECOMMENDATION: That you approve the Cooperative Agriculture and Agribusiness Support Project Paper by signing below as well as the Project Paper face sheet, and that you authorize the project by signing the Project Authorization.

Clearance:ADO:FKLyvers
:PO:KShafer
:A/DIR:FEWinch

APPROVED:

DISAPPROVED:

DATE: 11 FEB 88

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PROJECT AUTHORIZATION

Name of Country: Uganda

Name of Project: Cooperative Agriculture and Agribusiness Support

Number of Project: 617-0111

1. Pursuant to the Foreign Assistance Act of 1961, as amended, I hereby authorize the Cooperative Agriculture and Agribusiness Support Project for Uganda involving planned obligations of not to exceed Dols.20,000,000 in grant funds over a six year period from date of authorization subject to the availability of funds in accordance with the A.I.D. OYB/Allotment process, to help in financing foreign exchange and local currency costs for the project. The planned life of the project is seven years from the date of initial obligation.

2. The purpose of the project is to: (1) increase agricultural productivity through increased supply of agricultural inputs; (2) improve agricultural input distribution and commodity marketing; and (3) stimulate agribusiness development.

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

A. Source And Origin Of Commodities, Nationality Of Services

Commodities financed by A.I.D. under the project shall have their source and origin in the cooperating country or in countries in A.I.D. geographic code 941 except as A.I.D. may otherwise agree in writing. The suppliers of commodities or services, including ocean shipping, shall have the cooperating country or countries included in A.I.D. geographic code 941 as their place of nationality, except as A.I.D. may otherwise agree in writing.

B. Conditions Precedent

(1) Prior to disbursement under the commodity import component of the project, or to the issuance of any commitment documents pursuant to which such disbursement may occur, the grantee will, except as the parties may otherwise agree in writing, furnish to A.I.D. in form and substance satisfactory to A.I.D., evidence that:

A special account has been established for the deposit of local currency generated by the import or sale of commodities imported under the commodity import component of the project.

(2) Prior to disbursement under the cooperative development component of the project, or to the issuance of any commitment documents pursuant to which disbursement may occur, the grantee will, except as the parties may otherwise agree in writing, furnish to A.I.D. in form and substance satisfactory to A.I.D., a written agreement between the Ministry of Cooperatives and Marketing, the Uganda Cooperative Alliance, and the Uganda Central Cooperative Union detailing the specific activities to be undertaken under the project by each entity, using local currencies generated by the project, including implementation arrangements and funding.

C. Covenants

(1) The grantee agrees that the Ministry of Cooperatives and Marketing will continue supporting and facilitating in every way possible the enactment of a law substantially similar to the proposed amendment to the 1970 cooperative societies act submitted to the Ministry by the Cooperative Alliance in November 1987.

(2) The grantee agrees that, within one year of the date of the grant agreement, it will implement the agriculture task force recommendations concerning marketing and pricing of food crops, i.e. (A) allowing multi-channel marketing without restrictions on movement and at market determined prices; (B) announcement of minimum or floor prices before each planting season; and (C) licensing of private and cooperative export agents other than for barter trade agreements.

(3) The grantee agrees: (A) to deposit in a special account local currencies in amounts equal to proceeds accruing to the grantee or any authorized agency thereof as a result of the sale or importation of commodities financed under the commodity import component of this project, which shall be used for purposes mutually agreed upon by the grantee and A.I.D.; and (B) within three months of the signing of this Agreement a plan will be developed that shows that local currency generations will be included in the Government's budget, as required and that programming of these funds including funding for the non-governmental agencies such as UCA and UCCU will be essentially as outlined in the Project Paper.

Approved [signature]
Richard Podol
Mission Director
USAID/Kampala.

Date 11 FEB 88

I. PROJECT SUMMARY

A. Project Purpose

The Cooperative Agriculture and Agribusiness Support (CAAS) Project purpose is (1) to increase agricultural productivity and production through increased supply of agricultural inputs, (2) to help place input supply and output marketing on a sound commercial basis, and (3) to stimulate agribusiness development.

B. Implementing Agencies

Ministry of Cooperatives and Marketing and the Bank of Uganda.

C. Background of Project

Experience with Commodity Import Program (CIP) components in other USAID projects has shown that even when commodities are available in country they often do not reach the small farmer due to break downs in the distribution system. The nation wide cooperative structure offers the best chance of revitalizing the rural distribution system and in general the cooperative sector plays an important role in input supply, agro-processing, and marketing of coffee and other agricultural commodities. It's rehabilitation is critical to the country's agricultural growth and to the whole economy. Certain attributes of the cooperatives appear, however, to stand in the way of effective input supply and marketing. First, there is, in general, too much emphasis on cooperatives as low cost service organizations and too little attention to the need for cooperatives to operate as commercial entities. Second, under the provisions of the current 1970 Cooperative Act the cooperative movement is too vulnerable to political manipulation and arbitrary administrative action. Finally, the cooperatives are excessively dependent on a small number of traditional export commodities (chiefly coffee and cotton). To make progress, unions and societies must be managed on a sound business basis, the cooperative movement must be relatively free from political influence, and agricultural diversification must be pursued with an eye to agribusiness development for domestic and export markets.

D. Description of Project

Total cost of the project will be $27.8 million. Total AID grant financing for the project will be $20.0 million of which $2.5 million will be provided in FY 1988 with the remainder to be obligated in subsequent years, subject to funding availability. The project has two major components: A commercial commodity import component structured according to the provisions of Regulation 1, and cooperative development. Well over 75 percent of project funding ($15.2 million) is for the Commercial Commodity Import Program (CIP). This CIP is designed to address short-term foreign exchange constraints while increasing the availability of essential agricultural sector inputs. The CIP will concentrate upon those key inputs that are not likely to be provided by other donors and suffer in competition for the GOU's limited foreign exchange. This includes seed, jute, fertilizer and certain types of agricultural implements. Although the cooperative sector is currently the best-performing system for distributing inputs to the nation's farmers, its performance is weakened by under-capitalization and poor management, and hindered by pricing policies left over from the 70's. Participation in the commercially-oriented A.I.D. Regulation 1 CIP will give participating private entities, including cooperatives, an opportunity to re-capitalize and improve their financial standing.

The CAAS cooperative development component has five elements: 1) policy and planning improvement with the Ministry of Cooperatives and Marketing, the Agriculture Secretariat under the Bank of Uganda, and the Uganda Cooperative Alliance; 2) cooperative accounting, audit and management improvement; 3) cooperative education and training at all levels; 4) an agribusiness support component to help cooperatives diversify; and 5) a primary society matching grants program.

USAID funding ($4.8 million) will cover the foreign exchange cost of technical assistance, equipment/supplies and vehicles for the Ministry of Cooperatives and Marketing, Uganda Cooperative Alliance, Uganda Central Cooperative Union, and the Agriculture Secretariat.

E. Financial Data

SUMMARY COST ESTIMATE AND FINANCIAL PLAN
(US $000)

SOURCE	A I D		Local Contribution		TOTAL
	FX	LC	FX	LC	
I. TECHNICAL ASSISTANCE, TRAINING & STUDIES					
UCA	2,129	-	-	3,000	5,129
UCCU	898	-	-	-	898
MCM	556	-	-	480	1,036
AG. SECRETARIAT	285	-	-	900	1,185
Makerere University	-	-	-	175	175
Other Costs	-	-	-	2,721	2,721
II. EVALUATION	100	-	-	-	100
III. FEASIBILITY STUDIES	300	-	-	-	300
IV. FINANCIAL REVIEWS	90	-	-	-	90
V. COMMODITY IMPORTS	15,200	-	-	-	15,200
VI. INFLATION & CONTINGENCY	442	-	-	510	939
TOTAL	20,000	-	-	7,786	27,786
	======			======	======

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II. PROJECT RATIONALE

A. Country Setting

Uganda is a landlocked country of 237,000 sq km with an estimated population of about 15.5 million. Overall, agricultural potential is good; the country has fertile soils and receives adequate rainfall for crop production. Uganda had one of the strongest agricultural economies in Africa until 1970, but since then political instability and military disturbances have caused a drastic decline in levels of agricultural performance. Output of all major commodities was less in 1980-1985 than in 1966-1970, agricultural exports (apart from coffee) are below 1966-1970 levels, and food production per capita is thought to have declined.

Land under cultivation is estimated at about 5.5 million ha. Smallholders are responsible for about 94% of output, on farms ranging in size from 1.5 ha in the fertile areas of the southwest to 8-9 ha in the north. Food crops grown for own-consumption and for sale include finger millet, sorghum, maize, bananas, cassava, sweet potatoes, beans, and groundnuts. In the past smallholders also produced a wide range of commercial crops, primarily for export: coffee, cotton, sugar, tea, tobacco, and vegetables. Food crops have always been dominant in Ugandan production systems, but have become even more so over the past 15 years as real prices for export crops have eroded, as the economy has contracted, and as the transport and marketing system has deteriorated.

B. Economic Environment

The initial years after Independence clearly demonstrated Uganda's economic potential. Real GDP grew by 5.8% per annum until 1970. Savings averaged 15% of GDP, permitting a respectable investment program without undue pressure on domestic prices or the balance of payments. Export earnings were more than adequate to cover commercial import requirements. The country maintained a current account surplus in most years, and the government's budgetary position was basically sound.

Like other countries in East Africa, Uganda has been shaken by a series of external shocks: a sharp rise in petroleum prices after 1973, and the breakup of the East African Community in 1977. Unlike neighboring countries, Uganda has also experienced 15 years of political instability and military disturbances, accompanied by gross economic mismanagement. At the end of the civil war in January 1986, the economy was in a critical condition. Matters continued to worsen through 1986, underlining the need for a major reversal in economic policies.

C. The 1987 Reform Program

The objectives of the government's Economic Recovery Program, announced in May 1987, are to restore price stability and a sustainable balance of payments position; improve capacity utilization in the industrial and agro-industrial sectors; rehabilitate existing infrastructure; improve producer incentives; restore discipline, accountability, and efficiency in the public sector; and improve public sector resource mobilization and allocation. Concrete steps taken include: a currency reform under which one new Uganda shilling was made equivalent to 100 old shillings; a 30% currency conversion tax; a 77% devaluation against foreign currency; a 158%-400% increase in producer prices for principal export crops; a 130%-230% increase in producer prices for exportable food crops and oilseeds; an increase in petroleum prices to establish parity with neighboring countries; and a doubling of the civil service wage bill.

These measures are being supported by the establishment of an Open General Licensing system for foreign exchange allocations, a credit facility for obtaining local cover for imports, and the pursuance of fiscal and monetary policies to achieve economic stabilization.

D. Agriculture Sector Policies

The government's agricultural development policy focuses on smallholder production. Overall objectives include ensuring food security and adequate nutritional levels; increasing and diversifying the production of agricultural export commodities; producing adequate raw materials for domestic agro-based industries; and increasing agriculture sector employment opportunities.

In pursuit of these objectives, the government's strategy is to increase the supply of agricultural inputs; restore adequate price incentives for food and export crops; promote the production of non-traditional exports such as maize, beans, groundnuts, and oilseeds; improve crop financing procedures; encourage competition and efficiency in crop marketing; rehabilitate the transportation network; and improve essential agricultural services in research and extension. As an important step toward implementing this strategy, the government (with extensive donor support) organized a number of sub-sectoral Agricultural Task Forces which presented their analyses and recommendations in April 1987. Some of these recommendations have already been incorporated into the Economic Recovery Program, and others are being translated into policy actions. Some of the recommendations have been accepted as the basis for the development of specific development programs, to be undertaken with donor support.

E. USAID/Kampala Program Strategy

The government of Uganda, under the leadership of President Museveni, has increasingly begun to redirect attention from trying to reconstruct the economy of the 1960's to developing an economy for the 1990's and beyond. USAID/Kampala is wholeheartedly behind this shift in vision. Our program provides considerable short-term support for the Economic Recovery Program through PL 480 and CIP programs that make available substantial resources in the form of food and agricultural inputs. Over the medium-term, USAID/Kampala intends to support the process of re-investment through the Rehabilitation of Production Enterprises (RPE) and Rural Economic Recovery (RER) projects, which provide credit and commodities for enterprise development and for smallholder agricultural development. Over the long-term, USAID/Kampala will support improvement in the performance of essential agriculture sector institutions, including the faculty of agriculture at Makerere University; the national agricultural research system; and the cooperative sector, which performs a key role in input distribution and commodity marketing.

Since 1981 USAID/Kampala's Food Production Support Project (FPSP) has provided both short and long-term support for the cooperative sector through provision of agricultural inputs, training, and technical assistance. A 1987 evaluation of the project concluded that the input distribution program was of substantial value in boosting production, and that the training program improved morale and performance at all levels of the cooperative sector. Perhaps most significantly, FPSP helped "identify and define the basic policy and institutional issues" impeding more effective performance of the cooperative sector in support of national agricultural development objectives. Given the central role of cooperatives in input distribution and commodity marketing, and given the government's continued interest in supporting improved cooperative performance, USAID/Kampala intends to build on and extend the achievements of the Food Production Support project through a follow-on project addressing cooperative agricultural and agribusiness development.

III. PROJECT DESCRIPTION

A. Perceived Problem

Uganda is critically dependent on agriculture, which provides 99% of exports, 93% of employment, 65% of Gross Domestic Product, and 40% of government revenue. But after 15 years of political and economic upheaval, Uganda's agriculture is at a low ebb. Present levels of output of most major commodities are lower than in 1970, and most agro-processing industries are producing at 10-20% of capacity. Constraints in foreign exchange, institutional capacity, and agricultural technology hold production at low levels. But it would be a mistake to think of Uganda's needs strictly in terms of rehabilitation. Circumstances in Uganda and in international markets have changed fundamentally during the past decade, revealing serious structural problems that cannot be resolved by rehabilitation of infrastructure, facilities, and services alone. During the next 5-15 years, agriculture in Uganda will have to come to grips with these central problems:

-- diversification of production is needed to meet import substitution objectives and to reduce dependence on a handful of traditional exports (mainly coffee);

-- government must reduce its role in input supply and commodity marketing, a role which has been growing since the early 1970's with poor results;

-- a select number of essential agricultural services must be restored and strengthened (input supply, marketing, research) to foster increased yields, production, and diversification; finally,

-- macro-economic and sectoral policies must provide incentives to encourage substantially increased production for domestic and export markets.

Progress in most of these areas hinges critically on progress in improving the functioning of the cooperative sector, which plays important roles in input supply, agro-processing, and marketing of coffee and other agricultural commodities.

There are several desirable attributes of cooperatives which should allow them to play a significant future role in input supply and output marketing. First, the cooperatives are farmer-owned and oriented. Second, the cooperatives have a reasonably well articulated network of district unions and primary societies through which inputs can be supplied and output marketed in the major producing areas. Finally, about one-third of the cooperative movement has remained financially viable and creditworthy despite the political and economic upheavals of recent years, and can serve as the nucleus of a commercially-oriented agricultural input and marketing system. Cooperatives, of course, cannot be the sole providers of farm production and marketing services; a reinvigorated private sector should provide the competition needed to ensure that farmers receive good service at fair prices everywhere in the country.

Other attributes of cooperatives appear to stand in the way of effective input supply and marketing. First, there is, in general, too much emphasis on cooperatives as service organizations and too little attention to the need for cooperatives to operate as commercial entities. Second, the cooperative movement is, under the provisions of the current 1970 Cooperative Act, too vulnerable to political manipulation and arbitrary administrative action. Finally, the cooperatives are excessively dependent on a small number of traditional export commodities (chiefly coffee and cotton). To make progress, unions and societies must be managed on a sound business basis, the cooperative movement must be relatively free from political influence and unnecessary government involvement, and agricultural diversification must be pursued with an eye to agribusiness development for domestic and export markets.

B. Project Goal and Purpose

The goal of the Cooperative Agriculture and Agribusiness Support project (CAAS) is to raise the standard of living in Uganda through increased agricultural productivity and production. The project purpose is (1) to increase agricultural productivity and production through increased supply of agricultural inputs, (2) to help place input supply and output marketing on a sound commercial basis, and (3) to stimulate agribusiness development. To achieve these purposes the project will work at three levels:

-- policy improvement, focused on input distribution and commodity marketing;

-- institutional development, focused on a select set of key organizations in the agricultural arena; and

-- increased input supply, focused on a handful of key agriculture sector commodities.

C. Project Components and Elements

The CAAS project has two major components: a $4.8 million cooperative development component, and a $15.2 million commodity import component structured according to the provisions of A.I.D. Regulation 1. The cooperative development component will provide assistance for improving policies and institutional performance so that input distribution and commodity marketing can be done with greater efficiency and effectiveness. The commodity import component is designed to address short-term foreign exchange constraints while increasing the availability of essential agricultural sector inputs such as seed, jute, fertilizer, and agricultural implements. Even though the cooperative sector is currently the best-performing system for distributing inputs to the nation's farmers, its performance is weakened by under-capitalization and poor management, and hindered by pricing policies left over from the 1970's. Participation in a commercially-oriented A.I.D. Regulation 1 CIP will give participating private entities, including cooperatives, an opportunity to re-capitalize and improve their financial standing. The cooperative development program will support this by helping to improve financial management and management performance in the cooperatives, and by assisting key agriculture sector organizations to improve their policy analysis and policy formulation capabilities. Hence there is a strong complementarity between the two project components: although each can proceed independently of the other, their joint effects are expected to have a major impact on the availability of farm inputs throughout the country.

The CAAS cooperative development component has five elements: policy and planning improvement; agribusiness support; cooperative accounting, audit, and management improvement; education and training; and primary society matching grants. The background, objectives, activities, and resources associated with each element are discussed in Sections 1-5 below. Section 6 discusses the commodity import program, and Section 7 outlines local currency programming.

1. Policy and Planning Improvement

a. Background

The GOU has recently embarked upon a comprehensive policy reform program with IMF/World Bank support. This makes it both feasible and appropriate for A.I.D. to assist the GOU in its efforts to address sectoral and sub-sectoral policy issues. The recently completed agriculture sector review undertaken by the Agricultural Secretariat has identified a number of agricultural policy issues, many of which revolve around questions of commodity marketing and input distribution.

b. Objective

The overall objective of the policy/planning project element is to help place input distribution and commodity marketing on a sound, commercial basis. This will support increased and diversified agricultural production and will also allow a recapitalization of the cooperative input distribution and marketing structure.

c. Activities

This project element will enhance the policy and planning capacity of three key agriculture sector organizations: the Agricultural Secretariat, the Ministry of Cooperatives and Marketing, and the Uganda Cooperative Alliance. Each activity is discussed in turn below.

Agricultural Secretariat. The Agricultural Secretariat functions as the analytic arm of the President's Agricultural Policy Committee (APC), which is the supreme decision-making body for agriculture sector policy. The Secretariat is responsible for assessing agriculture sector performance and problems, formulating policy options, and monitoring implementation of the most significant policies and programs. With support from the World Bank, USAID, and several other donors, the Secretariat recently completed a comprehensive and detailed review of the agricultural sector, the recommendations from which have been largely adopted by the Agricultural Policy Committee. One of the most important of these recommendations, endorsed by the APC in April 1987, is for the establishment of a National Inputs Coordination Unit in the Secretariat with the following objectives:

-- monitor volumes and prices of inputs entering or being produced in Uganda;

-- monitor the distribution of these inputs as to destinations, margins, dealer costs, and major problems in distribution;

-- analyze the costs and benefits of technical packages and generate a positive list of inputs required;

-- publish quarterly situation reports on its findings to serve as the basis for interaction between the Government of Uganda and major donor agencies.

The Secretariat is currently recruiting a Ugandan director to head the Inputs Coordination Unit, and has identified a candidate for one of the two staff positions. These staff members will however benefit from specialized technical support at key points as they set up their Unit and begin work on the agenda outlined above. Specialized short courses focused on agricultural input management problems, such as those sponsored by the IFDC and ACDI in the U.S., will also be useful. A.I.D. will help increase the capability of this important unit by providing short-term technical assistance, short course training, supplies and equipment.

Ministry of Cooperatives and Marketing. The Ministry of Cooperatives and Marketing (MCM) is organized into two Departments: the Department for Cooperative Development and the Marketing Department. Each is discussed briefly below, along with the Planning Unit, which serves both Departments.

The overall purpose of the Department of Cooperative Development is to help form viable cooperative societies, and then guide and advise them and district unions in their operations so that they can eventually become sound business enterprises. In the past, this oversight role has led to considerable involvement of the Department in cooperative affairs, with the result that many members of the public see cooperatives as simply another arm of government. However, under current management the Department is seeking a better balance in its relations with the cooperative sector. The staff of the Department are being reduced by about one-third, about 700 employees. Other initiatives aim at transferring the Department's education, training, and audit functions to the Uganda Cooperative Alliance. Increasingly, the Department expects to focus attention on a handful of key functions, one of the most important of which will be to monitor and evaluate management performance, particularly among the district unions, to ensure compliance with fundamental regulations such as undertaking annual audits and holding annual general meetings.

The most important objectives of the Marketing Department of the MCM are to ensure that the structure of agricultural marketing in Uganda works to the benefit of the nation's farmers; to commercialize and diversify agricultural production by increasing the access of farmers to domestic, regional, and international markets; to provide marketing information services; and to ensure the coffee, lint, and produce marketing boards fulfill their functions and adhere to operating regulations. Under current management the Marketing Department intends to strengthen its operations in a number of areas, including three key functions: monitoring the operations of the marketing boards and analyzing their efficiency; evaluating the impact of marketing policies and formulating improved policies; and collecting and disseminating market information for the benefit of producers.

The Planning Unit of the MCM is expected to support the Department of Cooperative Development and the Marketing Department by helping assess the costs and benefits of alternative policies; by undertaking project feasibility studies; and by evaluating the performance of national programs and projects managed by the MCM. With A.I.D. support provided under the Food Production Support project, a start has been made in helping the Planning Unit to accomplish these tasks, but much work remains to be done.

A.I.D. will provide short-term technical assistance, focused short course training, equipment and supplies to support the key activities outlined above: helping the Department of Cooperative Development to establish an improved management performance monitoring system; assisting the Marketing Department to improve its capacity in the areas of marketing board oversight, policy formulation, and provision of market information; and strengthening the Planning Unit, particularly in regard to program evaluation.

Uganda Cooperative Alliance. The Uganda Cooperative Alliance (UCA) is the Apex organization of the cooperative movement in Uganda. For many years it was nearly moribund, has recently acquired new leadership, and with the support of the MCM has embarked upon a series of activities of great significance to cooperative development in Uganda. These include a review of the

Cooperative Act, with a view toward reducing the role of government in cooperative affairs; the establishment of a vigorous cooperative education and training program; the establishment of an ambitious computerization program aimed at improved accounting, auditing, and management decision-making throughout the cooperative structure; and the establishment of a Cooperative Development Department with responsibilities for fostering cooperative agribusiness development and agriculture policy analysis as this pertains to cooperative development.

UCA's policy analysis program focuses on:

-- establishing an information system to provide solid data for analysis of cooperative performance, particularly with respect to the capital structure of the cooperative sector, level and incidence of taxation, effects of price controls and inflation, and marketing license procedures. An important feature of the system is to provide improved understanding of marketing costs and margins. This information will be used in discussions with government concerning minimum prices of agricultural commodities, and the share of export earnings from coffee and other export crops accruing to farmers and marketing organizations.

-- undertaking market surveys to provide basic information on potential markets domestically, regionally, and internationally. The results of these market surveys can be used to help structure investment plans in the cooperative sector, and will serve as a basis for dialogue with government regarding the development of an overall national trade strategy.

A.I.D. will help institute these policy-oriented programs by providing long-term technical assistance in cooperative development, focused short-term technical assistance, short course training, equipment and supplies.

d. Resources

Resources to be provided in support of improved policy and planning are summarized in the table below.

Table III.1. Resources for Improved Policy and Planning

	Organization			
Inputs	Ag Secretariat	MCM	UCA	Total
Long-Term TA (p/m)	0	0	36	36
Short-Term TA (p/m)	6	30	10	56
Short Courses (p/m)	10	18	10	38
Long-Term Education (p/m)			60	60
Equipment/Supplies*	10.5	46	23.5	80
Vehicle	0	0	2	2
Local Currency Support**	900	320	320	1540

* $'000
** $'000 equiv

2. Agribusiness Support

a. Background

The need for agribusiness development is widely recognized in the government and the cooperative sector. Many of the larger, financially stable district cooperative unions have already invested in business activities as have a handful of the larger primary societies. Agribusiness expansion has been hindered by a number of factors, most prominently macro-economic disarray and political-military disturbances. Even so, more could be achieved if cooperative managers had better information about potential markets, appropriate production and processing technologies, and assistance in putting together bankable project proposals.

In the private sector, there are a number of established agro-based industries, such as implement manufacturers, that could produce more and diversify their lines of production but which face constraints in obtaining foreign exchange for raw materials, spares, and equipment. There is also a need to support the establishment of additional agribusiness enterprises, such as seed, fertilizer, and livestock feed production.

b. Objective

The objective of the agribusiness support element is to increase and diversify agricultural production and exports by encouraging a broadening of cooperative agribusiness beyond the traditional export crops of coffee and cotton; to support increased production among established agro-based industries; and to explore the feasibility of a select number of potential new cooperative agribusinesses.

c. Activities

The CAAS project will provide essential foreign exchange to private and cooperative importers and manufacturers for imports of raw materials and machinery, and will provide assistance to the agribusiness support program currently being established by UCA's Department of Cooperative Development. The commodity import program is discussed separately; the UCA program is outlined below.

UCA's program of agribusiness support will be implemented by:

-- establishing an agribusiness advisory service, which will provide advice and guidance to cooperative organizations in identifying investment opportunities, preparing project plans, and implementing feasible activities; and

-- assisting cooperative organizations to conduct professional feasibility studies in such areas as coffee processing, cotton ginning, grain milling, feed production, oil processing, animal slaughter, dairy industries, seed production, and fertilizer production. Dollar funding for the feasibility studies will be provided under the technical assistance contracts and will be implemented through the contract.

It is anticipated that these services will be provided almost exclusively to Class A unions, that is, unions with sound finances and management that are able to borrow money on a commercial basis. There is no point in encouraging agribusiness expansion among unions that are unable to manage their on-going activities effectively.

It is further anticipated that UCA will not itself do the bulk of the work involved in providing advisory services and feasibility studies. Rather, it is expected that UCA will provide overall leadership and coordination, and will arrange for specific activities to be done on a contract basis by qualified specialized firms. This approach is in line with UCA's overall role in the movement, which is to provide direction and leadership rather than everyday services that are easily available elsewhere.

d. Resources

The table below summarizes resources to be made available by the CAAS project for cooperative agribusiness development.

Table III.2. Resources for Cooperative Agribusiness

Inputs	UCA Agribusiness Support
Short-Term TA (p/m)	8
Short Courses (p/m)	10
Equipment/Supplies*	10.5
Local Currency Support**	360
FX for Advisory Services*	120
FX for Feasibility Studies*	300
Local Currency-Feasibility Studies**	600

* $'000
** $'000 equiv

3. Accounting, Audit, and Management Improvement

a. Background

Time and again financial control and good management emerge as constraints in Uganda. Poor accounting and auditing inhibits sound management of cooperatives and engenders problems in input distribution and marketing. Diversion and embezzlement flourish in an environment where accurate accounting and careful auditing are not institutionalized. Unfortunately Uganda's accounting and audit industry is at a very low level of development, lacking even procedures for certification and registration of qualified accountants. Capable management is also scarce, particularly in the cooperative sector, which has been weakened by years of national economic disarray and political intervention. The political and economic importance of the coffee crop is such that no Ugandan government can tolerate poor management in the coffee unions; this will lead inevitably to government intervention unless management problems can be identified early at a time when less drastic measures can be used.

b. Objective

The objective of this project element is to help strengthen financial control and improve management decision-making at critical points in the cooperative sector.

c. Activities

This element of the CAAS project will provide support to a broad program of accounting, auditing and management improvement to be implemented by UCA, which is outlined below.

With support from MCM and donor assistance from DANIDA through the Swedish Cooperative Center, the Uganda Cooperative Alliance, through its subsidiary, UCA Business Services Ltd., has embarked on a far-reaching effort to improve standards of accounting in the cooperative sector. A parallel companion subsidiary, UCA Statutory Services Ltd. is also planned for establishment next year to conduct audits for the cooperative movement. This overall program will:

-- assist unions and societies to install computerized accounting and management systems, thereby providing essential support to a computerization program financed by the Swedish Cooperative Center;

-- develop and implement suitable management information systems, to ensure that union decision-makers have the necessary information available on a timely basis;

-- improve systems of internal financial control, capitalizing upon the advantages of computerized account-keeping;

-- establish an audit company which will provide auditing services to the cooperative movement;

-- improve and standardize internal budgeting routines, which have been seriously neglected in many district unions; and

-- improve and standardize accounting routines and policies to increase comparability among unions and to respond to the special requirements of an inflationary economy. Finally,

-- as UCA's computerization and accounting improvement programs proceed, there will be a concomitant need for training programs to transfer relevant knowledge to managers, committee members, board members, and chief accountants so that they understand and make the best use of the improved management tools at their command.

UCA's program provides for computerization of both unions and primary cooperative societies. Background analysis (see Annex F) suggests that priority should be given to computerization of unions, that the benefits of computerizing primary society accounts have yet to be demonstrated, and that UCA's own implementation capacity is limited. Accordingly, A.I.D. will support UCA's program so far as it addresses accounting and audit improvement at union level, but will defer support for the primary society activities until the issues noted above have been resolved. This will be a matter for the CAAS Standing Committee to review at annual intervals, and should be addressed as well by the formative evaluation which will take place after 18-24 months of project implementation.

It is anticipated that UCA will implement many aspects of this program with the support and assistance of MCM staff at district level, and that other aspects of the program will be implemented through contracts with appropriate international accounting and auditing organizations. This approach is dictated by the currently limited implementation capacity of UCA, and by the need for UCA as an organization to focus on providing leadership and guidance in cooperative development, rather than day-to-day program administration.

d. Resources

The CAAS project will make the following resources available as defined in Table III.3 for UCA's accounting, audit, and management improvement program.

Table III.3. Resources for Auditing, Accounting and Management Improvement

Inputs	UCA Program
Long-Term TA (p/m)	24
Short-Term TA (p/m)	12
Short Courses (p/m)	10
Equipment/Supplies*	20.5
Vehicle	2
Local Currency Support**	750

* $'000
** $'000 equiv

4. Cooperative Education and Training

a. Background

Participation in cooperative organizations as members or managers requires clear understanding of the basic principles of cooperative organization, operations, and leadership. During the difficult years of the 1970's, cooperative education and training programs lagged, while many of the most experienced and capable leaders left. Improvement in these areas is vitally important for the long-term viability of the cooperative sector. Despite good progress made under the predecessor project (Food Production Support Project), much remains to be done to improve the quality and coverage of cooperative sector education and training programs. The MCM has asked UCA to take the lead in this critical area.

b. Objective

The objective of this project element is to help UCA develop a self-sustaining education and training program which will respond to human resource development needs throughout the movement; which will coordinate and make the best use of a broad range of existing training institutions; and which will help unions develop their own training capacities to meet the educational needs of societies and the general membership. There is also a need to provide increased opportunities for training of women in the cooperative movement.

c. Activities

Two activities will be supported: a general UCA education and training program, and a special program focused on the needs of women.

UCA Education and Training Program. Specific activities to be supported include the following:

-- a training needs assessment, which will provide an empirical base for the development of cooperative training programs;

-- preparation of a long-term training plan for the movement as a whole, which should be reviewed and updated annually to remain responsive to the changing needs of the cooperative sector;

-- building district-level training teams, using personnel from the unions and MCM, which will focus on primary society training needs;

-- implementation of a general membership training program;

-- implementation of a training program for management committee members at primary societies and district unions; and

-- implementation of a senior management training program for national and district union management.

Women in Cooperatives. UCA's objectives in this program are to assist women to organize and effectively use cooperatives to meet their needs and increase their incomes. Specific activities include:

-- education of rural women about cooperative principles, operations, and benefits;

-- leadership training courses, focused particularly on income-generating opportunities; and

-- development of appropriate teaching materials and publications.

It is foreseen that through this program UCA will be able to assist women in the cooperative movement to gain access to resources for small-scale agribusiness development.

d. Resources

The resources to be made available for support of these programs are summarized below.

Table III.4. Resources for Cooperative Education and Training

Inputs	UCA Education/Training	Women in Cooperatives	Total
Short-Term TA (p/m)	8	4	12
Short Courses (p/m)	10	5	15
Long Term Education (p/m)	60	-	60
Equipment/Supplies*	50.5	10.5	61
Local Currency Support**	300	60	360

* $'000
** $'000 equiv

5. Primary Society Matching Grant Program

a. Background

About 50% of the primary societies are handicapped by lack of storage facilities and essential equipment such as scales, calculators, and safes. With few exceptions, capital assets and working capital are grossly inadequate. This constitutes a major constraint on effective operations and also discourages efforts aimed at improvement in such critical areas as accounting and management, marketing of inputs and commodities, and diversification into new productive activities.

b. Objective

The objective of the primary society matching grant program is to assist primary societies to gain access to capital and equipment needed for rehabilitation and to support increased levels of productive activity.

c. Activities

The matching grant program will be implemented primarily by UCA with the support and assistance of the MCM, UCCU, and appropriate district unions. Specifically:

-- UCA and MCM will establish criteria for eligibility, which will include conformity with MCM regulations regarding registration and operations, as well as successful participation in the education and management improvement programs sponsored by UCA.

-- district unions and MCM district staff will identify eligible societies and assist them in preparation of matching grant proposals;

-- the UCA Cooperative Development Department will evaluate these proposals and make recommendations to the CAAS Standing Committee, which will authorize the release of matching grant funds to successful applicant societies;

-- at least initially, the matching grant will be limited to $1000 to $5000 local currency equivalent with the actual amount being dependent upon the needs defined in the matching grant proposal and the amount contributed by members in the form of labor and local materials;

-- imported equipment (e.g. calculators) will be made available in kind as a part of the grant. Imports will be managed by UCCU; and

-- union staff and MCM district staff will provide technical support where this is required to implement the grant proposal activities.

This program is conceived as a short-term effort to rehabilitate societies and encourage them to improve their operations and perhaps diversify into new areas of activity. Accordingly, A.I.D. will support the costs incurred by UCA in hiring a local-hire Program Administrator to manage the matching grant program during the first five years of project activity. After the first year of operations, the CAAS Standing Committee will review the performance of the matching grant program and determine whether the authority to approve matching grant proposals from societies can be delegated to union level. There is a strong presumption in favor of decentralizing approval authority to union level once the program has been established.

d. Resources

The resources to be made available for the primary society matching grant program are summarized below.

Table III.5. Resources for Matching Grant Program

Inputs	Matching Grant Program
Long-Term TA (p/m)*	60
Equipment/Supplies**	5.5
Equipment for Grants-in-Kind**	1000
Local Currency Grants***	750

* Local hire.
** $'000
*** $'000 equiv

6. Commodity Import Program

a. Background

The hoes, bicycles, seeds, and other commodities brought into Uganda through the Food Production Support project (1981-1987) and the predecessor Commodity Import Program (1979-1981) have been of great value. Despite problems of leakage and profiteering, the commodity imports boosted farmer morale, boosted agricultural production, and boosted the image of the cooperative movement, while helping to meet the nation's urgent need for foreign exchange. This successful record, and Uganda's continuing need for foreign exchange, suggest a commodity import program should be a major element of the CAAS project. However, experience with the Food Production Support Project suggests that (a) the performance of the cooperative sector in importing and marketing farm inputs on a competitive commercial basis needs to be improved, and (b) the direct involvement of A.I.D. and MCM in procurement and distribution of commodities must be eliminated to keep management burden to a minimum. A.I.D. and MCM must however maintain an oversight role.

b. Objective

The objective of the commodity import program is to provide a foreign exchange line of credit for the commercial import of commodities needed for continued recovery and diversification in the agricultural sector, and to strengthen the capacity of Uganda Central Cooperative Union (UCCU) and selected district unions to import and market farm inputs.

By running the commodity import program on a strictly commercial basis, several complementary objectives will be achieved:

UCCU and district unions will build their capacity to function as commercial organizations; full costing of commodities and margins will allow recapitalization of the distribution system at all levels; and the need for administrative allocation of under-priced commodities will be reduced if not entirely eliminated.

c. Activities

The CIP will finance the commercial importation of fertilizers, seeds, jute, steel to be made into agricultural implements and equipment, and a variety of agricultural equipment and supplies required for rehabilitation and agricultural diversification. Criteria for commodities to be financed under this program include the following:

-- priority will be given to raw materials and essential processing and manufacturing equipment. Finished production inputs will be provided only to the extent it is demonstrated that the capacity for local production does not exist and cannot be economically developed, or as an interim measure while local capacity is developed;

-- priority will be given to importation of agriculture-sector inputs that are not being financed by other donor programs;

-- the minimum size of each transaction will be $100,000, the maximum size of each transaction will be $1,000,000, and the maximum amount made available to a single importer/manufacturer during any one year will also be $1,000,000.

The major importers will be UCCU, General Machinery, Sembule Mills, Uganda Baati, Chillington Hoes, and others to be determined. Criteria for eligibility of importers/manufacturers under this program include the following:

-- priority will be given to importers/manufacturers whose products can be distributed through cooperatives;

-- priority will be given to importers/manufacturers whose products benefit the rural farm population.

All pricing of A.I.D.-financed commodities at wholesale and retail levels, together with associated transportation mark-ups, will be done strictly on a market basis with no administrative interventions.

UCCU and participating district unions will be required to distribute A.I.D.-financed commodities exclusively through cooperative channels except when slow-moving items with a limited shelf-life (e.g. seed) must be moved rapidly through the private sector to avoid financial loss. Each such action will be approved in advance by the CAAS Standing Committee.

Machinery imported by private firms, as well as manufactured commodities (hoes, animal-drawn and tractor-drawn implements, nails, barbed wire, roofing sheets, agro-processing machinery) will be distributed and sold to cooperative organizations and private end-users as appropriate and at the discretion of the importers/manufacturers.

A detailed description of procedures to be followed in the CIP is presented in the Procurement Plan (Section V.C.).

A.I.D. will provide long-term technical assistance, short-term technical assistance, short course training, and limited amounts of equipment and supplies to assist UCCU in improving their capacity to function as commercial suppliers of farm inputs, and in gaining access to the foreign exchange line of credit. In addition to major responsibilities in these areas, the long-term Input Distribution Advisor will (with the assistance of a local-hire End Use Monitor) also monitor the implementation of the CIP and distribution to end-users. Local currency support is provided to meet the operating expenses of the End Use Monitor.

d. Resources

Resources to be made available under the CIP are outlined below. The allocation of resources among various categories of commodities is indicative only and will be adjusted by the CAAS Standing Committee annually to meet changing needs and circumstances in Uganda. The Standing Committee will also review the list of eligible importers/manufacturers on an annual basis. UCA and the Agricultural Secretariat will be responsible for performing the analysis required to identify appropriate commodities.

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Table III.6. Resources for Commodity Import Program

A. Commodities — Value ($'000)

Item	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Total
Fertilizer	700	650	1200	1200	1000	900	5650
Seeds	400	400	500	500	500	300	2600
Steel	-	50	1075	1100	900	450	3575
Jute	175	100	200	250	250	200	1175
Equip/Mach	170	100	200	300	250	180	1200
Matching Grant Comm	60	80	200	200	210	250	1000
Total	1505	1380	3375	3550	3110	2280	15200

B. Technical Support

Inputs	UCCU Input Distribution Management Improvement
Long-Term TA (p/m)	36
Short-Term TA (p/m)	10
Short Courses (p/m)	24
Equipment/Supplies*	23.5
Vehicle	1
Local Currency Support**	70

* $'000
** $'000 equiv

7. Local Currency Programming

a. Objectives

The local currency generated by the CAAS commodity import program will be programmed largely in support of key project objectives: cooperative development, strengthening of infrastructure for input distribution and commodity marketing, and agricultural expansion and diversification. A small proportion of local currency generations will also be earmarked to meet A.I.D.'s in-country operating expense requirements. The procedures outlined here are designed to meet A.I.D.'s legal responsibilities for oversight of local currency expenditures while keeping the direct management burden to a minimum.

b. Budgeting Local Currency Generations

In the final review of the Project chaired by the Permanent Secretary of the Ministry of Planning, we were informed that all local currency generations must be in the annual budget or they would not be released by the Government. Since local currency generations under this project will not really begin until next year, efforts will now be made to get this program in the budget or an exception to this policy will be sought. A special covenant is also being inserted in the Project Agreement (see Section VII Conditions and Covenants) that a plan will be prepared along the lines of the details provided in this PP. This plan will be prepared and provided to USAID within three months of the signing of the Agreement, unless this problem is fully resolved in the final negotiations of the Agreement.

c. Activities Requiring Local Currency

The activities to be supported with local currency generations include the following:

-- policy studies including input distribution and other sub-sector agriculture issues to be implemented by the Agricultural Secretariat, MCM, and UCA;

-- feasibility studies and advisory services to be made available for cooperative agribusiness development through UCA;

-- a proportion of the local costs associated with implementation of UCA's accounting, audit, and management improvement program;

-- a proportion of the local costs associated with implementation of UCA's education and training programs and the women in cooperatives program;

-- the local currency requirements of the primary society matching grant program;

-- a small amount for annual project impact assessment surveys, to be done by the Makerere Institute for Social Research on behalf of the CAAS Implementation Committee;

-- the salary of a local-hire administrative assistant for the Contractor Chief of Party, and the salary and operating expenses of a commodity End-Use Monitor to assist the Input Distribution Advisor;

-- the local costs associated with supporting the long-term technical advisors provided through CAAS; and

-- the local cost associated with the operations of the USAID Mission in Uganda.

These programmed local currency expenses account for approximately $7.8 million of the $15.2 million in local currency which will be generated by the commodity import program. The remainder of the local currency generations will be programmed by the Ministry of Planning and USAID with Ministry of Finance concurrence according to the following criteria:

-- first priority will be given to additional CAAS project support costs, especially if it becomes necessary to increase the liquidity of UCCU and district unions to allow them to finance input distribution;

-- second priority will be given to support for other A.I.D. projects.

third priority will be given to support for complementary other-donor projects and for budgetary support of key programs of the Government.

d. Local Currency Program Management for Coop. activities

The local currency program for the Cooperatives will be managed by the CAAS Core Committee, which will operate as follows:

-- the CAAS Core Standing Committee (MCM, UCA and USAID) will review and approve the set of local currency programs for Cooperatives and other entities as indicated in the local currency budget. The Committee can amend this set by adding or deleting approved programs at any time, or adjusting levels of support for approved programs.

-- the Core Committee will release funds to the approved programs on a quarterly basis.

-- the organizations implementing local currency programs will provide an accounting to the Core Committee on a quarterly basis. A lag of one quarter will be permitted in presenting these accounts; in other words, the first quarter of support must be properly accounted for before the third quarter of support will be released.

-- a sample of accounts submitted to the Core Committee will be reviewed on a contract basis by a qualified audit firm each quarter. Provision for this arrangement has been included in the local currency cost estimate budget. The audit firm will report its findings to USAID/Kampala and the Standing Committee.

-- if the accounting review is unsatisfactory, no further funds will be released until the accounting has been done satisfactorily.

-- In addition, provision has been made in the FX budget for a full financial review of the local currency program on an annual basis. Organizations and programs that do not receive a favorable audit report will be barred from receiving further support until the audit recommendations have been closed.

The CAAS Core Committee will either approve on a larger "program" basis or review and approve specific activities on a case-by-case basis; the Committee will also exercise its review and approval authority when it authorizes the release of funds to approved programs on a quarterly basis. So long as accounting and audit reports are favorable, the organizations responsible for these programs will have full authority to implement specific activities as they see fit without further reference to the Standing Committee, A.I.D., MCM, or any other entity. Indicative costs associated with each activity are outlined in Section IV (Cost Estimate and Financial Plan), Co-op. local project costs.

e. Local Currency Program Management for other Funds

For the use of all other local currency CIP generations (see Local Currency Budgetin Section IV) procedures similar to those noted above, will be followed with the exception that the Ministry of Planning with Ministry of Finance concurrence will provide government approval and oversight responsibility. If additional funding is needed by the MCM or cooperative movement, specific proposals would require approval and the release of funds by the Ministry of Planning and USAID. Furthermore, within the overall allocation as noted in the budget and on an annual basis, USAID will submit an annual request to Planning for a "trust fund" to cover local currency requirements of operations in Uganda.

f. Verification of Procedures

The procedures currently being used for the FPSP and other generations from PL 480 will be utilized. These procedures were developed by a PSC Mission accountant and were reviewed by RFMC as well as by an international accounting and audit firm. Both RFMC and the firm have verified that the controls over AID generated local currency receipts and disbursements are adequate, and in fact are as elaborate as any USAID African Mission.

SECTION IV. COST ESTIMATES AND FINANCIAL PLAN

The CAAS Project will cost a total of $27,785,500 of which AID's contribution is $20,000,000 and the GOU's is $7,785,500. These costs will be expended over a period of seven years illustrated by Tables 1 - 3 below although most funds will be expended by the fifth year. The funding levels in the AID budget reflect the limited level of Mission funds during the first two years. First year funding has been constrained to $2.5 million with technical assistance kept below $1 million and second year funding is only about $3.05 million.

A. AID's Contribution

AID is providing the foreign exchange costs of two major categories of expenditure: (a) technical assistance, training and studies ($4.8 million), and (b) a Commodity Import Program (CIP) which is the major expenditure in the project ($15.2 million). The first category of expenditure will be allocated to four entities--Uganda Cooperative Alliance (UCA), Uganda Central Cooperative Union (UCCU), the Ministry of Cooperatives & Marketing (MCM) and the Agricultural Secretariat. UCA will receive most of these funds (44 percent) because of their needs and the fact that the project is heavily focused on improving their delivery of services to the cooperative movement. Besides the emphasis on UCA, most expenditures (except in UCCU) will be for short term TA and short courses and a moderate amount is for vehicles, equipment and supplies. Annexes H and I provide the details. Table 2 illustrates the annual budgetary distribution of dollar funding among the institutions mentioned above. In this budget, inflation was estimated at 5 percent per annum while contingency funding was estimated as an increasing percentage over time. It is important to point out that in order to maximize the use of dollars, no dollars will be converted into shillings. Local costs will be adequately covered by the GOU contribution.

The lion's share of AID's funding is for the CIP which is 76 percent of the total. These funds will be utilized to finance the foreign exchange import costs of a select list of important agricultural items. Most of the funds will be for fertilizer (37 percent), seeds (17 percent), and steel (23.5 percent). Table 2 provides the breakdown of the CIP dollar allocation which does not go beyond the sixth year.

B. GOU Contribution

The GOU's contribution shown in Table 3 consists primarily of funds from local currency generations of AID programs from a PL 480 program (only in the first year) and from the CAAS Project's CIP. The majority of local currency expenditures (72 percent) will be for costs related to activities at UCA, MCM, the Agricultural Secretariat, Makerere University and for the support of the Prime

Contractor. UCA will benefit from most of local currency allocations (approximately $3 million dollars equivalent or 38 percent of the total and over 50 percent of the funds for co-op costs).

USAID will also receive local currency for operating expenses of the local currency program as well as the Mission itself.

The CIP will generate $15.2 million in shillings which will be programed over the seven years of the project to support a wide range of development activities mutually agreed to by USAID and the GOU.

C. Recurrent Costs Analysis

The issue as to whether the GOU and other implementing agencies will be able to meet their recurrent costs will be addressed in this project by the fact that a substantial portion of these recurrent cost requirements will be derived from the project's CIP local currency generations (not including salaries). These funds will become available at the end of the first year (PL 480 generated funds will be used prior to this). The funds will continue to be readily available throughout the life of the project and will be used to ensure that some regular operating costs of the implementing agencies are adequately covered. Budgetary support is the only way many project related activities will be accomplished. This is considered necessary because of the depressed state of the economy and the pressure placed on keeping the GOU budget deficit down created by conditions established in the recent World Bank/IMF recovery program.

However, the dangers of creating a dependency on a temporary external source of funds has been recognized. With this in mind, the project has been designed to ensure that the GOU implementing agencies can properly manage and maintain the programs and facilities initiated by the CAAS project. The project also has a covenant requiring the preparation of a plan to have the local currency generations included in the GOU's budget, as required, and that the programming of these funds, including that of the non-governmental agencies, be utilized as outlined in this PP. This is intended to ensure that the GOU and other agencies start to budget for the activities stimulated by CAAS and that they are covered when the project is over. Also, generated funds go to co-ops -- and are not dependent on the GOU budget. As the co-op business activities increase under this Project, the co-ops will be able to pay own cost and those of UCCU and UCA. In addition, the CAAS project will provide direct assistance to the main implementing agencies to bolster the accounting and auditing capacity in their offices. Thus, the assurance of adequate financial record keeping and procedures have been addressed by the project.

D. Methods of Implementation and Financing (AID)

Given the conditions of the Ugandan economy, the GOU does not have nor is it expected to have in the near future, adequate foreign exchange to pay for project services. Therefore, the Direct Reimbursement method of financing, Fixed Amount Reimbursement or other preferred methods of AID financing for services is not recommended for this project. AID's Direct Payment method is the only feasible alternative and will be utilized in CAAS. The CIP will be conducted under Reg 1 guidelines.

The implementation and financing of TA, evaluation, financial review/audits and feasibility studies will be direct AID contracts as follows:

Funds have also been set aside for financial accounting of the local currency program. As mentioned previously, the accounting/management procedures for local currency generated funds currently being employed by the Food Production Support Project and the PL 480 program will be followed under CAAS. These procedures have been been verified by RFMC and an independent international auditing firm to be sufficient and adequate.

TABLE 1

PROJECT COSTS BY FISCAL YEAR
(US $'000)

	Year 1		Year 2		Year 3		Year 4		Year 5		Year 6		Year 7		TOTAL	
	AID	GOU	AID	GOU	AID	GOU	AID	GOU	AID	GOU	AID	GOU	AID	GOU	AID	GOU
1. TECHNICAL ASSISTANCE, TRAINING & STUDIES																
UCA	472	400	835	610	521	700	210	600	91	510	-	180	-	-	2,129	3,000
UCCU	222	-	323	-	293	-	30	-	30	-	-	-	-	-	899	-
MCM	151	60	177	90	75	90	60	90	93	90	-	60	-	-	556	480
AG. SECRETARIAT	55	100	83	150	68	200	44	200	35	150	-	100	-	-	285	900
Makerere University	-	25	-	25	-	25	-	25	-	25	-	25	-	25	0	175
Other Costs	-	375	-	397	-	420	-	336	-	365	-	397	-	431	0	2,721
2. EVALUATION	0	-	50	-	0	-	0	-	50	-	-	-	-	-	100	-
3. FEASIBILITY STUDIES	75	-	100	-	100	-	25	-	-	-	-	-	-	-	300	-
4. FINANCIAL REVIEWS	0	-	15	-	15	-	15	-	15	-	15	-	15	-	90	-
5. COMMODITY IMPORTS	1,505	-	1,380	-	3,375	-	3,550	-	3,110	-	2,280	-	-	-	15,200	-
6. INFLATION & CONTINGENC	20	73	85	102	123	116	103	95	99	81	6	40	7	6	442	510
TOTAL	2,500	1,033	3,049	1,373	4,570	1,551	4,037	1,346	3,522	1,221	2,301	801	22	462	20,000	7,786
COMBINED TOTAL		3,532		4,422		6,121		5,383		4,742		3,102		483		27,786

TABLE 2

A.I.D. PROJECT COSTS
(US $'000)

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Total
I. TECHNICAL ASSISTANCE & TRAINING								
A. Uganda Cooperative Alliance								
Long Term TA:								
Aduit Management Advisor	133.3	266.7	-	-	-	-	-	400.0
Cooperative Development Advisor	133.3	233.3	233.3	-	-	-	-	600.0
Short-Term TA (42 p/m)	65.3	154.0	168.0	140.0	60.7	-	-	588.0
Short Course Training (45 p/m)	60.0	90.0	50.0	15.0	10.0	-	-	225.0
Long-Term Education (5 person yrs)	-	50	50	35	-	-	-	135.0
Vehicles (4+Spares)	60.0	-	-	-	-	-	-	60.0
Equipment/Supplies	20.0	41.0	20.0	20.0	20.0	-	-	121.0
Subtotal	472.0	835.0	521.3	210.0	90.7	-	-	2,129.0
B. Uganda Central Cooperative Union								
Long-Term TA:								
Commodity Distribution Advisor	133.3	233.3	233.3	-	-	-	-	600.0
Short-Term TA (10 p/m)	28.0	28.0	28.0	28.0	28.0	-	-	140.0
Short Course Training (24 p/m)	30.0	60.0	30.0	-	-	-	-	120.0
Vehicle (1+Spares)	15.0	-	-	-	-	-	-	15.0
Equipment/Supplies	15.5	2.0	2.0	2.0	2.0	-	-	23.5
Subtotal	221.8	323.3	293.3	30.0	30.0	-	-	898.5
C. Ministry of Cooperatives/Marketing								
Short-Term TA:								
Planning Unit (10 p/m)	28.0	28.0	28.0	28.0	28.0	-	-	140.0
Marketing Dept (10 p/m)	28.0	42.0	28.0	14.0	28.0	-	-	140.0
Comm for Coop Dev (10 p/m)	37.3	42.0	14.0	14.0	32.7	-	-	140.0
Short Course Training (18 p/m)	30.0	60.0	-	-	-	-	-	90.0
Equipment/Supplies	28.0	5.0	5.0	4.0	4.0	-	-	46.0
Subtotal	151.3	177.0	75.0	60.0	92.7	-	-	556.0
D. Agricultural Secretariat								
Short-Term TA (16 p/m)	37.3	56.0	56.0	42.0	32.7	-	-	224.0
Short Course Training (10 p/m)	15.0	25.0	10.0	-	-	-	-	50.0
Equipment/Supplies	2.5	2.0	2.0	2.0	2.0	-	-	10.5
Subtotal	54.8	83.0	68.0	44.0	34.7	-	-	284.5
E. Evaluation	-	50.0	-	-	50.0	-	-	100.0
F. Feasibility Studies	75.0	100.0	100.0	25.0	-	-	-	300.0
G. Annual Financial Reviews/Aduits	-	15.0	15.0	15.0	15.0	15.0	15.0	90.0
Subtotal TA & Training	975.0	1,583.3	1,072.7	384.0	313.0	15.0	15.0	4,358.0
Inflation @ 5% *	-	42.5	62.1	60.5	67.5	4.0	5.2	241.8
Contingency (@ 2.5, 5 & 10%) *	20.0	42.7	60.7	42.0	31.5	2.0	1.3	200.2
Grand Total TA & Training	995.0	1,668.5	1,195.5	486.5	412.0	21.0	21.5	4,800.0
II. COMMODITY IMPORT PROGRAM								
Fertilizer	700.0	650.0	1,200.0	1,200.0	1,000.0	900.0	-	5,650.0
Seeds	400.0	400.0	500.0	500.0	500.0	300.0	-	2,600.0
Steel	-	50.0	1,075.0	1,100.0	900.0	450.0	-	3,575.0
Jute	175.0	100.0	200.0	250.0	250.0	200.0	-	1,175.0
Equipment/Machinery/Vehicles	170.0	100.0	200.0	300.0	250.0	180.0	-	1,200.0
Matching Grant Commodities	60.0	80.0	200.0	200.0	210.0	250.0	-	1,000.0
Subtotal..........................	1,505.0	1,380.0	3,375.0	3,550.0	3,110.0	2,280.0	-	15,200.0
CAAS GRAND TOTAL	2,500.0	3,048.5	4,570.5	4,036.5	3,522.0	2,301.0		21.5 20,000.0

* Inflation & Contigency do not include LT-TA because costs are fixed in 1st year.

TABLE 3

LOCAL CURRENCY BUDGET
(US $'000)

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Total
A. CO-OP COSTS								
I. Uganda Cooperative Alliance								
Policy Studies	40.0	60.0	60.0	60.0	60.0	40.0	-	320.0
Agribusiness Feasibility Studies	50.0	100.0	150.0	150.0	100.0	50.0	-	600.0
Agribusiness Advisory Services	10.0	20.0	30.0	30.0	20.0	10.0	-	120.0
Accounting, Audit, Management Imp	150.0	200.0	150.0	100.0	100.0	50.0	-	750.0
Education and Training	25.0	50.0	75.0	75.0	50.0	25.0	-	300.0
Women in Cooperatives	5.0	10.0	15.0	15.0	10.0	5.0	-	60.0
Matching Grant Program Administrator	20.0	20.0	20.0	20.0	20.0	-	-	100.0
Matching Grant Program Funds	100.0	150.0	200.0	150.0	150.0	-	-	750.0
Sub-total..........................	400.0	610.0	700.0	600.0	510.0	180.0	-	3,000.0
II. Ministry of Cooperatives and Marketing								
Policy Studies (Planning Unit)	20.0	30.0	30.0	30.0	30.0	20.0	-	160.0
Policy Studies (Marketing Department)	20.0	30.0	30.0	30.0	30.0	20.0	-	160.0
Mgt Inf System (Comm/Coop Dev)	20.0	30.0	30.0	30.0	30.0	20.0	-	160.0
Sub-total..........................	60.0	90.0	90.0	90.0	90.0	60.0	-	480.0
III. Agricultural Secretariat								
Policy Studies	100.0	150.0	200.0	200.0	150.0	100.0	-	900.0
IV. Makerere University								
Project Impact Assessment	25.0	25.0	25.0	25.0	25.0	25.0	25.0	175.0
V. Prime Contractor								
Admin Assistant	20.0	20.0	20.0	-	-	-	-	60.0
End-Use Monitor	20.0	20.0	20.0	20.0	20.0	20.0	20.0	140.0
Monitoring Operating Expenses	10.0	10.0	10.0	10.0	10.0	10.0	10.0	70.0
Advisor Support	90.0	90.0	90.0	-	-	-	-	270.0
Sub-total..........................	140.0	140.0	140.0	30.0	30.0	30.0	30.0	540.0
VI. Contigency @ 10%	72.5	101.5	115.5	94.5	80.5	39.5	5.5	509.5
Co-op Project Total........................	797.5	1,116.5	1,270.5	1,039.5	885.5	434.5	60.5	5,604.5
B. U.S.A.I.D. LOCAL CURRENCY BUDGET								
L/C Account Review Contract	20.0	20.0	20.0	20.0	20.0	20.0	20.0	140.0
Operating Expenses (10% of CIP L/C Funds)	215.0	236.5	260.5	286.5	315.0	346.5	381.0	2,041.0
GRAND TOTAL.................................	1,032.5	1,373.0	1,551.0	1,346.0	1,220.5	801.0	461.5	7,785.5
C. OTHER--from CIP Program (to be budgeted)	-	1,505.0	1,380.0	3,375.0	3,550.0	3,110.0	2,280.0	15,200.0

V. IMPLEMENTATION ARRANGEMENTS:

This section outlines (a) administrative responsibilities of the entities involved in the CAAS project; (b) role of the Prime Contractor and contractor selection procedures; (c) a procurement plan; and (d) a schedule of implementation actions.

A. Administrative Responsibilities:

The following entities have direct responsibilities for implementing CAAS project activities: the Government of Uganda, as represented by the Ministry of Planning and Economic Development (MPED) and the Ministry of Cooperatives and Marketing (MCM); the Bank of Uganda (BOU); the Agricultural Secretariat of the Bank of Uganda; the Uganda Cooperative Alliance (UCA); the Uganda Cooperative Central Union; and USAID/Kampala.

The responsibilities of major implementing organizations are outlined below. A final section outlines the organization and responsibilities of the CAAS Standing Committee.

1. Government of Uganda:

The Government of Uganda will be the designated Grantee, and the Ministry of Planning and Economic Development, its authorized representative, will sign the Project Grant Agreement on behalf of the Government.

2. Bank of Uganda:

The Bank of Uganda will be the implementing agency for the commercial commodity import component of the CAAS project and the project element supporting the Agricultural Secretariat. Specific procedures are spelled out in the Procurement Plan in Section V.C.

As detailed in the local currency budget (Table 3 in Section IV). at appropriate intervals the Bank of Uganda with Ministry of Finance concurrence and USAID approval, will transfer local currency out of the Project Account to a working and interest bearing Account in a Commercial Bank to be managed by the CAAS Core Committee. Procedures for managing the Working Account are spelled out in the Project Description, Section III.C.7.

The Director of the Agricultural Secretariat and the Director of the National Inputs Coordination Unit will be responsible for programming project-funded short-term technical assistance, training, equipment and supplies in support of the operational and analytic objectives of the Inputs Coordination Unit.

3. Ministry of Cooperatives and Marketing:

The Ministry of Cooperatives and Marketing, under the overall supervision of the Permanent Secretary, will implement three elements of the project relating to the Department of Cooperative Development, the Marketing Department, and the Planning Unit.

The Department of Cooperative Development, under the direct guidance of the Commissioner, will program the project-funded short-term technical assistance, training, equipment and supplies to help develop the Department's Management Information System.

The Marketing Department, under the direct guidance of the Deputy Commissioner, will program the project-funded short-term technical assistance, training, equipment and supplies in support of the Department's objectives in analyzing operations of the marketing boards, marketing policy improvement, and development of a market information system.

The Planning Unit, under the direct guidance of the Planning Officer, will program the project-funded short-term technical assistance, training, equipment and supplies in support of Planning Unit functions, especially as these relate to program evaluation.

The MCM Aids and Projects Office will be represented on the CAAS Standing Committee and will share responsibility (with A.I.D. and UCA) for managing the local currency programs.

MCM officers at district level will provide assistance and advice to UCA staff who are implementing UCA programs at district and society level.

4. Uganda Cooperative Alliance (UCA)

The UCA, under the overall supervision of the Secretary-General, will be responsible for implementing five elements of the CAAS project: policy analysis, agribusiness support, cooperative auditing/accounting improvement, cooperative education and training, and the primary society matching grant program. UCA will be responsible for programming project-funded long- and short-term technical assistance, training, equipment and supplies in support of these programs. Procedures for implementing each of these are outlined below.

a. Policy Analysis

The UCA's Cooperative Development Department, under the direct guidance of the Department Head, will implement a policy analysis component by (1) identifying a range of policy issues and associated information needs, (2) specifying a series of research and analytic activities to address these issues and needs, and (3) arranging for the specified activities to be carried out by UCA staff, local consultants, or expatriate advisors as appropriate.

b. Agribusiness Support

The UCA's Cooperative Development Department, under the direct guidance of the Department Head, will implement the agribusiness support element by (1) assisting cooperative unions and primary societies to identify agribusiness opportunities; and (2) arranging for feasibility studies to be done by UCA staff, local consultants, or short-term expatriate advisors as appropriate.

c. Accounting, Audit, and Management Improvement

UCA will implement the accounting, audit, and management improvement element through its subsidiary, UCA Business Services Ltd. and the new audit company being established called UCA Statutory Services Ltd. The requisite services will be provided with a subsidy initially, the level of subsidy to be negotiated in accordance with the needs of specific client unions and societies. The subsidy element will decline to zero during the seven-year life of project. Specific activities and implementation of this program will be carried out by UCA staff, contractors (e.g. Coopers & Lybrand or Deloitte, Haskins, Sells), or expatriate advisors as appropriate.

d. Education and Training

The UCA's Education and Training Department, under the direct guidance of the Department Head, will implement the education and training element by (1) surveying the training needs of the cooperative movement, (2) developing a plan for coordinated human resource development in cooperative institutions, and (3) managing implementation of the plan. In doing this UCA will draw on the resources of the MCM and other in-country training institutions. Specific activities will be carried out by UCA staff, contractors, or expatriate advisors as appropriate.

e. Matching Grants

The matching grant program will be implemented under the direct guidance of the UCA Secretary-General, with assistance from the project-funded Program Administrator. UCA will implement the primary society matching grant element by identifying candidate societies. This identification of candidate societies will be done by UCA Business Services Ltd. in conjunction with UCA's Education and Training Department, with concurrence from MCM district-level staff. Candidate societies will then be invited to prepare a Matching Grant Proposal for assistance in acquiring storage facilities and equipment. Proposals will be reviewed by UCA's Cooperative Development Department, and recommendations forwarded to the CAAS Standing Committee which will authorize the release of grants-in-aid to societies with approved proposals. As detailed in the Project Description, this approval authority should be delegated to union/district level after the initial year of operations. The grants-in-aid will be provided in local currency and kind. Procurement of the required materials and equipment will be done through the CIP mechanism, and UCCU will be responsible for distribution to primary societies who are recipients of the grants-in-aid. UCCU will be paid for this service at full commercial rates.

5. Uganda Cooperative Central Union (UCCU)

The Uganda Cooperative Central Union, under the direct guidance of the General Manager, will be responsible for implementing the input distribution improvement element of the project with support from project funded long-term technical assistance, short-term technical assistance, training, equipment and supplies.

6. Makerere Institute for Social Research (MISR)

The Makerere Institute for Social Research, under the direct guidance of the Director, will undertake annual project impact assessments and present the results to the CAAS Standing Committee. These assessments will be carried out as defined and approved in a local currency proposal. Indicative Terms of Reference are included in Annex G.

7. USAID/Kampala

The CAAS project will be implemented under the overall supervision of the Agricultural Development Officer (ADO), USAID/Kampala. But to keep the management burden to a minimum the project has been designed to be managed by the implementing organizations and agencies through the mechanism of the CAAS Standing Committee. After an initial period of heavy involvement during pre-implementation proceedings and initial implementation, the ADO will be able to focus on (a) providing overall supervision and oversight; (b) reviewing and obtaining AID approvals on recommendations of the CAAS Standing Committee on uses of foreign exchange and local currency; and (c) monitoring overall implementation to ensure compliance with A.I.D. rules and procurement regulations.

To support the ADO in discharging these administrative responsibilities additional contracts for quarterly local currency account reviews, annual financial reviews, and evaluations will be required during the life of the project as outlined below.

a. Quarterly Local Currency Account Reviews

USAID/Kampala will contract with a qualified local audit firm to review the local currency accounting of participating organizations on a quarterly basis throughout the life of the project. The reports of these reviews will be submitted to

USAID/Kampala and to the CAAS Standing Committee. Organizations whose programs receive an unfavorable quarterly review will not receive further funding until all funds received have been fully accounted for. This arrangement will reduce the amount of time required by A.I.D. controller staff and MCM Aids and Projects staff to monitor diverse local currency programs. Funds for this contract have been included in the local currency budget.

b. Financial Review and Audits

Annually during the life of the project USAID/Kampala will issue work orders to a local representative of an international Certified Public Accounting firm (CPA) selected through the Indefinite Quantity Contracting mode (IQC) to do financial reviews or audits.

The scope of work of the selected firm will address financial and compliance matters, including a full review of the dollar and local currency project accounts for all contracts and the implementing entities. The resulting findings will be reviewed by USAID/Kampala and the CAAS Standing Committee. Funds for the financial reviews have been included in the project dollar budget.

The need for audits of the Project will be reviewed with RIG/A/N each year. Funding has been provided for audits, if needed. If a non federal audit is needed, RIG will provide assistance to prepare the terms of reference and will assist Mission in conducting and reviewing the Audit report as needed.

c. Evaluation

Two evaluations are planned during the life of the project: a formative evaluation after 18-24 months of implementation, to assist the Mission in re-validating the overall project design and this implementation plan; and a mid-term evaluation after 40-50 months of implementation, to assess whether the project is meeting overall objectives, to suggest adjustments in activities and levels of effort as necessary, and to make an initial determination whether there is a need for a follow-on activity. Funds for these evaluations have been included in the project dollar budget.

8. CAAS Standing Committees

The CAAS Project will have two committees to consist of a Core Standing Committee and a General Standing Committee.

a. Core Standing Committee

The Core Committee will have representation from the following:

-- Ministry of Cooperatives and Marketing;
-- Uganda Cooperative Alliance;
-- USAID.

The Core Standing Committee includes three other members (BOU, UCCU and MA) when the CIP program is discussed. The committee will convene monthly or more often as required to effectively manage, coordinate, and monitor implementation of the CAAS project. The UCA Secretary-General will serve as Convener and the UCA Cooperative Development Department will serve as Executive Secretariat.

Specific functions of the Core Committee include:

-- approving funds requests and releasing CAAS-generated local currency for cooperative related activities at quarterly intervals;

-- reviewing quarterly and annual audit reports on cooperative organizations whose programs are financed with local currency;

-- review cooperative movement policies and programs;

-- reviewing and making recommendations to A.I.D. as necessary with regard to the list of authorized commodities to be financed by A.I.D.;

-- reviewing and making recommendations to A.I.D. as necessary with regard to the list of importers/manufacturers eligible for access to A.I.D.-financed commodities; and

-- monitoring the progress of the commodity import program and the cooperative development program, and adjusting activities as required to meet overall project goals and purposes.

Ordinary meetings of the Core Standing Committee will be attended by representatives directly responsible for program administration, e.g. the A.I.D. ADO, MCM Assistant Commissioner for Aids and Projects, and appropriate representatives from UCA, UCCU, the Bank of Uganda and MOA. At quarterly intervals the core committee will convene with senior representatives from relevant organizations, e.g. the A.I.D. Mission Director, the MCM permanent secretary, and the UCA secretary-general to form the General Standing Committee. These senior level quarterly meetings will provide an opportunity for all concerned to share understandings about project progress and to resolve implementation questions as they arise.

b. General Standing Committee

The General Standing Committee will include the organizations listed above and the following additional organizations:

-- Ministry of Planning and Economic Development;
-- Uganda Commercial Bank;
-- Ministry of Agriculture;
-- Ministry of Industry and Technology;
-- Agricultural Secretariat;
-- Makerere Institute for Social Research;
-- Ministry of Commerce.

Ordinarily these organizations will attend the General Standing Committee sessions on a quarterly basis to remain apprised of CAAS operations, but they will also attend other meetings on an as-needed basis to resolve questions pertaining specifically to their areas of responsibility.

B. Prime Contractor

1. Introduction

USAID/Kampala will contract directly with a Prime Contractor who will be responsible for providing long-term technical assistance, short-term technical assistance, overseas training and limited commodity procurement.

2. Contractor Selection

This contract will be openly competed. The Request for Technical Proposals will urge bidders to prepare proposals as a consortium or as a joint venture to insure high level cooperative development, policy level and audit/finance capabilities. Gray Amendment firms are encouraged to submit proposals as well. Overall management of the contract will be vested in a single organization. The contracting process will be managed by USAID/Kampala. The RFTP technical evaluation committee will consist of representatives from each of the following organizations:

-- USAID/Kampala
-- Uganda Cooperative Alliance
-- Ministry of Cooperatives and Marketing

Bidders will be encouraged to visit Uganda prior to submitting proposals in order to appreciate the environment within which they will be operating if selected as the Prime Contractor.

3. Technical Assistance

The Prime Contractor will provide a total of 108 p/m of long-term technical assistance distributed as follows.

Chief of Party. The Prime Contractor will provide a Chief of Party (COP) who will be primarily responsible for serving as a Cooperative Development Advisor to the Secretary-General of the UCA, but who will also be responsible for the overall management of contract activities. The period of assignment is for 36 months. Detailed Terms of Reference for the Cooperative Development Advisor are provided in Annex F.

Audit and Financial Management Advisor. The Prime Contractor will provide an Audit and Financial Management Advisor who will be responsible for establishing an audit company and assisting with

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implementation of the accounting and management improvement elements of the project. He will report directly to the UCA Secretary-General and the Chief Auditor of the new company UCA Statutory Ltd. The period of assignment is for 36 months. Detailed Terms of Reference for the Audit and Financial Management Advisor are provided in Annex F.

Input Distribution Advisor. The Prime Contractor will provide an Input Distribution Advisor who will (a) assist the Uganda Cooperative Central Union (UCCU) in gaining access to foreign exchange through the commercial commodity import program and (b) assist UCCU in improving the efficiency of their efforts to distribute commodities on a commercial basis through cooperative unions to primary societies and ultimately farmer-members. In discharging these responsibilities the Input Distribution Advisor will report directly to the General Manager, UCCU. The period of assignment is for 36 months. Detailed Terms of Reference are provided in Annex F.

Short-Term TA. The Prime Contractor will also provide a total of 86 person months of short-term technical assistance distributed as described in the Project Description and summarized in Annex H. No short-term assignment will be undertaken without the specific written approval of the sponsoring organization, agency, or department with regard to (a) the terms of reference for each assignment and (b) the qualifications of the consultant selected.

4. Training

The Prime Contractor will provide short-term overseas training in support of the activities listed above. A total of 97 person months of overseas training distributed as described in the Project Description have been provided for in the budget (also see Annex H). No short-term training will be undertaken without the specific written approval of the sponsoring organization, agency, or department with regard to (a) the site and type of training assignment and (b) the qualifications of the trainee selected.

5. Project Administration

The Prime Contractor will (1) provide local logistical support for the long and short-term advisors, (2) provide a local-hire Administrative Assistant to support the Chief of Party, and (3) provide a local-hire End-Use Monitor to support the Input Distribution Advisor. Terms of Reference for the latter position are included in Annex F. The Prime Contractor will prepare quarterly Financial and Implementation Reports and annual Progress Reports for review by the CAAS Standing Committee and USAID/Kampala.

C. Procurement Plan

1. Responsible Agency

Procurements under the project can be broken down into two different elements. The first and largest of these is a commercial commodity import activity to provide general support to agricultural production and specific support for the matching grants to primary societies. These commodities will be procured by private sector firms and financed under A.I.D. Regulation 1. The second commodity procurement element of the project is the procurement in support of the technical assistance component of the project. These goods will be purchased by the contractor.

Although different A.I.D. regulations and procedures will be applicable to the commercial CIP element from the regulations applicable to purchases to support the TA contractor, the primary governmental implementing agency for the CIP under the project will be the Bank of Uganda (BOU). Under the commercial CIP component the BOU will be responsible for selecting the U.S. bank to be the recipient of the A.I.D. letter(s) of commitment under which exporters will be paid, for corresponding with that U.S. bank to confirm letters of credit opened on behalf of the importers by commercial banks in Uganda (or to open letters of credit directly with the chosen suppliers), for assisting importers with import licensing requirements, and for corresponding with and reporting to A.I.D. on the implementation of this project element.

A relatively minor proportion of the commodities imported by the Uganda Cooperative Central Union (UCCU) under the CIP component will be used to support matching grants to primary cooperative societies. The primary societies can use the local currency made available as matching grants to purchase equipment and supplies on the local market. If needed inputs are not available on the market in Uganda, the cooperative society can use the Uganda Shillings as the local currency cover and, through UCCU, order needed items by the CIP mechanism. UCCU will be designated as the consignee for the commodities so purchased in support of the matching grant component of the project. UCCU will be responsible for issuance of receiving reports, for storage of the goods so received, and for commercial distribution of the commodities to the societies which ordered them.

The procurement of the commodities to support the technical assistance element of the project will be done by the contractor.

The various institutions with which the TA contractor will be working will be designated as the consignees for the goods purchased to support the TA contractor's efforts. These institutions will each be responsible for issuing receiving reports as the commodities arrive and for periodic reports to USAID on the disposition and use of these inputs.

In carrying out these responsibilities, the BOU, UCCU and the other agencies involved will have the advice and assistance of USAID, of the TA contractor, and of REDSO/ESA.

2. Procurement Entities/Procedures

The commercial commodity import element of the Project will be governed by the provisions of A.I.D. Regulation 1. Approximately $15 million of foreign exchange will be made available to finance the importation of an approved list of commodities by an approved list of importers. A general advertisement will be placed in the A.I.D.-financed Export Opportunities Bulletin listing potential importers and the goods that they will be needing and requesting U.S. exporters to contact the Ugandan importers directly. After suppliers are chosen, importers will send applications for allocations of the FX to the Bank of Uganda. The USAID Project Officer will be a member of the Foreign Exchange Allocation Committee which will approve all allocations. If the importer's application has been thus approved, the importer will obtain the necessary import license from the Ministry of Commerce. After obtaining the import license, the importer will deposit the Uganda Shilling equivalent at the official exchange rate of the FX value of the transaction to the Special Account at the Bank of Uganda (or through his commercial bank to the Special Account at BOU) and will have his commercial bank issue a letter of Credit (L/C) in favor of the exporter. The commercial bank will then request the Bank of Uganda to correspond with the U.S. bank holding the A.I.D. letter of commitment to confirm the payment of the L/C by the U.S. correspondent bank. The below list is illustrative of the commodities and importers which have thus far been identified for potential financing under the project. The list is not intended to be exhaustive or exclusive.

Table V.1. Commodity Import Program

Commodity	Potential Importer	Life of Project Funding
Fertilizer	UCCU	$5,650,000
Seeds	UCCU	$2,600,000
Jute	Uganda Jute	$1,175,000
Raw materials for making ag implements, etc.	Sembule Steel Chillington Steel General Machinery	$3,575,000
Capital equipment for ag support industries	Various	$1,200,000
Matching grant commodities	UCCU	$1,000,000
Total		$15,200,000

As noted above some commodities will be purchased under the CIP element to support the matching grants to primary societies. UCCU will combine requests for purchase of commodities intended to support the matching grant element and purchase these goods in several tranches. It may be necessary to procure some of these commodities by a Procurement Service Agent (PSA) using either Host Country (HB II Chapter 3) or direct AID contracting with a PSA, if the Indefinite Quantity Contractors (IQC) are established in Nairobi. An illustrative list of the goods that will be needed for the matching grant element of the project for which FX will be required follows:

Table V.2. Matching Grant Program Commodities

Item	No.	Prob. S/O	Est. Cost
Safe	500	Code 941	$75,000
Calculators w/accessories	500	Code 941	$35,000
Manual Typewriter	500	Code 941	$100,000
50 KG Hanging Scale	500	Code 941	$200,000
Locks/Door Hardware	500	Code 941	$15,000
Other, Contingency			$575,000
Total			$1,000,000

Commodities designed to support the efforts of the technical assistance contractor will be purchased by the contractor. The below list of commodities has been thus far identified as required to carry out project objectives by the agencies with whom the TA team will be working:

Table V.3. Commodities for TA Support

Item	No.	Probable S/O	Est. Cost
PC w/printer and Software	5	Code 000	$50,000
Utility Vehicles	3	Code 935	$45,000
Photocopiers	2	Code 935	$6,000
Typewriters	10	Code 941	$5,000
Office supplies		Code 941	$75,000
Books/Publications		Code 941	$65,000
Total			$246,000

A more detailed breakdown showing the costs of equipment, supplies, and vehicles and the allocation to participating organizations is included as Annex I.

3. Source/Origin and Waivers

The authorized Source/Origin for commodities and commodity related services for the project is A.I.D. Geographic Code 941. Initially three utility vehicles of Code 935 origin will be purchased under the AID/W right hand drive blanket vehicle waiver. Other vehicles will likely be needed later. Additionally, the relatively small size of the fertilizer purchases which will be financed under the CIP element of the project may not lend themselves to economically viable shipment to Uganda from the U.S.. Therefore, an exemption from the A.I.D. policy that fertilizer procurements be confined to the U.S. will be requested from SER/OP for each projected procurement, as needed.

4. Financing of Commodities

Commodities purchased under the commodity import component of the project will be financed by letters of credit issued by commercial banks in Uganda and confirmed by a U.S. bank to be chosen by the Bank of Uganda under an A.I.D. letter of commitment issued by AID/W FM. Four commercial banks in Kampala have been identified by potential importers and have agreed to issue the required L/C's upon presentation of the proper documentation. These banks are Barclays Bank of Uganda Ltd, Standard and Chartered Bank of Uganda Ltd, Grindlays Bank of Uganda Ltd., and the Uganda Commercial Bank. If a PSA is needed for the matching grant element then AID/W, FM will issue a bank letter of commitment to a bank chosen by the PSA with the PSA designated as the approved applicant to direct letters of credit be issued to chosen suppliers. PSA fees will be financed under an A.I.D. direct L/Com issued by the RFMC in Nairobi, if the PSA is contracted in Nairobi.

5. Local Currency Generations

Local currency will be generated by the commodity import program element. All importers will be required to deposit the Uganda Shilling equivalent of the foreign exchange value of their letter of credit at the time of the establishment of the L/C. Local currency thus generated will be jointly programmed by USAID and the Government of Uganda as outlined in the Project Description (Section III.C.7.).

6. Marking

Commodities imported by private sector importers under the CIP project element will not be marked; however, shipping containers in which these goods are transported to Uganda will be marked as required by A.I.D. Regulation 1. Commodities purchased to support the TA project element will be appropriately marked with the A.I.D. hand clasp emblem.

7. End Use Monitoring

The technical assistance contractor will be required to hire one individual who will be charged with reporting to the contractor and to the USAID on the disposition and end use of the commodities imported under the project.

D. Monitoring and Annual Work Plan

1. Monitoring

A number of complementary activities have been built into this project to support effective project monitoring. These are listed below, together with a reference to the section in which each is described.

-- CAAS Standing Committee (III.7.C., V.A.8.);

-- annual project impact assessments (V.A.6.);

-- quarterly local currency account reviews (V.A.7.a.);

-- annual financial reviews (V.A.7.b);

-- evaluations (V.A.7.c.);

-- prime contractor quarterly and annual reports (V.B.5.);

-- commodity end-use monitor (V.C.7., Annex F.4.).

Taken together, these complementary monitoring mechanisms will provide information adequate to track project implementation and to make adjustments as required to meet changing conditions and ensure achievement of key project objectives.

2. Annual Work Plans

Since the four major entities of MCM, UCA, UCCU and the Agricultural Secretariat are involved with Project implementation, a coordinated work plan will be prepared each year based on the Uganda fiscal year. As currently planned, the first annual work plan will be initiated immediately upon signing of the contract in May, with the assistance of short term consultants. Since local currency generations of the Project must be budgeted each year in the Ugandan government budget, the work plan exercise each year will begin as soon as needed (probably in January), to insure the budget and program is defined for the following year.

E. Schedule of Implementation Actions

The major implementation actions of the project are noted as follows:

Implementation Action	Date Accomplished
-- Project Authorized	January 1988
-- ProAg Signed	March 1988
-- Request for Proposal (RFP) completed and made available to prospective Contractors	"
-- Government meets two Conditions Precedent to provide opinion of Counsel and additional representatives.	"
-- Government also meets two other Conditions Precedent: 1) establishes agreement with UCA and UCCU; and 2) establishes a special account for deposit of local currency	April
-- CIP program is initiated with issuance of finance request and establishment of Letter of Credit with U.S. bank	"
-- Initial list of commodities, eligible supplies and amount of foreign exchange available to each will be prepared	"
-- Advertisements placed for first private importers	"
-- RFPs received and evaluated	May
-- First General Standing Committee Review of Project	"
-- First importers place order for commodities, establish L/C and obtain import license	"
-- Contract Negotiated by USAID	June
-- Initial Matching grant proposals approved by Core Committee	"

--	Local currency procedures finalized and initial proposals prepared and approved	June
--	Annual work plans reviewed/finalized each year by MCM, UCA, UCCU and Agr. Secretariat with consultant input	July, each year
--	Initial consultants arrive under contract	July
--	Second Standing Committee Review	August
--	Third Standing Committee Review	October
--	Government meets covenant to amend Co-op Act	December
--	Government meets covenant to implement Task Force recommendation concerning marketing and pricing of food crops	January 1988
--	Fourth Standing Committee Review and others will follow each quarter as needed until end of project	"

F. Environmental Considerations

1. General

The project has already received a categorical exclusion on the basis that it will deal with five discreet components, none of which are expected to have significant adverse environmental impacts. The project activities involved are:

a. Agribusiness Support - To provide the Uganda Coop. Alliance with technical assistance, esp. for feasibility studies for agribusiness investment.

b. Policy and Planning - Two long-term advisors to the Ministry of Cooperatives ar Marketing and one to UCA to provide advice on policy and planning.

c. Input Supply and Agric. Finance - A CIP mechanism to import commodities to be sold through coops to farmers. L.C. generated will supply credit for local agribusiness activities.

d. Education and Training - Provision of training to strengthen coops at the primary levels.

e. Accounting/Auditing Services - Provision of Services.

2. Issues Arising

The IEE was given a negative determination with the provision that any agrichemical issues arising in the project would be resolved prior to disbursement of funds. The present project design does not call for the provision and/or use of pesticides by project staff, however it is possible that individual farmers, coop staff and the personnel reviewing credit applications, will need some guidance on pesticides during project implementation.

The project does intend to encourage the development of local phosphate fertilizer production as well as the importation of ready-to-use nitrogenous fertilizers.

3. Resolution of the Issues

a. Pesticides

1) Training: There is already a mechanism in USAID to provide training in the area of pest and pesticide management. This is the Manpower for Agricultural Development Project (617-0103) in which a number of Ugandans have already received short-term training in pest control and spray application. The subject of short- and long-term training in pest and pesticide management will be considered in the redesign of the MFAD project that is presently going forward. In addition, the project will provide a vehicle for short-term, in-country training for personnel in Cooperatives, agricultural extension and agribusiness on: a) storage, handling and re-packaging chemicals; b) use of fumigants in food storage; and c) proper chemicals and techniques for seed treatment. All of these are areas of concern to USAID as they affect the implementation of many bilateral programs in addition to USAID projects.

2. Guidelines: In addition to the above training initiative which is going forward, USAID has requested the regional office, REDSO, to produce a set of Pest Management Guidelines that can be used by all USAID project personnel as a guide to the pest control problems in Uganda, and the proper methods to be used in their control. These guidelines will also contain advice on the latest restrictions in use from the US-EPA.

b. Fertilizers

1) Local Production of Phosphate Fertilizers: USAID will not be directly involved in the production aspect of fertilizers in-country. However, it would be of advantage to the development effort to make expertise available to the local government organizations involved in the production end of things, in order to provide guidance on environmentally sound methods of extraction, processing and production of a finished product. Expertise is already available in Uganda, where an Environmental Management Advisory Unit (EMAU) has been formed, and stands ready to provide short-term expertise in monitoring, assessing, or advising in any matter relative to environmental concerns.

2) Application and Use of Fertilizers: None of the chemical fertilizers made available in the project will be used in large quantities or in limited geographic regions where soil concentration of residues could occur. Thus no large impacts are expected. However, provision will be made for monitoring of the effects of application on an occasional basis, using expertise from the EMAU unit mentioned above.

VI. SUMMARIES OF ANALYSES

This section presents summaries of background analyses on technical, economic, financial, social, and institutional-administrative matters.

A. Technical Analysis

1. Agribusiness Development

a. Introduction

Achievement of the goal and purpose of the CAAS Project requires effective operation of a broadly based agriculture support system which promotes essential production inputs needed to expand levels and variety of production and provides efficient marketing of the increased volume and range of agricultural products. The specific activities, products and enterprises supported will depend on needs, opportunities and private sector interests as they evolve over the life of the project.

b. Historical Background

The development of agribusiness, including manufacture and trade in farm production inputs and the processing and domestic and foreign marketing of agricultural products, has closely paralleled growth in volume and diversity of agricultural production. Most of the industry and commerce in Uganda has been based mainly on supply of production goods and services needed by the agricultural sector. Agribusiness development substantially predates Independence in 1962 with major investments having been made particularly in export oriented commodities (cotton, coffee, sugar, tea and tobacco). During the first decade after Independence (1962-72) both agriculture and agribusiness grew rapidly. By 1972 Uganda produced virtually all essential requirements for food, fiber, and beverages and had a healthy level of export of raw and semi-finished agriculture based products. In additional to traditional exports (coffee, tea, tobacco and cocoa), Uganda exported a large volume of other agriculture goods--sugar, vegetable oil, feed ingredients, animal products, (mostly dairy and leather goods) and fruit and vegetables in raw and processed forms. Uganda also produced a surplus of many production inputs and tillage tools and implements (e.g. hoes and oxen plows) and fertilizer. Local production, largely from small scale businesses, met many needs for machinery and spare parts.

The political turmoil and economic instability of the 1970's brought a decline of about 20% in agriculture production, but a much larger decline in agriculture-related industry. Many enterprises were expropriated by the Government which subsequently was unable to maintain and operate them efficiently. Many others were forced to close or severely curtail operations due to unfavorable economic conditions, price controls, shortages of inputs, non-availability of financial resources and lack of physical security including destruction and looting by contending political and military forces.

For many agro-industries production in 1980 was only a tenth or less of production in 1970. Production of some items which had reached levels sufficient to meet national needs in 1970 declined to or near zero.

c. Needs and Opportunities

The situation which existed in 1970 in terms of agribusiness and support services is a sound indicator both of what is needed to support a healthy and rapidly growing agricultural sector in Uganda and generally what currently is feasible for development in Uganda. During the 1962/72 period Uganda was widely acclaimed as a model of well balanced and soundly developed agriculture and agribusiness. In a few areas Uganda may encounter serious difficulties in recovering its former export position because of increased needs at home, increased foreign competition, and loss of market share to other producers during the last 15 years.

Illustratively, Uganda is likely to encounter difficulty in again becoming a significant exporter of sugar, vegetable oil and perhaps cotton, although it should easily be able to meet its total domestic needs. At current prices, these three areas of import substitution offer the potential for savings of US$150 million per year. Substantial other opportunities exist to increase production to meet presently unsatisfied and potentially rapidly growing domestic needs. These include: dairy products, specialty meat products, beer and other beverages, tobacco products, soap, semi-processed and processed fruit and vegetable products, condiments, fibre, phosphate, agricultural limestone, agricultural production tools and implements, machinery and spare parts and supplies used in processing of agricultural products, and local construction materials.

d. Priorities

It was not possible during PP preparation to analyse this wide range of needs and opportunities, which will be changing in any case in the coming years. Thus some mechanism must be established for defining priorities and selecting among alternatives. Criteria should include:

-- extent to which the particular activities support government economic and agricultural reform objectives (import substitution, export expansion and agricultural diversification).

-- expected primary benefits and expected number of direct and indirect beneficiaries relative to costs.

-- existence of interested cooperatives or private sector investors willing and able to exploit the particular opportunity.

-- seriousness of constraints to successful development of the particular goods or services and the willingness of government to take necessary actions to overcome major constraints, especially in the policy area.

e. Constraints

The principal constraints to agribusiness development in Uganda are political and economical instability, adverse government policies, lack of financial resources (foreign exchange and local currency), and lack of trained management and other skilled personnel.

Political turmoil, the resulting lack of physical security and economic instability, and adverse government policies were the principal causes of the dramatic decline of agriculture and agribusiness during the 1970's. The last year has seen considerable restoration of political confidence and improvement in the economic climate.

Improvements in government policies, including the 1987 reforms in the monetary system and large devaluation of the shilling, have been very positive factors. However, the shilling is overvalued again by an estimated 100-200% at the time the PP was being prepared. While this means low costs for imported machinery, spare parts and intermediate production goods, it makes other costs of internal processing appear high and total final product costs and selling prices appear high compared with imports of similar goods paid for with much overvalued shillings.

Foreign exchange for import of machinery and intermediate production goods presents a very serious constraints to agribusiness development. For new businesses this is an even more serious obstacle than for existing businesses. Local currency to cover local costs and buy foreign exchange is an important problem but not nearly as important or as serious as the foreign exchange constraint. Still, local currency to pay local costs of investment operations and to cover foreign exchange for imports presents a very serious problem for many businesses, particularly cooperatives.

Low prices and margins frequently set by the government often have precluded cooperatives from accumulating or maintaining an adequate level of retained earnings to cover minimal working capital needs. The government has indicated its intent to permit market pricing of goods which would permit cooperatives to accumulate more adequate level of financial resources. However, this has not yet been widely implemented.

Obtaining trained management and skilled workers is a problem for cooperatives at all levels from national unions and the district unions through the primary societies. Other forms of business have proven much more adept in dealing with these problems.

2. Commodity Import Program

a. Selection of Commodities

An initial list of priority commodities needed in support of agriculture and agribusiness development is submitted as part of the PP based on analysis conducted during the preparation of the PID. A positive list of qualifying classes of commodities to be financed under CAAS will be prepared in advance of each year's import program. The National Inputs Coordinating Unit in the Agricultural Secretariat should take the lead in preparing the necessary background analysis in consultation with UCA, UCCU, MCM, MA, and MAIF. Final decisions will be made as applications are presented for foreign exchange for import. The analyses will involve: identification of candidate classes of commodities and insofar as possible specific commodities within each class; analysis of the economic and financial rates of return for the candidate commodities; estimation of likely selling prices based on free market pricing or the principle of replacement cost plus costs of distribution including sufficient margin to permit maintenance of the integrity of the capital base of the importing and distributing cooperatives and other businesses; detailed estimates of the economic and financial rates of returns (benefit/cost ratios) for each candidate commodity at levels of distributors and end users.

b. Priority for CIP Commodities and Capital Goods

In general priority will be given to raw materials, machinery and related requirements for production of inputs and essential agricultural product processing equipment. Finished production inputs (e.g. fertilizer) should be included only to the extent it is demonstrated that the capacity for local production does not exist and cannot be developed or as an interim measure until local production meets needs. Where potential for local production exists strong preference should be given to support of such local production.

3. Input Distribution

Apart from government-sponsored programs (such as those run by the MAIF), the cooperative sector (UCCU and district unions) offer the only substantial approach to farm input distribution in Uganda. UCCU has performed this function for a number of years but needs substantial strengthening in management and operations. The district unions are almost without exception, by far the biggest business organizations in their respective areas. Each tends to be very diverse in its activities, running a number of separate, though often interlinked, mostly agriculture related, business enterprises. All are to a considerable extent crippled by a weak capital base, and have difficulty in raising sufficient funds to run these businesses to full potential. Despite this weakness, they represent the only existing network of organizations on which to base input distribution, and their existing capital, management, transport and storage resources are sufficient or more than sufficient for this task.

4. Audit/Accounting

There is an urgent need for the district and national unions to update their accounting methods and procedures, since they are at present using inadequate, old and broken down mechanical methods, so that most accounts are many months in arrears. All recognize this need. UCA has already selected and almost perfected a computerized system suitable to the accounting needs of these organizations, and can assist them to adopt these systems at a much lower cost (e.g. $6,000 per unit capital costs) than if each tried individually. The unified approach also has benefits in terms of technical and maintenance backup.

The establishment of computerization will require training not only in the use of the facilities, but for managements so as to enable them to make best use of newly available budget planning potential and supply of management information to best advantage.

There is also a need to improve the quality and availability of auditing services in Uganda, both for the larger organizations such as district and national unions, and for primary societies. However, UCA's proposals for primary societies are based on computerization, the feasibility of which is not yet established. Nor is it certain that their proposed auditing services will prove acceptable to the unions and, as important, to their bankers.

B. Economic Analysis

Uganda has been struggling under a severe economic crisis for the past decade. When the NRM government came to power in early January 1986, they inherited an economy in ruins. In President Museveni's January 26th "State of the Union" address he outlined the country's strategy and priorities for economic revival. Agriculture, being the life-blood of the economy was identified as the most important sector and the President specifically mentioned the need to diversity the economy and to increase agricultural production, processing and marketing, especially that of non-traditional export crops. However, there are a wide range of constraints to expanding production. Two of the most critical constraints are the lack of foreign exchange to import necessary productive inputs as outlined in the comprehensive reform program announced by the GOU on May 15, 1987, and the technical/managerial skills in the agro-business sector required to get this sector of the economy going again.

This project will directly address these constraints and is therefore an economically sound and rational allocation of scarce resources in Uganda. The project's first component of a commodity import program will have an immediate impact on the scarcity of foreign exchange by allocating over 75 percent of project funds ($15.2 million) for the importation of productive inputs. The fact that the imports are for the most important productive agriculturally related goods not directly included in other donor programs and the importations will be done by the private sector further ensures efficient allocation of resources.

The project's second component addresses the need for efficient distribution of inputs as well as the need to strengthen the cooperative sector. The cooperative sector has for decades, been one of the most effective means of reaching the masses of rural farmers and getting them involved in productive off-farm activities. Constraints in the cooperative sector have been properly identified and their capacity to deliver services will be greatly improved which in turn will have a positive impact on agricultural productivity. Project activities related to improved policy analysis and decision making are also an appropriate use of resources to support the achievement of the project objectives.

Both project components will contribute to the important goal of increasing trade--an essential means for this country to earn a national income while rehabilitating the economy.

An economic analysis of the utilization of CAAS inputs in the production of selected crops by representative small farmers shows that the inputs can be productively, economically, and profitably utilized by farmers and the agro-business sector. Rates of return (using shadow prices) on the use of these improved inputs varied by commodity but in all cases except fo sim sim, they were assessed to be over 50 percent within 5 years. A review of the entire economic situation in Uganda reveals certain macro-economic problems (such as the increasingly overvalued shilling) and related constraints in the transportation, communication, and distribution sectors which may hinder the achievement of maximum benefit from these inputs. however, the approach taken in the project as well as the incorporation of certain specific activities in the projec (e.g. assistance to UCCU) to improve the delivery of goods and services to farmers will help mitigate some of these adverse factors.

Thus, the economic analysis concludes that project funds are a appropriate allocation of scarce resources, aimed at helping the most critical sector of the economy and with its complementarity to other AID programs, its objectives appear achievable and in the best interests of the country as a whole

C. Financial Analysis

1. Profitable Utilization of Commodities

The scarcity of commodities in Uganda permits dealers to extort large margins from buyers and this applies to agricultural inputs as well.

All agricultural inputs as well as machinery and equipment are currently imported to Uganda free of tax as a measure to encourage agricultural output and reduce inflation by lowering consumer prices.

Middlemen often get involved in the distribution through shady arrangements and fix prices of agricultural commodities such as to erode benefits entrenched in tax exemption. Similarly agricultural produce bought at statutory minimum prices is sold to the consumer at greatly inflated rates so that it is not the farmer who benefits.

Monopolies currently enjoyed by some parastatals and UCCU in marketing produce and in import and distribution of agricultural production commodities should be liberalized through privatization.

2. Financial Feasibility

Liquidity standing of banks is crucial to availability of credit for inputs, crop finance, and agribusiness production. Present trends indicate a likely worsening of the already tight liquidity position. Crop finance generally takes 90% of agricultural credit leaving little for production financing. There is likely to be a shortage on both counts.

Marketing boards are generally short of working capital for crop finance and other expenditure. The Produce Marketing Board's requirements for crop finance are likely to rise with increased volume of food crops traded and there is need for rationalization of operations of all marketing boards.

Almost all cooperative unions face severe liquidity problems. This underscores the importance of the cooperative development component of the CAAS project and points to the need for evaluating alternative marketing channels that rely more on internal financing. UCCU is committed with slow moving stocks of inputs financed by external and domestic borrowed funds. District unions have a similar problem at varying levels of severity.

The Saving and Credit Cooperative and the Uganda Cooperative Savings and Credit Union has very low mobilization of deposits reflecting limitations of the Cooperative Act, their neglect by government policy, and poor management practices. The should be urgently examined as a potential source of crop finance and production credit.

The farmers have been disappointed by primary cooperative societies as intermediaries between farmers and the cooperative unions. This has largely contributed to a trend to form farmers associations and development companies. The Uganda Commercial Bank has proposed creation of district associations of farmers benefiting from its Rural Credit Programme in preference to working through cooperatives. The further role of primary societies in input supply and output marketing should be assessed taking into account this alternative.

D. Social Analysis

1. Organization of Agricultural Production

The socioeconomic organization of production in Uganda is characterized by (a) diversity of farming systems; (b) diversity of cultural groups with somewhat different production strategies which largely have been dictated by food preferences and market opportunities; (c) predominance of smallholder production with an average holding size of 2-4 hectares; (d) prevalence of labor intensive production methods depending on hand tools and family labor; (e) little use of purchased farm inputs such as fertilizers, insecticides, and improved seeds; (f) ubiquitous of staple food self-service although cash incomes occasionally are derived from the sale of surplus food and cash crops and livestock products; and (g) very limited and poorly developed domestic market for food commodities.

2. Household Production and Income Generation Strategies

At the current level of technological development and prevailing market opportunities, most households exhibit risk aversion production strategies. First priority usually is assigned to household subsistence needs and hence the persistent clash between food and non-food crops in competition for limited household resources. If subsistence needs appear satisfied, then the allocation of resources to non-food crops would be determined largely by the prevailing cost/price structure and the farmers's perception of the efficiency of marketing infrastructure.

Use of agricultural inputs has been related to household production management strategies. Overall, the effective demand for the various categories of agricultural inputs should be carefully determined. Even in situations where there may have been effective demand for farm inputs such as hoes, ox-ploughs, gunny bags, and improved seeds, the uncertainity regarding their availability, accessibility, appropriateness, and timeliness of distribution seriously has affected farmers' responses to farm input supply programs.

Farm income from sales of crops and livestock is the major source of household income. A regional disparity exists between areas with one long growing season (north and east) and those with two growing seasons (south and west), such that farmers in the latter region experience fewer cash flow problems than those in the former. Cash earnings from the major cash crops in the "monomodal" rainfall region usually come between December and March. Before the beginning of the next growing season in April - May, a considerable proportion of the earnings would have been spent on taxes, school fees, medical care and festivities. Invariably if farm inputs are not supplied during the December - March period, few households are able to purchase more than the hand hoe.

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Farm income is supplemented with non-farm sources of earnings such as wage employment, brick making, sales of firewood and local beer and so on. But there are considerable regional disparities in the opportunities for earning such non-farm income especially from wage employment. In general, those located closer to urban centers or areas with growing service institutions such as schools, missions and ginneries tend to benefit more from non-farm earnings. Households not so favorably located may opt for exporting part of their labor force to urban centers hoping to benefit from wage remittances from such members.

3. Organization of Agricultural Marketing

A network of daily, biweekly, and weekly markets exists in all parts of Uganda. Non-export crops, livestock, beer and other consumption goods are sold at such markets. Prices are determined by supply and demand. There also exists a network of trading centers where farmers sell surplus food crops and purchase, among other things, agricultural inputs such as hoes, ox-ploughs and seeds.

The marketing of the major traditional exports crops (cotton, coffee, tobacco) has been through the cooperative movement although a considerable proportion of the coffee is handled by private buyers. The effective contacts of the majority of farm households with the marketing channel for these crops are the primary societies. These societies depend on their affiliated district unions for crop finance to purchase members' produce. The district coffee and cotton unions depend on the Coffee and Lint Marketing Boards, respectively, as their guarantors for loans from commercial banks. The tobacco unions depend on the National Tobacco Corporation.

The operations of the cooperatives have substantially influenced household income generation strategies. In 1960s, the cooperatives were a marketing channel through which farm households received most of their income. But from about the late 1960s to date, rampant mismanagement has made income from the traditional export crops marketed through the co-ops extremely unreliable. Consequently, producer members have tended to diversify away from the traditional export crops.

The seasonal nature of the cooperative's relationship with its members has tended to undermine corporate solidarity, more so when rampant mismanagement exists. In the minds of producer-members, cooperative societies have become mere buying centers for crops that cannot be sold elsewhere. Yet a cooperative society has a great potential for evolving into an effective service center for its catchment area; purchasing members' produce and supplying them agricultural inputs and rendering agribusiness service. In order to realize this potential the cooperative movement must regain its credibility and resolve to remain member-owned and member-controlled.

4. Conclusion

The issues considered here suggest that the CAAS project can best respond to the needs, circumstances, and strategies of Uganda's farmers in the following way. First, it is important to rebuild farmers' faith in cooperatives by working to improve training, education, management, and leadership. Second, it is important to improve the capacity of the cooperative sector to distribute relevant farm inputs. Third, it is important to improve the overall framework of economic and agricultural policies affecting input distribution and commodity marketing.

E. Institutional/Administrative Analysis

1. Structure

There are two main components to Uganda's cooperative structure. These are the Ministry of Cooperatives and Marketing (MCM) which performs supervisory cum regulatory functions. The other component is the cooperative movement consisting of a network of primary societies, district unions, national unions, and the UCA as the apex organization.

a. Primary Cooperative Societies

The primary society (PS) is the basic building block of the cooperative movement. As of 1985 there were about 4,000 of them, the majority (75%) of which were agricultural marketing societies dealing mainly in coffee and cotton. Of the remaining 25% a few marketed vegetables, some dealt in dairy farming, livestock ranching, transport, hides and skins, consumer goods, handicraft, credit and savings, fishing, and so on. Considering all categories of societies, the average registered membership is about 400. Membership usually is granted to heads of household. Thus assuming an average family size of 7 persons, an average primary society membership of 400, and a national population of 15 million, cooperative membership represents about 74% of the total population of Uganda.

Each PS usually consists of key officials including chairman, secretary-manager, treasurer, and committee members Overall, about 71% of the societies employ salaried secretary-managers while 29% use member volunteers. Invariably, the officials of the PSs have low levels of formal education averaging about 7 years.

b. District Unions

The second tier in the cooperative movement structure consists of district unions. PSs are the member-owners of district unions. On average, each union has about 117 member-societies. The largest union has about 270 PSs affiliated with it while the smallest has about 18. Altogether, there are 37 district unions. Of these 16 are coffee unions (7 of which also deal in cotton), 10 are cotton unions, and 11 others handle such things as livestock, tobacco, vegetables, hides and skins, and so on. Five of these 37 unions, however are considered "moribund" and are either being deregistered or amalgamated with nearby unions. Officials of a district union include the General Manager, the Union Secretary, Factory/Ginnery or Production Manager, and Education Secretary.

c. National Unions

National unions constitute the third tier of the cooperative movement structure. There are six of them: The Uganda Cooperative Central Union Ltd (UCCU), the Uganda Cooperative Transport Union Ltd (UCTU), the Uganda Cooperative Insurance Ltd, the Uganda Savings and Credit Union, the Uganda Wholesale Cooperative Union Ltd, and the Cooperative Bank. UCCU and UCA are discussed briefly below.

UCCU began operation in 1963. It has 35 affiliated district Unions most of which handle coffee and cotton. Its main mandate is bulk purchasing and distribution of farm inputs such as fertilizers, chemicals, implements, hoes, seeds, and veterinary supplies. It also purchases machinery and spare parts for coffee factories and cotton ginneries. Operationally, UCCU is under-capitalized, and needs to improve the efficiency of its input distribution activities.

The Uganda Cooperative Alliance is the apex organization of the cooperative movement formed by district cooperative unions non-affiliated societies and national unions. Its functions are basically three-fold: education, publicity and representation.

Conscious of the need for cooperative education, UCA has spearheaded cooperative education. Courses, seminars and field tours have been organized for members, employees, and officials of the movement. Occasionally a monthly newspaper has been published. Similarly, UCA has helped the district unions through their Education Officers to publish monthly vernacular newsletters. In fulfilling its representation function, the UCA has acted as a spokesman for the movement, playing the advocacy role occasionally. Presently, it is fulfilling this role by seeking amendments to the 1970 Cooperative Act so that the movement can have as much autonomy from the MCM as possible.

2. Operations

a. General Performance

Characteristic of most movements, the cooperative movement has gone through a full cycle in the 41 years of its formal existence. When it emerged as a vigorous countervailing power against the oligopoly power of alien commercial firms which dominated the cotton and coffee industries in the 1940s, the movement had its maximum support from producer-members. On gaining monopoly power over the cotton industry and control over a large share of the coffee industry in the 1960s, the movement experienced considerable growth in membership and business volume. But growth in the 1960s was not matched with competent management. Managerial weaknesses arose from three main sources: (a) policy restraints of the colonial government which foreclosed the gaining of commercial skills by the Ugandan population, (b) narrow ethnic interests which denied areas with considerable shortfalls in managerial skills the benefits of the services of others from outside the area of a district union's jurisdiction; and (c) negligible union investment in management training for their staff and the officials of member-societies.

Consequently, rampant mismanagement ensued in the late 1960s, attested to by the many commissions of inquiry appointed by the government to investigate the affairs of specific unions and the movement as a whole. As the economic crisis of the 1970's devastated the agrarian economy, many cooperatives became dormant, a status which some co-ops yet have to outgrow. Had it not been for the vested interest that government has had in the survival especially of cotton, coffee and tobacco cooperatives because of their role in foreign exchange earnings, the late 1970s would have witnessed the decline and eventual "death" of the cooperative movement.

By the end of the 1970s, member patronage of cooperatives which marketed and processed the traditional export crops had become involuntary. Effective shifting of production resources away from these crops had nonetheless began. But with the initiation of the rehabilitation programs immediately after the 1979-80 liberation war, the cooperatives began to recover. USAID programs -- the 1979-1981 CIP and the 1981-1987 FPSP -- enormously contributed to the re-emergence of some cooperatives from dormancy. But major problems remain.

b. Capitalization

The most obvious problem facing the cooperative movement, right from the primary societies to the apex organization, is lack of capital. The 1984 Report on and Recommendation for the Cooperative Sector in Uganda recommended six measures which have to be taken in order to strengthen the capital base of the cooperatives. Sound as these recommendations may be, their implementation nonetheless requires the strengthening of financial management and member education. CAAS, therefore, can make a substantial contribution here by supporting programs that aim at strengthening the movement's financial management and cooperative education.

c. Profitability

The volume of business done by the district cooperative unions varies widely. Estimates suggest that the volume of business varies from an annual sum of only US $41,000 to a high of US $9.46 million. Average annual profit was estimated at US $279,000 with the least profit earned being US $9,500 and the highest US $946,000. The national and district unions may be classified as follows:

Grade A Unions: consisting of four national unions and seven district unions. These had business turnover of more than 1.0 billion Uganda shillings each. They also were characterized by good management, up-to-date accounts, reaular annual general meetings, and consistent surpluses.

Grade B Unions: consisting of one national union and seven district unions. These had business turnover between 500 million and 1.0 billion shillings each. They also were characterized by adequate management, reasonably up-to-date accounts, and the making of some profits.

Grade C Unions: consisting of six district unions. They had business turnover of less than 100 million shillings each. Although they made some surpluses, more could have been realized if they had better management.

Grade D Unions: consisting of one national union and 12 district unions. These are small unions which are not so well managed with overdue accounts. Hence they need very close supervision and support.

Moribund Unions: Five unions are unviable.

Primary Societies: At the primary society level, data from the MCM cooperative file indicate that annual business volume as of 1984/85 ranged from zero to hundreds of dollars. Generally, about less than a half of the primary societies have been in a sound financial condition. About 64% of the primary societies have been operating in the black, 29% in the red and 7% breaking even.

Again, CAAS could support the co-ops by financing management training of primary society and union officials as well as the MCM's Planning Unit and the UCA's Cooperating Development Unit so that they are able to render effective counselling services necessary for the improvement of financial management.

d. Management

Reference already has been made to the fact that the rapid growth of the cooperatives, especially in the 1960s, has not been matched by strong management capability. This is partly due to policy restraints to African participation in trade and commerce during the colonial period, insufficient investment by the cooperative movement in management training, and ethnic loyalties of district unions in personnel recruitment. No more policy restraints to African participation in commerce exist. But low profitability, the underating of the value of cooperative education, and ethnic loyalties persist.

While CAAS cannot directly influence the recruitment of cooperative personnel into managerial positions, it can substantially influence the building up of a management capability by financing programs which are able to do so. CAAS can build on the education and training activities that had begun under FPSP, especially the strengthening of cooperative education at primary society and union levels through the "training of trainers" program. This would ensure the sustainability of the cooperative education and training program in the country.

e. Assets

Assets of the primary cooperatives, especially coffee and cotton marketing ones, are few and simple. They basically include stores and equipment. In 1984/85, there were over 6,000 stores of which 28% were considered to be of permanent construction. Overall 15% of the marketing groups had no stores at all and 73% of the other society groups had no stores. This has serious implications for the promotion of input supply. There were 1152 marketing societies without safes, and 2207 without adding machines or calculators. Estimates show that most societies have at least one scale, the quality of which is unknown.

CAAS funding with respect to cooperative society assets is a priority. The funding would consist of: (a) the importation of items required to rebuild or rehabilitate the society assets on a grant basis for those societies in the disturbed areas and on a matching grant basis for the others; and (b) provision of TA preferably through UCCU to provide short-term asset management courses offered at the district union level.

f. Women in Cooperatives

As far as the produce-marketing societies are concerned, membership is on the basis of household headship. If the household head is female for any reason, there are no obstacles to her membership. Certainly women are conspicuously absent in managerial positions, but this does not reflect any form of discrimination. There are no legal obstacles in the Cooperative Act which bar the participation of women.

The cooperatives have done little to help address the constraints facing women farmers. Part of the problem is that most of the cooperatives are for marketing of export crops, of which women produce relatively little. Where production needs such as the provision of agricultural inputs are made through the cooperatives, women farmers who are not registered members benefit from the purchase made by their husbands. If a sufficient quantity of an agricultural input is available through the cooperatives, women farmers in the catchment area are usually served. Where discrimination appears to exist it may be because of the scarcity of the commodity.

But the introduction of grain-milling facilities by the co-ops within the rural areas has impacted positively on female members of the household by reducing labor associated with food preparation.

CAAS can extend these positive trends by supporting the Women in Cooperatives program developed by UCA, which focuses on expanding women's income-generating opportunities through cooperative membership and training programs.

VII. CONDITIONS AND COVENANTS

The conditions and covenants to be incorporated into the Grant Agreement for the CAAS project are listed as follows:

A. Conditions Precedent to First Disbursement: Prior to the first disbursement under the Grant, or to the issuance by A.I.D. of documentation pursuant to which disbursement will be made, the Grantee will, except as the Parties may otherwise agree in writing, furnish to A.I.D. in form and substance satisfactory to A.I.D.:

1. An opinion of counsel acceptable to A.I.D. that this Agreement has been duly authorized and/or ratified by, and executed on behalf of the Grantee, and that it constitutes a valid and legally binding obligation of the Grantee in accordance with all of its terms;

2. A statement of the name of the person holding or acting in the office of the Grantee specified in the Agreement and of any additional representatives, together with a specimen signature of each person specified in such statement.

B. Condition Precedent to Disbursement for Cooperatives Development:

Prior to the disbursement under the cooperative development component of the project, or to the issuance of any commitment documents pursuant to which disbursement may occur, the Grantee will, except as the parties may otherwise agree in writing, furnish to A.I.D. in form and substabce satisfactory to A.I.D., a written agreement between the Ministry of Cooperatives and Marketing, the Uganda Cooperative Alliance and the Uganda Central Cooperative Union detailing the specific activities to be under the project by each entity, using local currencies generated by the project, including implementation arrangements and funding amounts.

C. Condition Precedent to Disbursement for Commodity Procurement:

Prior to disbursement under the commodity import component of the project, or to the issuance of any commitment documents pursuant to which such disbursement may occur, the grantee will, except as the parties may otherwise agree in writing, furnish to A.I.D. in form and substance satisfactory to A.I.D., evidence that a special account has been established for the deposit of local currency generated by the import or sale of commodities imported under the commodity import component of the project.

D. Covenants:

(1) The grantee agrees that the Ministry of Cooperatives and Marketing will continue supporting and facilitating in every way possible the enactment of a law substantially similar to the proposed amendment to the 1970 cooperative societies act submitted to the Ministry by the Uganda Cooperative Alliance in November 1987.

(2) The grantee agrees that, within one year of the date of the grant agreement, it will implement the agriculture task force recommendations concerning marketing and pricing of food crops, i.e. (A) allowing multi-channel marketing without restrictions on movement and at market determined prices; (B) announcement of minimum or floor prices before each planting season; and (C) licensing of private and cooperative export agents other than for barter trade agreements.

(3) The grantee agrees: (A) to deposit in a special account local currencies in amounts equal to proceeds accruing to the grantee or any authorized agency thereof as a result of the sale or importation of commodities financed under the commodity import component of this project, which shall be used for purposes mutually agreed upon by the grantee and A.I.D. and (B) within three months of the signing of this agreement a plan will be developed that shows that local currency generations will be included in the Government's budget, as required and that the programming of these funds including funding for the non Government agencies UCA and UCCU will be essentially as outlined in the Project Paper.

VIII. EVALUATION ARRANGEMENTS

Two evaluations are built into the CAAS project, as well as annual project impact assessments. The evaluations are discussed in Section V.A.7., and the impact assessment in Section V.A.6.

ANNEX A

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USAID/UGANDA

AIDAC, NAIROBI FOR REDSO/ESA

E.O. 12356: N/A

SUBJECT: UGANDA COOPERATIVE AGRICULTURAL AND AGRIBUSINESS SUPPORT PROJECT (CAAS) 617-0111

REF: A. STATE 371268 B. STATE 347373

1. WE HAVE REVIEWED AND APPROVED REVISION OF LOG FRAME AND RESTATEMENT OF PROJECT PURPOSE. PROCEED WITH PROJECT AUTHORIZATION O/A DECEMBER 15.

2. AS MORE INFORMATION ON SEQUENCING IS FORTHCOMING KEEP US INFORMED. SHULTZ
BT
#8698

NNNN

UNCLAS

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ANNEX B
LOGICAL FRAMEWORK

I. Project Goal:

Increase the standard of living in Uganda through increased agricultural productivity and production.

Objectively Verifiable Indicators:

Measured increase in acreage under production and yields of major crops.

Means of Verification:

(a) national economic data (b) annual project impact assessments

Important Assumptions:

Levels of military disturbance and political instability do not increase.

II. Project Purpose:

To (a) increase agricultural productivity and production through increased supply of agricultural inputs;
(b) to help place input supply and marketing on a sound commercial basis; and
(c) to stimulate agribusiness development.

End of Project Status:

1. Rates of utilization of key inputs increased by 30% over 1980-1986 levels (fertilizers, seeds)
2. UCCU and 5-10 district unions marketing inputs on a fully commercial basis.
3. Overall agribusiness capacity utilization increases from 10-20% to 30-40%.

Means of Verification:

(a) national economic data (b) annual project impact assessments (c) Ag Secretariat reporting (d) UCCU and union annual reports.

Important Assumptions:

(a) GOU adheres to IMF/Bank reform program (b) MCM reduces role in input price-setting.

III. Inputs and Outputs:

Project Element	Organization	Activity	Inputs	Outputs
1. Policy/Planning	UCA	Policy Analysis	Long-Term TA: (36 p/m) Short-Term TA: (10 p/m) Training: (10 p/m) Equip/Supp: ($23,500) Vehicle: (2) L/C Support: ($320,000)	1. 5 policy studies 2. Improved policy debate between government and cooperatives
	MCM	Policy Analysis (Planning Unit)	Long Term TA: (n/a) Short-Term TA: (10 p/m) Training: (6 p/m) Equip/Supp: ($10,000) L/C Support: $160,000)	1. 5 program evaluations 2. Improved capability to undertake program evaluations on an annual basis
	MCM	Policy Analysis (Marketing Dept)	Long-Term TA: (n/a) Short-Term TA: (10 p/m) Training: (6 p/m) Equip/Supp: ($20,500) L/C Support: $160,000)	1. 5 commodity marketing analyses 2. Improved market information service 3. Improved capability to undertake policy assessments on an annual basis
	MCM	Management System (Comm/Coop Dev)	Long-Term TA: (n/a) Short-Term TA: (10 p/m) Training: (6 p/m) Equip/Supp: ($15,500) L/C Support: $160,000)	1. Improved management information system
	Ag Secretariat	Policy Analysis	Long-Term TA: (n/a) Short-Term TA: (10 p/m) Training: (10 p/m) Equip/Supp: ($10,500) L/C Support: ($900,000)	1. 5 studies on input distribution 2. Improved capability to analyze and monitor input distribution 3. Institution of annual report series on input use and economic/financial retu

Objectively Verifiable Indicators: (a) production of annual report series supporting policy analysis
(b) continued movement toward market pricing of inputs and commodities
(c) systematic reporting on management performance in unions

Means of Verification: (a) government and UCA reports (b) annual project impact assessments

Important Assumptions: government remains stable

III. Inputs and Outputs (cont):

Project Element	Organization	Activity	Inputs	Outputs
2. Coop Development	UCA	Accounting, Audit, Management Improvement	Long-Term TA: (24 p/m) Short-Term TA: (12 p/m) Training: (10 p/m) Equip/Supp: ($20,500) Vehicle: (2) L/C Support: ($750,000)	1. 15-30 district unions with improved accounting and management
	UCA	Education/Training Women in Coops	Long-Term TA: (n/a) Short-Term TA: (12 p/m) Training: (15 p/m) Equip/Supp: ($61,000) L/C Support: ($360,000) Long-Term 60 p/m)	1. national training needs assessment 2. national training plan, updated annually 3.1500-3500 primary society leaders trained 4. 100,000-200,000 members trained 5. 15-30 union management teams trained 6. 5-10 senior management teams trained
	UCA	Primary Society Matching Grants	Long-Term TA: (60 p/m)* Short-Term TA: (n/a) Training: (n/a) Equip/Supp: ($5,500) FX Support: ($500,000) L/C Support: ($750,000) * Local Hire	1. 500-1000 primary societies with improved equipment and storage facilities
	UCA	Agribusiness Services Feasibility Studies	Long-Term TA: (n/a) Short-Term TA: (8 p/m) Training: (10 p/m) Equip/Supp: ($10,500) L/C Support: (1,080,000) FX: ($300,000)	1. 2 sub-sector feasibility studies 2. 15-30 agribusiness feasibility studies
	UCCU	Input Distribution	Long-Term TA: (36 p/m) Short-Term TA: (10 p/m) Training: (24 p/m) Equip/Supp: ($23,500) Vehicle: (1) L/C Support: ($70,000)	1. Improved input supply and distribution at UCCU and 5-10 district unions

Objectively Verifiable Indicators: (a) number of unions with improved finances and management
(b) number of managers and members trained
(c) number of feasibility studies and agribusinesses put in place
(d) quantity of inputs marketed commercially

Means of Verification: (a) government, UCCU, UCA reports (b) annual project impact assessments

Important Assumptions: (a) government remains stable

82x

III. Inputs and Outputs (cont):

Project Element	Organization	Activity	Inputs	Outputs
3. Commodity Import Program	Bank of Uganda	Foreign Exchange Allocation	Long-Term TA: (n/a) Short-Term TA: (n/a) Training: (n/a) Equip/Supp: (n/a) L/C Support: (n/a) FX: ($15,200,000)	1. 11,000 mt of urea and DAP imported 2. 650 mt of improved seed imported 3. 500,000 jute bags/yr manufactured 4. 175,000 hoes/yr manufactured 5. 400 ox ploughs/yr manufactured 6. 100 tractor-drawn implements/yr manufactured 7. 1000 mt/yr of roofing sheets, fencing, nails, etc. manufactured

Objectively Verifiable Indicators: (a) quantity of various commodities imported
(b) quantity of various items manufactured locally

Means of Verification: (a) Bank of Uganda reports (b) annual project impact assessments (c) private firm annual reports

Important Assumptions: (a) government remains stable

III. Inputs and Outputs (cont):

Project Element	Organization	Activity	Inputs		Outputs
4. Program Management	A.I.D.	Evaluation	FX:	($100,000)	1. 2 evaluation/redesign activities
		Financial Reviews	FX:	($105,000)	2. 7 annual financial reviews (FX and L/C)
	Prime Contractor	Advisor Support	L/C:	($135,000)	3. 3 long-term advisors supported
		Admin Assistant	L/C:	($60,000)	4. COP relieved of administrative tasks
		End-Use Monitor	L/C:	($140,000)	5. A.I.D.-financed commodities monitored
		Impact Assessments	L/C:	($175,000)	6. 7 annual project impact assessments
	A.I.D.	L/C Accounting	L/C:	($140,000)	7. L/C programs reviewed regularly for accountability

Objectively Verifiable Indicators: number of management support reports produced

Means of Verification: A.I.D. and contractor records

Important Assumptions: (a) government remains stable

8/18x

5C(2) - PROJECT CHECKLIST

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

CROSS REFERENCES: IS COUNTRY CHECKLIST UP TO DATE? HAS STANDARD ITEM CHECKLIST BEEN REVIEWED FOR THIS PROJECT? — No / Yes

GENERAL CRITERIA FOR PROJECT

1. FY 1987 Continuing Resolution Sec. 523; FAA Sec. 634A. Describe how authorization and appropriations committees of Senate and House have been or will be notified concerning the project.

   A Congressional Notification will be sent to Congress once the Project Paper is approved.

2. FAA Sec. 611(a) (1). Prior to obligation in excess of $500,000, will there be (a) engineering, financial or other plans necessary to carry out the assistance, and (b) a reasonably firm estimate of the cost to the U.S. of the assistance?

   (a) Yes
   (b) Yes

3. FAA Sec. 611(a) (2). If legislative action is required within recipient country, what is basis for reasonable expectation that such action will be completed in time t permit orderly accomplishment of purpose of the assistance?

   None required

4. FAA Sec 611(b); FY 1987 Continuing Resolution Sec. 501. If project is for water or water-related land resource construction, have benefits and costs been computed to the extent practicable in accordance with the principles, standards, and procedures established pursuant to the Water Resources Planning Act (42 U.S.C. 1962, et seq.)? (See A.I.D. Handbook 3 for guidelines.)

   N/A

FAA Sec, 611(e) If project is capital assistance (e.g., construction), and total U.S. assistance for it will exceed $1 million, has Mission Director certified and Regional Assistant Administrotor taken into consideration the country's capability effectively to maintain and utilize the project?	N/A
FAA Sec. 209. Is project susceptible to execution as part of regional or multilateral project? If so, why is project not so exec ted? Information and conslusion whether assistance will encourage regional development programs.	N/A
FAA Sec. 601(a). Information and conclusions on whether projects will encourage efforts of the country to: (a) increase the flow of international trade; (b) foster private initiative and competition; (c) encourage development and use of cooperatives, credit unions, and savings and loan associations; (d) discourage monopolistic practices (e) improve technical efficieny of industry, agriculture and commerce; and (f) strengthen free labor unions.	By strengthening cooperatives the project will improve technical efficiency of agriculture and commerce, foster private initiative and consequently increase trade.
FAA Sec. 601(b. Information and conclusions on how project will encourage U.S. private trade and investment abroad and encourage private U.S. participation in foreign assistance programs (including use of private trade channels and the services of U.S. private enterprise).	Strengthened Ugandan cooperatives will attract interest from international coop unions and private sector traders.
FAA Secs. 612(b), 636(h). Describe steps taken to assure that, to the maximum extent possible, the country is contributing local currencies to meet the cost of contractual and other services, and foreign currencies owned by the U.S. are utilized in lieu of dollars.	All local project cost will be financed with GOU contributed local currency
FAA Sec. 612(d). Does the U.S. own excess foreign currency of the country and, if so, what arrangements have been made for its release?	NO

11. FY 1987 Continuing Resolution Sec. 521. If assistance is for the production of any commodity for export, is the commodity likely to be in surplus on world markets at the time the resulting productive capacity becomes operative, and is such assistance likely to cause substantial injury to U.S. producers of the same, similar or competing commodity? NO

12. FY 1987 Continuing Resolution Sec. 558. (as interpreted by conference report). If assistance is for agricultural development activities (specifically, any testing or breeding feasibility study, variety improvement or introduction, consultancy, publication, conference, or training), are such activities (a) specifically and principally designed to increase agricultural exports by the host country to a country other than the United States, where the export would lead to direct competition in that third country with exports of a similar commodity grown or produced in the United States, and can the activities reasonably be expected to cause substantial injury to U.S. experters of a similar agricultural commodity; or (b) in support benefit U.S. prcducers? NO

13. FY 1987 Continuing Resolution Sec. 559. Will the assistance (except for programs in Caribbean Basin Initiative countries under U.S. Tariff Schedule "Section 807," which allows reduced tariffs on articles assembled abroad from U.S.-made components) be used directly to procure feasibility studies, prefeasibility studies, or project profiles of potential investment in, or to assist the establishment of facilities specifically designed for, the manufacture for export to the United States or to third country markets in direct competition with U.S. experts, of textiles, apparel, footwear, handbags, flat goods (such as wallets or coin purses worn on the person), work gloves or leather wearing apparel? NO

14. FAA Sec. 118(c). Does the assistance comply with the environmental procedures set forth in A.I.D. Regulation 16? Does the assistance place a high priority on conservation and sustainable management of tropical forests? Specifically, does the assistance, to the fullest extent feasible: (a) stress the importance of conserving and sustainably managing forest resources; (b) support activities which offer employment and income alternatives to those who otherwise would cause destruction and loss of forests, and help countries identify and implement alternatives to colonizing forested areas; (c) support training programs, educational efforts, and the establishment or strengthening of institutions to improve forest management; (d) help end destructive slash-and-burn agriculture by supporting stable and productive farming practices; (e) help conserve forests which have not yet been degraded, by helping to increase production on lands already cleared or degraded; (f) conserve forested watersheds and rehabilitate those which have been deforested; (g) support training, research, and other actions which lead to sustainable and more environmentally sound practices for timber harvesting, removal, and processing; (h) support research to expand knowledge of tropical forests and identify alternatives which will prevent forest destruction, loss, or degradation; (i) conserve biological diversity in forest areas by supporting efforts to identify, establish, and maintain a representative network of protected tropical fore t ecosystems on a worldwide basis, by making the establishment of protected areas a condition of support for activities involving forest clearance or degradation, and by helping to identify tropical forest ecosystems and species in need of protection and establish and maintain appropriate protected areas; (j) seek to increase the awareness of U.S. government agencies and other donors of the immediate and long-term value of tropical forests; and (k) utilize the resources and abilities of all relevant U.S. government agencies?

Assistance complies with Req. 16 procedures

15. FAA Sec. 119(g) (4)-(6). Will the assistance (a) support training and education efforts which improve the capacity of recipient countries to prevent loss of biological diversity; (b) be provided under a long-term agreement in which the recipient country agrees to protect ecosystems or other wild-life habitats; (c) support efforts to identify and survey ecosystems in recipient countries worthy of protection; or (d) by any direct or indirect means significantly degrade national parks or similar protected areas or introduce exotic plants or animals into such areas?

No

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

N/A

17. FY 1987 Continuing Resolution Sec. 532. Is disbursement of the assistance conditioned solely on the basis of the policies of any multilateral institution?

No

B. FUNDING CRITERIA FOR PROJECT

1. Development Assistance Project Criteria

a. FAA Secs 102(b), 111, 113, 281(a). Describe extent to which activity will (a) effectively involve the poor in development by extending access to economy at local level, increasing labor-intensive production and the use of appropriate technology, dispersing investment from cities to small towns and rural areas, and insuring wide participation of the poor in the benefits of development on a sustained basis, using appropriate U.S. institutions; (b) help develop cooperatives, especially by technical assistance, to assist rural and urban poor to help themselves toward better life, and

This project is specifically designed to assist the rural poor through helping to strengthen their agricultural cooperatives, complementing self-help efforts with appropriate technical assistance which will emphasize the women's role in Uganda's cooperative movement as well as encouraging regional cooperation.

otherwise encourage democratic private and local governmental institutions; (c) support the self-help efforts of developing countries; (d) promote the participation of women in the national economies of developing countries and the improvement of women's status; and (e) utilize and encourage regional cooperation by developing countries.

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

Yes

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

Yes

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

Uganda is a Relatively Least Developed country but the GOU's contribution exceeds 25 percent.

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

Yes

f.	FAA Sec. 281(b). Describe extent to which program recognizes the particular needs, desires, and capacities of the people of the country's intellectual resources to encourage institutional development; and supports civil education and training in skills required for effective participation in governmental processes essential to self-government.	Through the srengthening and provision of training to cooperative members rural Ugandans will be more effective in self government.
g.	FY 1987 Continuing Resolution Sec. 540. Are any of the funds to be used for the performance of abortions as a method of family planning or to motivate or coerce any person to practice abortions?	No
	Are any of the funds to be used to pay for the performance of involuntary sterilization as a method of family planning or to coerce or provide any financial incentive to any person to undergo sterilizations?	No
	Are any of the funds to be used to pay for any biomedical research which relates, in whole or in part, to methods of, or the performance of, abortions or involuntary sterilization as a means of family planning?	No
h.	FY 1987 Continuing Resolution. Is the assistance being made available to any organization or program which has been determined to support or participate in the management of a program of coercive abortion or involuntary sterilization?	No
	If assistance is from the population functional account, are any of the funds to be made available to voluntary family planning projects which do not offer, either directly or through referral to or information about access to, a broad range of family planning methods and services?	N/A

i.	FAA Sec. 601(e). Will the project utilize competitive selection procedures for the awarding of contracts, except where applicable procurement rules allow otherwise?	Yes
j.	FY 1987 Continuing Resolution. How much of the funds will be available only for activities of economically and socially disadvantaged enterprises, historically black colleges and universities, and private and voluntary organizati ns which are controlled by individuals who are black Americans, Hispanic Americans, or Native Americans, or who are economically or socially disadvantaged (including women)?	None specifically known
k.	FAA Sec. 118(c)(13). If the assistance will support a program or project significantly affecting tropical forests (including projects involving the planting of exotic plant species), will the program or project (a) be based upon careful analysis of the alternatives available to achieve the best sustainable use of the land, and (b) take full account of the environmental impacts of the proposed activities on biological diversity?	N/A
l.	FAA Sec. 118(c)(14). Will assistance be used for (a) the procurement or use of logging equipment, unless an environmental assessment indicates that all timber harvesting operations involved will be cor: ted in an environmentally sound manner and that the proposed activity will produce positive economic benefits and sustainable forest management systems; or (b) actions which significantly degrade national parks or similar protected areas which contain tropical forests, or introduce exotic plants or animals into such areas?	(a) No (b) No

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

(a) No
(b) No
(c) No
(d) No

2. Development Assistance Project Criteria (Loans Only)

NA - grant funding

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

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

c. FY 1987 Continuing Resolution. If for a loan to a private sector institution from funds made available to carry out the provisions of FAA Sections 103 through 106, will loan be provided, to the maximum extent practicable, at or near the prevailing interest rate paid on Treasury obligations of similar maturity at the time of obligating such funds?

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

3. Economic Support Fund Project Criteria NA - DA - funded

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

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

c. ISDCA of 1985 Sec. 207. Will ESF funds be used to finance the construction, operation or maintenance of, or the supplying of fuel for, a nuclear facility? If so, has the President certified that such country is a party to the Treaty on the Non-Proliferation of Nuclear Weapons or the Weapons in Latin America (the "Treaty of Tlatelolco"), cooperates fully with the IAEA, and pursues nonproliferation policies consistent with tho e of the United States?

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

5C(3) - STANDARD ITEM CHECKLIST

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

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

A. PROCUREMENT

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

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

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

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

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

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

6. FAA Sec. 603. Is the shipping excluded from compliance with the requirement in section 901(b) of the Merchant Marine Act of 1936, as amended, that at lease 50 percent of the gross tonnage of commodities (computed separately for dry bulk carriers, dry cargo liners, and tankers) financed shall be transported on privately owned U.S. flag commercial vessels to the extent such vessels are available at fair and reasonable rates?

   Shipping will comply with requirements.

7. FAA Sec. 621(a). If technical assistance is financed, will such assistance be furnished by private enterprise on a contract basis to the fullest extent practicable? Will the facilities and

   resources of other Federal agencies be utilized, when they are particularly suitable, not competitive with private enterprises, and made available without undue interference with domestic programs?

   Yes

8. International Air Transportation Fair Competitive Practices Act, 1974. If air transportation of persons or property is financed on grant basis, will U.S. carriers be used to the extent such service is available?

   Yes

9. FY 1987 Continuing Re olution Sec. 504. If the U.S. Government is a party to a contract for procurement, does the contract contain a provision authorizing termination of such contract for the convenience of the United States?

   Yes

10. FY 1987 Continuing Resolution Sec. 524. If assistance is for consulting service through procurement contract pursuant to 5 U.S.C. 3109, are contract expenditures a matter of public inspection (unless otherwise provided by law or Executive order)?

   Yes

B. CONSTRUCTION — NA - No construction involved.

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

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

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

C. OTHER RESTRICTIONS

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

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

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

4. Will arrangements preclude use of financing:

   a. FAA Sec. 104(f); FY 1987 Continuing Resolution Secs. 525, 540. (1) To pay for performance of abortions as a method of family planning or to motivate or coerce persons to practice abortions; (2) to pay for performance of involuntary sterilization as method of family planning, or to coerce or provide financial incentive to any person to undergo sterilization; — (1) - (4) - Yes

(3) to pay for any biomedical research which relates, in whole or part, to methods or the performance of abortions or involuntary sterilizations as a means of family planning; or (4) to lobby for abortion?

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

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

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

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

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

g. FY 1987 Continuing Resolution Sec. 503. To pay pensions, annuities, retirement pay, or adjusted service compensantion for military personnel? — Yes

h. FY 1987 Continuing Resolution Sec. 505. To pay U.N. assessments, arrearages or dues? — Yes

i. FY 1987 Continuing Resolution Sec. 506. To carry out provisions of FAA section 209(d) (transfer of FAA funds to multilateral organizations for lending)? — Yes

j. FY 1987 Continuing Resolution Sec. 510. — Yes

To finance the export of nuclear equipment, fuel, or technology?

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h. FY 1987 Continuing Resolution Sec. 505. To pay U.N. assessments, arrearages or dues? Yes

i. FY 1987 Continuing Resolution Sec. 506. To carry out provisions of FAA section 209(d) (transfer of FAA funds to multilateral organizations for lending)? Yes

j. FY 1987 Continuing Resolution Sec. 510. Yes

To finance the export of nuclear equipment fuel, or technology?

MINISTRY OF PLANNING AND
ECONOMIC DEVELOPMENT,
P. O. Box 7086,
KAMPALA

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P. o. Box 7086 Kampala
and Economic Development

ED/C/USA/1/00 4th January 1988

RECEIVED
12 JAN 1988

The Director,
USAID
Kampala

Dear Mr. Podol,

This letter refers to the joint meeting our two Governments had on December 8, concerning the new Cooperative Agriculture and Agribusiness Support (CAAS) Project. On behalf of the Government I request $20 million be provided to Uganda for this Project. I understand that $2.5 million will be provided this year with the remainder in subsequent years, subject to availability of funds.

As detailed on Section IV "Cost Estimate and Financial Plan" (Table 3) of the Project Paper, the local currency contribution of the Government is noted as $7.784 million for the Cooperatives and USAID local budget. This entire amount is commodity import program local currency generations and does not include facilities, personnel and other costs borne by the Government. As discussed in the review session, all local currency generations must be included in the budget and my Ministry will work with MCM and BOU to insure these costs are in the budget. The Government also agrees that the programming and plans for these generations will be prepared as a covenant under the Agreement, and will be submitted to USAID within three months of the signing of the agreement. The CAAS project has two major components. The first component is a Commodity Import Program ($15.2 million) designed to adress short-term foreign exchange constraints while increasing the availability of essential agricultural sector inputs.

The Cooperative development component has five elements: 1) policy and planning improvement with the Ministry of Cooperatives and Marketing, the Agricultural Secretariat under the Bank of Uganda, and the Uganda Cooperative Alliance; 2) cooperative accounting, audit and management improvement; 3) cooperative education and training at all levels; 4) an agribusiness support component to help cooperatives diversify; and 5) a primary society matching grants program.

The Government of Uganda is formally requesting for your immediate approval of this project. We shall be looking forward to negotiating and finalizing the Project Grant Agreement with you as soon as possible so that the project implementation can be started.

Sincerely Yours,

(A.M. Mugwanye)
AG. PERMANENT SECRETARY

Annex E.1 TECHNICAL ANALYSIS

Contents

I. AGRIBUSINESS DEVELOPMENT

A. Introduction

Achievement of the goal and purpose of the CAAS Project requires effective operation of a broadly based agriculture support system which promotes essential production inputs needed to expand levels and variety of production and provides efficient assembly, transportation (where needed), storage and marketing of the increased volume and range of agricultural products. Agribusiness activities to be supported under the project will include both a) assembly, processing, storage and marketing of agricultural produce and b) import and/or local production of inputs required directly to expand farm outputs (e.g. fertilizer, limestone, seed, tools, implements) and to market and process agricultural output (e.g. small scale sugar/oilseed and maize processing equipment) packaging materials (e.g. bags and boxes) ultimately based on locally purchased raw materials. The specific activities, products and enterprises supported will depend on needs, opportunities and private sector interests as they evolve over the life of the project. In the Agribusiness component, as in other components of CAAS, some initial priorities are identified as part of the Project Paper analyses and preparation process. However, the project has as a major output the establishment of a process for continuing identification, analysis and selection of specific activities and enterprises for support during the project life. The sections that follow (a) provide a brief historic background of agribusiness in Uganda (b) identify and define some of what appear to be priority agribusiness needs and opportunities in 1987, (c) identify major constraints to realization of identified opportunities and (d) suggest some specific opportunities for activities to improve farm input supply, produce marketing and processing and other measures including feasibility studies for appraisal of alternatives beyond the first year or so.

B. Historical Background

The development of agribusiness including manufacture and trade in farm production inputs and the processing and domestic and foreign marketing of agricultural products has closely paralleled growth in volume and diversity of agricultural production. Most of the industry and commerce in Uganda has been based mainly on supply of production goods and services needed by the agricultural sector. Agribusiness development substantially predates independence in 1962 with major investments having been made particularly in export oriented commodities (cotton, coffee, sugar, tea and tobacco). During the first decade after independence (1962-72) both agriculture and agribusiness grew rapidly. By 1972 Uganda produced virtually all essential requirements for food, fiber, and beverages and had a healthy level of export of raw and semi finished agriculture based products. In addition to traditional exports (coffee, tea, tobacco and cocoa), Uganda exported a large volume of other agriculture goods - sugar, vegetable oil, feed ingredients, animal products (mostly dairy and leather goods), and fruit and vegetables in raw and processed forms. Uganda also produced a surplus of many production inputs and tillage tools and implements (e.g. hoes and oxen plows) and fertilizer. Local production, largely from small scale businesses met many needs for machinery and spare parts.

The political turmoil and economic instability of the 1970's brought a decline of about 20% in agriculture production, but a much larger decline in agriculture related industry. Many enterprises were expropriated by the Government which subsequently was unable to maintain and operate them efficiently. Many others were forced to close or severely curtail operations due to unfavorable economic conditions, price controls, shortages of inputs, non availability of financial resources and lack of physical security including destruction and looting by contending political and military forces.

For many agro-industries production in 1980 was only a tenth or less of production in 1970. Production of some items which had reached levels sufficient to meet national needs in 1970 declined to or near zero.

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Table 1   Production of Manufactured Commodities

Year/Item	1970	1975	1980	1983
Sugar (MT)	152,000 (1968)		15,000	0
Vegetable Oil (MT)	5,400		2,900	0
Animal feed (MT)	18,000	10,000	6,000	5,000
Tea (MT)	23,000		1,500	2,000
Cotton Lint (MT)	86,400		13,300	
Coffee (MT)	253,300 (1969)		135,000	
Tobacco (MT)	5,000		3,000	
Ply Wood (thou.M^2)	1,134		28	45
Soap (MT)	12,925	3,574	0	0
Liquor (000 Litres)	5 3	859	33	28
Beer (Million Litres)	8	39	12	10
Textiles (Million M^2)	50	33	20	17
Blankets (000)	1,164	309	93	120
Cigarettes (Millions)	1,536	1,754	629	645
Pipe Tobacco (MT)	127	108	11	32
Fertilizer (MT)				
Super Phosphate	24,800	4,000	0	0
Limestone	N/A	N/A	0	0
Cement (000MT)	191	98	10	31
Bicycle Tyres/Tubes		503,000	85,500	136,000
Fishnets (Pieces)	489,000	299,000	36,000	75,000
Steel INGOT (MT)	11,900	6,300	400	2,300

A number of other industries and enterprises not shown in these statistics formerly contributed heavily to agriculture and agribusiness development. These include:

-- The jute bag factory at Tororo which supplied bags for export and domestic produce marketing.

-- Chillington hoes which met local needs for hoes and occasionally exported.

-- A number of producers of hand tools, ox ploughs and other tools and implements, processing equipment and repair parts and services.

-- Local agricultural limestone production.

-- A variety of construction goods and services.

-- A wide range of cooperative and other private sector transport and marketing services.

C. Needs and Opportunities

The situation which existed in 1970 in terms of agribusiness and support services is a sound indicator both of what is needed to support a healthy and rapidly growing agricultural sector in Uganda and generally what currently is feasible for development in Uganda. During the 1962/72 period Uganda was widely acclaimed as a model of well balanced and soundly developed agriculture and agribusiness. In a few areas Uganda may encounter serious difficulties in recovering its former export position because of increased needs at home, increased foreign competition and displacement by other producers who have benefitted by 15 years experience while Uganda was out of business and by changes in world tastes and preferences.

Illustratively some feel that Uganda is likely to encounter major difficulties in again becoming a significant exporter of sugar, vegetable oil and perhaps cotton though it should easily be able to meet its total local needs if the private sector is given the opportunity to develop local production, marketing and processing. At current prices, these three areas of import substitutions offer the potential for savings of US$ 150 million per year compared with imports to satisfy market needs. Substantial other opportunities exist to increase production to meet presently unsatisfied and potentially rapidly growing domestic needs. These include:

-- Dairy products.

-- Specialty meat products.

-- Beer and other beverages.

-- Tobacco products.

-- Soap.

-- A wide range of semi processed and processed fruit and vegetable products.

-- Condiments.

-- Fibre bags based on locally produced kenaf as a substitute for imported bags or imported jute. Bags are particularly important in handling agricultural products for local consumption and export. Depending on replacement rates, imported bags may cost $5-6 million/year.

-- Phosphate production. At one time phosphate fertilizer was a major export. The PTA is considering support of development of local phosphate deposits for regional use. It is estimated this will cost $100 million. Lower cost alternatives are needed.

-- Agricultural limestone. Though produced at one time it is no longer available from domestic services.

-- A full range of agricultural production tools and implements.

-- A wide range of machinery and spare parts and supplies used in processing of agricultural products. This would include small scale oil seed and sugar cane processing and coffee, tea, fruits, vegetables, livestock and milk processing.

-- Low cost community produced construction materials such as adobe or concrete block, brick, composition roofing tiles etc. Any of these possibilities might reasonably be included under the CAAS.

It is not possible during PP preparation to analyse this wide range of needs and opportunities, which will be changing in any case in the coming years. Thus some mechanism must be established for defining priorities and selecting among alternatives. Criteria on which the selection processes is based may include:

-- Closeness with which the particular activities address the purposes and goals of the Government and project (import substitution, export expansion and agricultural diversification).

-- Expected primary benefits and expected number of direct and indirect beneficiaries relative to costs.

-- Existence of interested cooperatives or private sector investors willing and able to exploit the particular opportunity.

-- The seriousness of the constraints to successful development of the particular goods or services and the willingness of government to take necessary actions to overcome major constraints, especially in the policy area.

-- Suitability of the particular activity to private sector development and direct or indirect participation of cooperatives.

D. Constraints

The principal constraints to development of the agribusiness opportunities in Uganda indicated above fall in three major categories.

-- Political and economical instability and adverse Government policies.

-- Lack of financial resources (foreign exchange and local currency).

-- Lack of trained management and other skilled personnel.

The evidence clearly indicates that political turmoil, resulting lack of physical security and economic instability along with adverse Government policies were the principal causes of stagnation and the dramatic decline of agriculture and agribusiness sectors beginning during the Idi Amin regime and continuing up to the present time. The last year has seen considerable restoration of political confidence and improvement in the economic climate. However, political and economic uncertainty, lack of physical security and adverse economic policies are continuing constraints to investment and development of agriculture and agri-business albeit less serious constraints than formerly.

On the political front there has been major improvement in confidence under the current administration. There has been a major increase in interest in agribusiness investment. Rehabilitation of old businesses and development of new businesses has accelerated. However, rebel forces continue to operate in some areas interfering with development of commerce and industry essential to rapid agricultural rehabilitation and sustained rapid rates of growth.

Improvements in Government policies including the 1987 reforms in the monetary system and large devaluation of the shilling have been very positive factors. However, the shilling is still overvalued by an estimated 100-200%. While this means low costs for imported machinery, spare parts and intermediate production goods, it makes other costs of internal processing appear high and total final product costs and selling prices appear high compared with imports of similar goods paid for with much overvalued shillings. Illustratively Chillington hoes, which by all measures is a very efficient operation, currently is encountering serious difficulty competing with hoes of Chinese origin imported at the current Shs 60 to one dollar exchange rate. There is some concern that imports of cheap vegetable oil and sugar may present an obstacle to the development of local manufacture of vegetable oil and sugar. Spokesmen for farmers and consumers argue for the lower prices possible from cheap imports based on a greatly over valued shilling. Up to now the lack of foreign exchange has intervened to prevent large scale imports of artificially low price production inputs and consumer goods in competition with local production. However, the threat to new industry exists - a threat that could become real if international enthusiasm over political and economic progress leads donors to provide large scale foreign exchange assistance without a guarantee of realistic exchange rates.

The large scale expropriation of private sector agribusiness, especially that owned by Asians, was a major cause of decline in agribusiness and agriculture. Fortunately this has not been repeated since. Rather there has been a distinct shift to support increased private sector investment including both cooperatives and other business forms. Recently steps have been taken to divest the government of some of the acquired agribusinesses and to avoid further commitments to public operations. Illustratively two large scale sugar factories are partially being turned back to former owners. Efforts are under way to develop a private sector seed industry (MAF was attempting to produce needed seeds previously) but almost all the need had to be met from import or farmer retention of their own seed which often was of poor quality. Cotton seed apparently will continue to be in the public sector.

Government price setting has been one of the most serious constraints to agricultural growth especially of traditional export crops. The formerly rapidly growing and thriving cotton industry was destroyed by the over-valued shilling and the excessive amounts taken by the government and by the Lint Marketing Board and resulting low farmer prices. The export monopoly accorded to Marketing Boards has resulted in excessive facilities, excessive staff and high costs. This is particularly true for the Lint Marketing Board which also became involved in cotton seed processing for oil, and soap manufacture. With the decline in cotton to 10% of earlier levels, these facilities and staff are grossly underutilised imposing a heavy burden on farmers, the government and consumers.

The solution generally recommended is to terminate the Lint Marketing Board, sell off its assets and turn seed cotton marketing and processing and the lint trade over to the cooperatives and other private sector entities. Action on this front has not yet been taken. The Coffee Marketing Board has not suffered as much from the decline in the volume of coffee but its costs are generally viewed as excessive relative to its contribution. Some steps have been taken to increase the private sector role in traditional exports where parastatals have played a major role in the past. For instance, there is an agreement to joint operation by British American Tobacco and the National Tobacco Corporation (a parastatal). Uganda Tea Corporation is being rehabilitated with 51% GOU and 49% private (Mehta Group) ownership. However Government monopolies are still in vogue. Government continues to play a major role in marketing and processing in sugar, dairy (the Dairy Corporation), meat packing (Uganda Meat Packers originally meat canners, but now mainly doing slaughter for Kampala butchers), tanning (Government tannery at Jinja) fish marketing (Uganda Fish Marketing Corp. which was a major factor in destruction of the local fishing supply industry through distribution of subsidized donor supplied imports) grain and feeds (Uganda Grain Millers and its subsidiary Uganda Feed Mills), import and distribution of foods and beverages (Uganda Foods and Beverages). Other government services better left to the private sector include production of some maize seed (MAF), tool and farm implement manufacture, (e.g UGMA) sale of veterinary supplies and services and production of baby chicks.

While the policy is generally one of gradual divestment of some government agribusinesses, the process is slow and the schedule is uncertain.

The decision to have the Produce Marketing Board buy maize, beans, soyabeans, groundnuts and sesame and sell these locally with the monopoly on exports has created serious problems for traditional private sector businesses handling these commodities. One of PMB's major functions is to support the minimum price for these commodities but it is also the buyer of these foods for public sector use. Intervention in trade including restrictions on private movement to permit PMB to buy (at established usually minimum prices to meet the needs of the public sector users) has tended to translate the minimum support price into a single fixed price and create great uncertainity for the private trade. While government intervention in the market place and trade has been justified on the basis of protection of consumers, the clumsy and inept manner of implementation has handicapped the essential private trade in performance of its marketing functions and penalized farmers and consumers.

Foreign exchange for import of machinery and intermediate production goods presents a very serious constraint to agribusiness development. In a recent survey of existing businesses, foreign exchange was cited as the number one problem. For new businesses included in the survey this is an even more serious obstacle than for existing businesses. Local currency to cover local costs and buy foreign exchange was cited as an important problem but not nearly as important or as serious as the foreign exchange constraint. Still, local currency to pay local costs of investment operations and to cover foreign exchange for imports presents a very serious problem for many businesses, particularly cooperatives. Most cooperatives are seriously underfinanced and have difficulty obtaining credit from banks except when loans are secured by crops in the process of marketing or by the other goods on hand. In general, the cooperatives accounts show little in the way of other assets that can be pledged as security for loans. Part of this problem results from high rates of inflation.

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Machinery and other fixed physical assets have little apparent value when carried on the books at original cost less depreciation. Accounting procedures have not been developed to deal with this inflationary situation. That is: providing a realistic current reflection of the value of fixed assets.

Low prices and margins frequently set by the Government often have precluded cooperatives from accumulating or maintaining an adequate level of retained earnings to cover minimal working capital needs. The Government has indicated its intent to permit market pricing of goods which would permit cooperatives to accumulate more adequate level of financial resources. However,this has not yet been widely implemented.

Trained management and skilled workers is a problem for cooperatives at all levels from National Unions such as UCCU, and the district Unions through the primary societies.

Other forms of business have proven much more adept in dealing with these problems (accumulation of local currency, pricing of their products and staffing.)

E. Illustrative Returns to Investments

Information is somewhat fragmentary on most investments and actual returns depend heavily on Government policies with respect to foreign exchange rates and prices. The following are indicative of returns to some kind of agribusiness investments and to some production inputs used on farms.

1. Hoe Production of Chillington Hoes.

Data from Chillington indicate total costs of production of about 177 shillings per hoe based on imported steel at approximately US$ 515 per ton and an exchange rate of 60 Shillings to the dollar.

Steel handling)	86.6 (incl. clearing and
Spares & tools	22.4
POL & Utilities	12.5
Labor & Associated Costs	11.5
Fixed Overhead	23.9
Interest	9.6
Packing , other supplies	10.2
TOTAL	176.7

The above is based on 2.3 kg of steel used per hoe and the replacement cost of the steel at the current exchange rate of 60 to 1. Costs are not adjusted for the sale value of waste steel. At the current official exchange rate total cost is slightly under 3 dollars per hoe with about half that in foreign exchange cost. At a foreign exchange rate of 180 to 1 the cost would be about 2 dollars per hoe at least until domestic costs caught up. That is quite competitive with costs of hoes from the lowest current source such as India and China.

Chillington Management estimate they must have a wholesale price of about 200 shillings per hoe to cover cost and provide a reasonable return (10 -15%) on operations. When expansion in production to other items (e.g. wheelbarrows) and a second hoe line is completed, overhead costs per unit should decline permitting somewhat lower prices for Chillington hoes.

Currently Uganda hardwares is importing and selling hoes of Chinese origin for shillings 135 to 165 wholesale and 195 retail (US$2.25 to 2.75 wholesale and 3.25 retail). The data suggest Chillington could sell competitively with imports if the exchange rate were near the best currently estimated parrallel market price for shillings. Chillington hoes provides significant foreign exchange savings compared with imports.

2. Manufacture of Machinery Replacement Parts

Reports of cooperative officials suggest that local cost of private sector manufactured machinery parts often done on a custom basis is somewhat more expensive than costs of imports. However, local production saves foreign exchange and often permits putting machinery back into operation quickly. Otherwise machinery might stand idle for days or weeks until spares are imported. Thus local production is considered clearly advantageous where it is feasible.

3. Limestone

High acidity (low PH) is a common and growing problem in Uganda. Low PH and some other problems associated with soil acidity generally result in low response to fertilizer and greatly reduced yields for many crops. Research in Uganda indicates that in many cases there is little or no response to N & P at PH levels below about 5.6 and also yield of many acid sensitive crops is very low. Application of 1/2 - 1 ton Limestone per hectare may not greatly effect the PH but it is sufficient to permit increased plant utilization of certain nutrients and to overcome problems such as aluminium toxicity. The low value to weight ratio makes import of limestone unfeasible. Local production costs should be low if production is based on locally available deposits of suitable limestone. Fortunately limestone deposits are available at several sites in Uganda. Costs per MT for mining and local grinding and short hauls should not exceed 20 - 30 dollars per MT depending on the deposits and cost of machinery. Usually with medium levels of fertilizer, application of one ton of limestone has been shown to increase grain yields by at least one MT per hectare. At current prices of maize of about 150 dollars per MT this would provide a benefit cost ratio of about 5 to 1 with limestone applied to maize. Returns likely would be considerably higher on higher value crops such as groundnuts and cotton. Only a small part of the cost of limestone normally would involve foreign exchange. When fertilizer is being used, similar or greater yields commonly can be obtained with 50% as much N and P compared with the situations where limestone is not applied to acid soils.

4. Fertilizer

Although Uganda soils are widely reputed to be fertile survey data indicate nitrogen levels in large parts of the cropped area are sufficient only for low yield agriculture. Phosphate defficiencies, though less severe, still are common and would rapidly become severe with other practices aimed at high yields. Potassium may be a problem with some root crops and plantains (Matoke). In some areas and crops sulfur also is a problem.

Recent research on Nitrogen and phosphate application in Kenya indicate rates of return exceeding 20 Kgs of maize for each kg of N and P2O5 applied. Research in Uganda suggests similar returns where soils are defficient in N and/or P. These returns seem high; even at 15 to 1 (that is 15 kgs of maize for one kg of nutrients applied), maize at 150 dollars/Mt and N and P2O5 in Urea and DAP having a landed cost of about US$ 500 per MT, the return would be US$4.50 for each one dollar spent on fertilizers. Lower analysis fertilizer would bring low returns because of the much higher freight costs per unit of active nutrients imported. As is rarely sold in International markets because of the low value to weight. Further AS has the disadvantage of being much more acid creating than other nitrogen forms. Super phosphate also has very low value and nutrient content per unit of weight.

DAP is 18-46-0 (%N, P2O5 and K2O respectively)	= 64%	nutrients
Urea in 46-0-0	= 46%	"
TSP is 0-46-0	= 46%	"
Super Phosphate is 0-20-0	= 20%	"
Ammonium Sulfate is 20-0-0	= 20%	"
ASN & CAN are 26-0-0	= 26%	"

Import of high analysis fertilizer clearly will provide a high rate of return where applied to fertilizer responsive crops on low fertility soils. Reasonable attention to other practices is essential, however, including limestone application, where needed.

5. Local Production of Fertilizer

There are large deposits of fertilizer grade phosphates in

Uganda. In 1970 about 24,000 MT of phosphate was produced per year. This was sufficient to meet local needs and permit some export. Consideration has been given to development of Uganda phosphates under PTA for Uganda and surrounding countries. A 70,000 Mt/year SSP and CAF complex was proposed in an IDA funded feasibility study; but cost estimates appear prohibitively high.

At a simple level development of the local phosphate rock might involve simply fine grinding and application of phosphate rock. A slightly more advanced process might be partial acidulation of phosphate ore with sulfuric acid (if available as a by product of copper production). This would involve minimal investment and operating costs especially if some of the old phosphate plant facilities can be rehabilitated. It was reported that some parts of the plant at Tororo were still useable, which would reduce costs.

A feasibility study of the alternatives should be undertaken. Development should involve only a small investment and minimal delays if simple processes are planned. At its peak fertilizer consumption in Uganda totaled about 4,500 Mt of Nitrogen, 2,500 MT of P205; and 1,500 Mt of K20. Consumption of N and K reached a peak in 1972-3 and P in 1973-4. By 1977 the phosphate plant was out of production.

Nitrogen use increased by 4.5 fold during the 1962-72 decade of rapid agricultural growth. Effective development of agriculture beginning in 1988 should see even more rapid rates of growth in fertilizer consumption.

6. Oilseed Processing

Limited field observations (supported by wide spread expressions of interest) suggest very high rates of return to small scale local oilseed processing. Illustratively one local oil mill operating two oil extraction machines from India, with a total cost reported of US$5,000 was able to process twenty 55 Kg bags of sunflower seed per day per machine with the following returns per bag:

Input

55 Kg of sunflower seed at 15 Shs/Kg	Shs 825.00

Output

16 litres of oil at 110 Shs/litre	1760.00
38Kg of meal at 13 Shs/Kg	494.00
Total Output Value	Shs 2254.00
Gross Margin	Shs 1429.00

Total operating costs including amortization of equipment, interest, labor and overhead should be less than 600 leaving a margin of over 800 Shillings/bag processed. At 20 bags per day that would be a gross margin of 28,000 Shs/day per machine. The major problem with this oilseed processing plant is electrical interruptions.

A variety of smaller scale machines are being investigated; some will permit operation with only hand or animal power. One involving only hand labor may process only 1-2 bags a day. However, the major costs would be labor of perhaps 1 man day per bag. Oil extraction efficiency would be somewhat lower, but the high gross returns suggest this should prove profitable if the mechanical bugs can be eliminated.

A study is being undertaken under FPSP of small scale oilseed and sugar cane processing to introduce, modify and develop appropriate technology for local production. The project should support local production of processing equipment of different types and sizes; finance imports of equipment for manufacturing of machinery; and support local establishment of processing business mainly by district unions and primary societies.

7. Bicycle Manufacture

UCCU has developed a project to manufacture bicycles with an output of 120,000 in the first year, 180,000 in the second year and over 240,000 in the 3rd and following years. The total cost would be almost US$3.5 million of which about half would be FX. Also $4-5 million in working capital would be needed. The IRR was estimated at 80%. Only chrome parts, e.g. wheels spokes, handle bars and bearings, would be imported. FX savings are estimated at over $2 million per annum (about $10/bicycle).

8. Maize Mills

Small maize mills with two step processing as follows: (1) decortication to remove the bran and germ and (2) fine milling of flour produced the following returns:

Input: 100 Kg Maize at 10.5 Sh. per Kg.	1050 Shs.
Output: 60 Kg of fine flour at 28Sh./Kg =	1680 Shs.
38 Kg feed at 6 Sh/Kg	228
	1,908.00 Sh./100Kg
Gross Margin	858.00 Sh./100Kg

Through put per day for one unit operating at full capacity is 1200 Kg for a daily gross of 10,296 Sh/day per pair of machines. These and other small and simpler maize mills including hand-powered maize mills can be produced locally with foreign exchange needed mainly for steel. In brief field trips made by the team, two manufacturers of such maize mills were encountered.

9. Mechanization

There is very little current information available on tractor mechanization. In the 1960's, efforts at tractor mechanization involved subsidies which monopolized 75% of the MAF budget, but still were unsuccessful. Cotton yields were lower by about 10% with tractor mechanization than without. Tractors went mainly to large and better connected farmers. Costs were approximately 130Shs. per acre for land preparation while charges to farmer were only 45 Shs.At existing yields and prices, it was estimated that the full cost of this partial tractor mechanization per acre would have exceeded the value of the crop. Animal mechanization (plows) proved much more popular and expanded rapidly despite shortages of adequate implements. One analyst concluded that the major implement need, and highest rates of returns would be on mechanical seeders; these were not available.

A recent study in Egypt resulted in similar conclusions especially for crops with small seed (e.g. lentils and sesame. In that study yields more than doubled only with addition of precision mechanical seeding and seed requirements were substantially reduced with mechanical seed methods. The tractor mechanization failed to overcome the major constraints of lack of labor during critical periods such as handweeding.

F. GOU Measures to Strengthen Industry

The new Government of 1986 has taken several steps to strengthen business:

-- Emphasize the private sector by turning over some public enterprises and encouraging more private investment

-- Provide more foreign exchange;

-- Assist Ugandans establishing new businesses

-- Emphasize catching up on technology, and the local manufacture of industrial spare parts;

-- Reorganize U$C, increase its capital, and expand its permitted investment from 15 to 35 businesses. Redefine objectives to discourage U$C taking a majority shareholding in companies.

A task force of the Ministry of Industry and Ministry of Planing did a survey of 40 large industries in Kampala, Jinja and Tororo. Use of capacity (of 19 firms) surveyed was found to range from 30% to 85% but most were operating in the 40% to 60% range. However, many of the small to medium firms were operating at below 15% of capacity. Foreign exchange for spares and supplies was the major problem. Foreign exchange needs were estimated at $170 million from 1986 to June 1987 but only $25 million was available. Obsolete equipment (and lack of funds for replacement) and power supplies also were frequent and major problems. Local currency was a problem for only about 20%. Rehabilitation is proceeding for a number of major industries - textiles, beverages, sugar manufacture, cement, steel, chillington hoes, leather. Ownership presents a problem for some firms formerly owned by Asians.

Based on 1984 census data there were about 2,000 industrial units in operation. There were 80 in category I with over $3 million of capitalization. In category II there were about 400 businesses with $300,000 to $3 million capitalization. Category III, includes about 1500-1600 with under $300,000 capitalization. Category I firms submit monthly reports to the Ministry; II submit reports every 6-12 months and III rarely submit reports.

New industry is being promoted. A license requires only the following steps:

-- A feasibility study showing viability (e.g. there is market demand for the product);

-- Evidence the industry will use as much local raw materials and technical skills as possible;

-- Evidence that the foreign exchange cost does not exceed the foreign exchange cost (CIF) of import of comparable goods;

-- Evidence the value added will be 30% or more.

Since the new policies went into effect (up to Sept. 1, 1987) 1508 new small scale industries were licensed. Of these 1425 were employing 15,000 people. The Ministry of Industry provides technical guidance and assists in obtaining foreign exchange and local raw materials for these firms.

The GOU has negotiated and has available $35 million in donor resources (of which $16 million is USAI$). Priority is given to:

-- Food processing for local use or export

-- Manufacture of inputs

-- Domestic wares

-- Electrical workshops

-- Service shops

-- Export goods

-- Import substitution

UCB manages a small scale industry loan program. Loans of Shl,000,000 or over require BOU and Board approval, 600,000 to 1,000,000 UCB Board approval, but below 600,000 only approval of the Chairman/Managing Director. The procedure for approval of loans under US$600,000 (US$10,000) is very simple and should be quick. Loan requests are handled through UCB's 63 branches. Once approved a loan is managed by the Branch Manager.

G. Recommended Program

1. Feasibility Study Financing

The project should provide dollar and shilling funds to finance feasibility studies for agro-industrial development of especially high priority to Ugandan and CAAS development objectives. The dollar funds to be made available will come from the AID provided dollar grant. The shilling funds required can come from the local shilling counterpart deposits from CIP imports. The total tentatively budgeted for this purpose is $300,000 in Foreign Exchange and $600,000 equivalent in shillings.

These funds will be used to finance two types of feasibility studies: a) subsectoral studies to identify and define major investment opportunities in advance of specific commitments by investors and b) specific investment studies carried out upon investors requests. In the case of the latter the investor will be required to finance a part of the total feasibility study cost.

The exact amount paid by the investor will be based on total cost, ability to pay and benefit prospects. Final decisions on cost sharing and allocation of these funds will be decided by the CAAS Core Committee. Illustrations of the Subsectorial Studies Include - development of low cost processing methods for phosphate rock and - development of limestone production and distribution.

Three mechanisms may be used for contracting payment and management of feas ibility studies: a) The Prime Contractor for technical assistance and training may be requested to undertake the contract and manage the feasibility study with supplemental dollars and shilling funds included in prime contractor's Contract. It would be understood that the prime contractor will subcontract with a firm selected by the CAAS Committee; b) UCA may contract for the feasibility studies using its contracting authority; c) the potential investor may contract directly for the feasibility study with funds advanced on the basis of specific measures of progress.

2. Fertilizer Development

As noted earlier, Uganda previously produced substantial amounts of simple super phosphate. Peak production in the early 1970's was about 24,000 tons/year. These deposits have been reexamined and generally found adequate for substantially increased production. A feasibility study of the possibility of development of phosphate proposed a new factory with a capacity of about 70,000 tons/year, mainly of super phosphate. The costs estimated for that development were so high as to make the economics highly questionable. Other alternatives should be examined. These include at one extreme fairly fine grinding and direct application of phosphate rock. This has been found to be particularly appropriate for the high acid soils which occur in some parts of Uganda. A slightly more costly, but still low cost, process is partial acidulation of phosphate rock which enhances the available phosphate. Acidulation likely would be with sulphuric acid which is available in small quantities in Uganda. The final product could be either finely ground or granulated. Since most of the fertilizer currently is spread by hand a finely ground product would to be more economical and meet the needs efficiently. Granulation might be undertaken later if substantial mechanization of fertilizer distribution takes place. The feasibility study undertaken with World Bank Financing indicated that substantial parts of the earlier super phosphate plant are still intact and probably could be used for rock phosphate or partially acidulated rock phosphate production. There are no identified sources of fossil fuel for production of Nitrogen (e.g. natural, coal, etc.). Electricity (Electrolysis of water to produce hydrogen) is likely to be prohibitedly expensive even if new electrical generation capacity is developed. A project for NH_3 and Urea production in Tanzania based on local natural gas was planned some years ago, but had very high costs at that time. Current plans there for development of urea should be examined. Import of final Nitrogen products (or perhaps anhydrous ammonia) appear to be the only feasible possibilities for Uganda. Imports should emphasize high analysis products to minimize transport costs. Urea (46-0-0) and DAP (18-46-0) or MAP (11-52-0) to the extent of phosphate must be imported . Import of low analysis products such as amonium sulphate (20-0-0) and Amonium Nitrate should be avoided to keep transport costs down. Some final produce manufacture might be considered based on import of amonium products such as anhydrous ammonium. However, anhydrous ammonia must be imported in special pressurized tank cars which would preclude backhauls. Thus transport costs would be high. Other alternatives include import of nitric acid for rock phosphate acidulation and to produce products containing N and P such as nitrophos. However, import of nitric acid would also require special containers and probably high cost in addition to some of the hazards in handling. If possible, potential private investors should be identified who would share costs of feasibility studies for development of fertilizer production.

3. Seeds

Uganda has the potential to produce a wide range of fields crop and vegetable seeds for its own needs and possibly to export to other countries. Cost sharing of feasibility studies with potential investors might be a logical approach to initiation of an indigenous seed production capability. The seed study team is making some specific recommendations for seed development in Uganda. These should be reviewed for possible inclusion under the CAAS project.

4. Limestone Development

Large areas of Uganda have low levels of PH (high acidity) sufficient to interfere with nutrient availability from both natural and applied fertilizers. Many crops are very sensitive to acidity e.g. soybeans and many other legumes which might otherwise make major contributions to food and feed supplies and fix nitrogen (from the atmosphere) to meet needs of other crops. Application rates for limestone usually of 1/2 -1 MT/hectare/year are adequate to maintain suitable levels of PH for efficient returns to fertilizer and for acid sensitive crops. Agricultural limestone formerly was available and used by farmers, but it is not now available in Uganda. Costs of development should be low since they involve only mining, fine grinding and distribution. In the US limestone costs applied to the land within 100-200 mile of the source are only about $20 per ton. Costs might be slightly higher here because of the higher transport costs. In some developing countries phosphate rock is mined, shipped to local communities or larger farms where it is run through simple hammer mills before spreading. A study should be undertaken of the costs and feasibility of immediate development of agricultural limestone production capability to meet local needs. Small low cost facilities might be developed by UCCU, cooperative unions or other private sector businesses. Such a study might be carried out in conjunction with the study of low cost methods of development of local rock phosphate.

5. Legume Innoculants

A number of potentially nitrogen fixing leguminous crops are being planted. The amount of actual nitrogen fixation is quite limited. Some of these have been grown for a long time in Uganda while others are new e.g. soybeans and some forage legumes. In the absence of suitable Rhizobia in the soil, little natural nitrogen fixation will occur. Where soybeans and other legumes have been successfully developed on a large scale (most noted in Brazil) it involved a major (US assisted) integrated effort which included substantial attention to identification of the right types and local production of suitable innoculants. Such a program likely will be needed here for effective nitrogen fixation and success with crops such as soybeans and other new legumes. Suitable innoculation may even increase production of leguminous crops which have been grown here for a considerable period. The benefits/cost ratio for innoculant manufacture and application is extremely high. For example, in the US and Brazil, proper innoculation will result on fixation of sufficient nitrogen to produce 2,500-3,000 Kg soybean/hectare and leave a considerable balance in the soil and crops residue for a subsequent crop. The seed alone would contain about 150 Kg of nitrogen. The total in the seed, and residual in the soil might be as much as 180 Kg of nitrogen/hectare in a given year. Imports of 180 Kg. of nitrogen probably would cost at least $75 in foreign exchange. The innoculant normally would cost only $2-3/hectare with almost 100% local cost. Initially Uganda should plan to import some innoculant from Brazil and other countries for testing, and then produce innoculant commercially in country.

6. Leaf Meal

Alfalfa leaf meal or some similar product is an important ingredient in the feed rations for the nuclear poultry industry which involves confined production of both broilers and eggs. Many countries import such products of high cost because they are unable to produce them locally. It appears that poultry in Uganda suffers at least to some degree from such defficiencies, as evidenced by the very pale color of egg yolks. Leaf meal is not needed for traditional poultry systems as chickens have access to grass, insects etc. Pig raising in confinement also requires a source of leaf meal or a similar product. The production process for leaf meal is simple and fairly low costs and involves small amounts of foreign exchange compared with the import of the final product. Alfalfa, clover and a variety of tropical leguminous plants and cassava leaves are likely to be suitable candidates for use in production of leaf meal for poultry and pigs. The process usually requires harvesting while the plant material e.g. the alfalfa plant is quite immature and low in crude fiber. Some artificial drying is needed as is pulverization. Poultry production using such adequate nutrient supplements is more efficient and final food products are more nutritious.

7. Community Manufacture of Bricks, Block, Roof, Tile

A variety of low cost methods have been developed for small scale, low cost manufacture of clay brick, cement/fiber roof tile, adobe block etc. Some hand-powered machines are already available in country. The project should examine the possibility of development of this type of community activities either through associations or through other private business forms.

8. Chicken Hatchery Equipment

Uganda has developed modern broiler and egg production systems and poultry products enter heavily into human diets. However, production is limited by the supply of baby chicks and balanced feeds for both broilers and layers. At present Uganda imports a large part of the chicks needed for both broilers and egg production. Poultry producers reported local costs of chicks to be approximately Sh. 50 for broiler breeds and Sh. 150 for layers. These imports involve considerate foreign exchange costs and resultant internal prices of chicks are high compared with other countries with locally produced chicks. Principal needs are breeding lines and hatchery equipment, (mainly incubators). Incubators range in size from small (300-400 eggs at one time) to intermediate (10-15,000) to much larger sizes. Information available suggests CIF costs of about \$2-\$3 per egg capacity for small units to about \$1.00 per egg for medium size; (probably less for large units). With a turnover of 3-4 weeks, even a small unit costing \$2 per egg should involve equipment costs of well under 10 cents per chick produced. A request was received early in 1987 to finance \$250,000 worth of imports of chicks under FPSP.

9. Feed Manufacturing

Prepared complete feeds and feed concentrates are essential for modern poultry and pig production and also commonly utilized for modern dairy production. Uganda currently has some production of such feeds at Jinja, but the supply is very inadequate. Several cooperatives and other groups have expressed interest in development of local production of feed concentrates especially for poultry. The oilseed activity as it is developed will supply needed protein supplements to be used with maize. Leaf meal concentrates such as alfalfa meal could be produced locally. Equipment, mainly grinders and mixers will be major needs in development of feed manufacturing capacity. It may be necessary to continue to import very small amounts of vitamin and mineral supplements to add to oilseed meal, leaf meal and maize produced locally.

10. GENERAL

The project should support local production of priority farm production inputs and marketing and processing machinery and supplies by financing imports of manufacturing equipment and raw materials (steel and jutes) under the CIP component of CAAS. A matching grant in aid Program for primary societies is proposed under CAAS to help strengthen cooperative agribusiness. Use of local currency generated by the CIP for lending to cooperative agribusiness also is recommended to strengthen agribusiness and stimulate farm production.

II. COMMODITY IMPORT PROGRAM

A. Selection of Commodities

A positive list of qualifying classes of commodities to be financed under CAAS will be prepared in advance of each year's import program. An initial list is submitted as part of the PP based on analysis conducted during the preparation of the PID. Final decisions will be made as applications are presented for foreign exchange for import. In subsequent years, a proposed list would be prepared on the basis of analysis - to be carried out by NICU and UCA in consultation with UCCU and the MCM, MOA, MAIF. NICU (The National Input Coordinating Unit) might take responsibility on behalf of UCA for development of the lists. The final decision will be made by the Project implementation Committee. The analyses on which this will be made will involve: a) identification of candidate classes of commodities and in so far possible specific commodities within each class e.g. fertilizer (and specific products such as Urea), steel for specific uses, machinery etc.; b) analysis of the economic and financial rates of return for the candidate commodities; c) estimation of likely selling price based on free market pricing or the principle of replacement cost plus costs of distribution including sufficient margin to permit maintenance of the integrity of the capital base of the importing and distributing cooperatives and other businesses; d) detailed estimates of the economic and financial rates of returns (benfits/costs ratios) for each candidate commodity at levels of distributors and end users. As a principle, economic rates of return must exceed 10% per annum after due allowance for inflation. Financial rates of returns must be sufficient to cover all costs and provide a rate of return exceeding the rate of inflation.

The candidate list of commodities will be submitted to the CAAS Standing Committee for its approval accompanied by detailed analysis covering the above points. When Government policies preclude adequate economic and financial rates of return on otherwise apparently desirable classes of commodities, this will be brought to the attention of appropriate Government officials (e.g. APC) for action.

B. Priority for CIP Commodities and Capital Goods

In general priority will be given to raw materials machinery and related requirements for production of inputs and essential agricultural product processing equipment. Finished production inputs (e.g. fertilizer) should be included only to the extent it is demonstrated that the capacity for local production does not exist and cannot be developed or as an interim measure until local production meets needs. Where potential for local production exists strong preference should be given to support of such local production. The project will seek to identify, promote, and support use of alternative development resources such as the AID/RPE project or other donor projects for larger scale investment before proposing use of CAAS funds.

C. Proposed Candidates for Commodity Import Program

-- Fertilizer: approximately 11,000 MT over 6 years including DAP (Diammonium Phosphate 18.46-0) and Urea (46-0-0) total cost of about $5,650,000 over the life of project. In general the project should not attempt to import or finance import of low analysis fertilizer. However it might include some NPK type of fertilizer such as 20-10-10.

-- Seeds: Mainly maize, beans, sunflower, vegetables, approximately $2,600,000 CIF over 6 years.

-- Steel and related manufacturing supplies: approximately $3,575,000 over 6 years.

-- Manufacturing and Processing Machinery: approximately $1,200,000 over 6 years.

-- Jute for production of bags for marketing of produce would be included but major emphasis will be given to local production of kenaf fiber to replace jute as soon as possible: approximately $1,175,000.

-- Marketing and office supplies, minor equipment including possibly a few vehicles. This would include small amounts of imported materials for each qualified primary society (e.g. calculators, scales, e c.): a total of about $1,000,000 over the life of project. Total CIP estimated effort $15,200,000.

D. Input Requirements

Combined Farm Input Requirements for 1988 Estimated By NICU, et.al

	Fertilizer (MT)	Pesticides	Hoes (000)	Ploughs	Other Tools (000)	Bags (000)	Other (000)
MOA	7,000 /1	4,400,000	/2	/2	/2	3,600	/3
MAIF		/4					/5
UCCU	6,500 /6	336 MT	1,000		26	1,500	482 /7
Special C ops Groups							
Cotton	1,722	450 MT	476		7,000	340	170
Cocoa	1,500	300 MT	20			70	
Sugar cane	15,750 /9	354 MT					
Tobacco	987 /10	11 MT			60	17	272 bales /8
Smallholders							
Tea	1,700	60 MT	20			65	60
Estate tea	1,050	12 MT	3			4	40
Coffee	10.000		400			370	1,400

Note: Several groups have lists of incubators needed for hatcheries. The most specific was UCCU which proposed 20 incubators for its affiliates at a total cost of US$186,000 ($9,300 each). Premixes also have been requested, valued at about US$400,000.

/1 Total cost of $2,050,000
/2 $17,550,000 for all types of tools, equipment.
/3 $13,800,000 for machinery, tractors, implements etc.
/4 $22,400,000 estimated cost for pesticides, vaccines, etc.
/5 $8,565,000 including $1,790,000 for veterinary equipment and $6,775,000 for dairy development.
/6 Fertilizer includes 1,000 MT of urea and 1,000 MT of TSP. The latter might be substituted by DAP and Urea $525,000.
/7 Includes 2.15 MT of vegetable seed, and 200 Mt of hybrid maize; 250 MT of wheat and 30 MT of sunflower for a total cost of about $450,000/year.
/8 Plus 939 bales of Hessian cloth and 60 bales of jute twine.
/9 6,750 Mt of Urea and 9,000 MT of TSP (could be instituted by DAP)
/10 BAT separately estimated need for 1,200 MT of 7-21-21 and 300 Kg of pesticide Planned Imports

E. Some Imports Planned

Some imports are planned under the EEC coffee and cotton rehabilitation projects and the SW IFAD/IBRD project. These will include NPK, DAP, Urea and some lower analysis fertilizer. With EEC assistance a GOU tender of 16 November 1987 calls for the following: SSP, 100 MT; CAN, 420 MT; NPK, 900 MT; MOP 100 MT. This is expected also to include 500 maize shellers, 100 groundnut shellers and 100 rice hullers. This tender was originally planned for opening in January 1987. Under the EEC coffee, tea and cotton programs (which include support of other crops in a farming system approach) the following imports are planned over 3 years; NPK (25-5.5) perhaps 2,000 MT; ASN 500, CAN 500; AS 200. Some Urea may be substituted for AS and some DAP included. USAID under the MFAD Project will import a small amount of Urea, DAP and other fertilizers for research and demonstrations.

F. Seed Imports 18 months

UCCU requested funds to import the following:

Maize	100 MT low area and 150 MT high
Wheat	200 MT
Sunflower	30 MT
Vegetable seeds	- 7,500 Kg total for a variety of seeds
Pasture Seed	- 4,500 Kg

G. Machinery

Many cooperative unions and private firms visited presented a list of heavy machine tools and other equipment needed to produce agricultural implements (plows, etc.), and agricultural processing equipment. While the sites visited represented only a small sample of such cooperative and private factories, the total costs of equipment listed amounted to $10-15 million of imports. The total identified needs of existing plants and business organization, probably would exceed $100 million. Total amounts are difficult to estimate with precision since many groups presenting lists had general specifications on equipment but no estimates of actual costs. There are additional requirements among cooperatives and private businesses that would like to start up such businesses: clearly an effective system for estimating costs, benefits and feasibility will need to be devised and applied as financing is undertaken.

III. INPUT DISTRIBUTION

A. Present Situation

Matters of input procurement, pricing and distribution have been extensively researched in the recent past by the Government of Uganda/World Bank Agricultural Task Force, and the problems and issues are comprehensively reported upon in their Final Report of March 1987. The correctness of their analysis and conclusions is accepted. At the present time the market for agricultural inputs is extremely segmented, so that it is hard to establish what the "market price" for many commodities is, and how truly available they are (if at all). This is due to a number of factors, foremost of which is the over valuation of the Uganda Shilling and its erosion by inflation. This in turn is exacerbated by the activities of Government and donor agencies, which import selected items on an occasional basis, usually in modest quantities and often only for certain target areas. Often these are priced in a way which reflects their dollar cost price not replacement price, and not in a way which is related to such a market price as might exist. This in turn has led to diversion and profiteering, and possibly illegal export. It has also discouraged many farmers from buying until they can get what they need at publicly announced low prices. Perhaps even more significantly, it has discouraged private traders from operating outside the major centers.

Thus the market is not operating as a mechanism for determining what farmers need and what they are able and willing to pay, and nor is it performing a proper distribution function.

Previous experience by U.S.A.I.D. and other donor agencies in assisting the importation of farm inputs has not been satisfactory, for reasons alluded to above. The selection of items for importation has tended to be arbitrary, and attempts to ensure smooth distribution with prices and margins determined centrally have not worked well. Goods have not moved smoothly, since when prices are too high capital and storage space have been tied up, and when they were too low, serious problems of diversion and profiteering were encountered, which necessitated costly and inefficient monitoring exercises by valuable and scarce manpower. Nor is it apparent that end users have always benefitted from cheaper goods.

The position of the cooperative movement in the present input supply situation is also less than satisfactory. As the only organizational structure with sufficient cohesion,

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administrative ability and storage capacity, it has been the chosen vehicle of most of the donor agencies for the handling and distribution of the donor supplied inputs. The cooperatives have long had an ambivalent attitude to their roles as commercially orientated profit making organizations on the one hand, and farmer owned service organizations on the other. In the matter under discussion, the latter tended to predominate, and the cooperative organizations have for several years been handling large quantities of donors' inputs for margins which do not properly cover their costs.

As an example, the Uganda Central Cooperative Union (UCCU), the apex organization in this exercise, claims that about a third of its business has been of this nature, that overheads have been high, for storage, handling, capital costs and so on, whereas margins have been fixed too low. On certain E.E.C. supplied goods which they were encouraged to supply to district unions on credit (which was then often not repaid on time), they lost heavily.

Nor did donor agencies make allowance for the very considerable transport costs incurred by some remoter unions, which were supposed to sell to farmers at the same prices as those near Kampala.

The Ministry of Cooperatives and Marketing has played an active role in the price setting mechanism, and has followed a policy of encouraging cooperatives to subsidize input prices by covering overhead costs, to satisfy farmers' short term demands, at the expense of long term financial solvency on the part of the unions.

This has tended to undermine further the already weak financial position of most of the cooperative movement, which had already suffered for over a decade from high inflation and poor management.

B. CAAS Project Objectives

Two of the stated aims of the CAAS project, the commercial provision of inputs and the strengthening of the cooperative structure, must be examined in the context of the haphazard market structure and cooperatives already weakened by, inter alia, donors' commodity aid programs.

It is urgent to gain sympathy and understanding from the Government, and indeed from the cooperative movement itself, for the view that it is necessary for commercial organizations to charge sufficient margins on goods they handle to cover all their real costs. These margins are likely to appear large, but this should not simply be regarded as profiteering at the expense of farmers. On the contrary they are necessary for the reestablishment and strengthening of the cooperatives' capital position.

It is also necessary to persuade those in positions of responsibility in Government that the supervision and even handling of farm inputs by ministry staff, which has grown very common in the recent past, (as documented by the Agricultural Task Force) is not efficient either as a us of their time or as a means of getting commodities to farmers. This is stated in the Agricultural Task Force's report, but the contrary attitude is deep seated, and still widely accepted.

Thus cooperative organizations must be free to set prices and margins at levels they consider necessary to cover their costs.

C. Input Distribution and Monitoring

To reestablish the market orientation of input supply in the present situation, CAAS will work most effectively by creating a good supply of a limited range of commodities for which there is a steady and undisputed demand. (Examples include hoes, fertilizer, gunny gags and wire products.) A good supply will discourage any attempts at profiteering.

It is anticipated that the organizations in the cooperative supply network will benefit from a higher turnover of goods at reasonable margins, and that the commercial channels and procedures generally will be strengthened by reactivation.

Besides concentrating on a limited range of input items, CAAS will concentrate, where industrial capacity exists, on supplying raw materials to domestic manufacturers.

Lack of foreign exchange for the purchase of raw materials was quoted by almost all respondents to the Ministry of Industry's June 1987 survey of Constraints to Production among large scale industries. Existing industrial capacity is vastly underutilised (below 20%, according to the Under Secretary of the Ministry of Industry) due to lack of imported raw materials.

Thus, making funds available to selected manufacturers, where relevant capacity exists, to enable them to import raw materials and manufacture inputs for distribution through normal commercial channels, will simultaneously provide a boost to domestic industry, save foreign exchange, and at the same time provide necessary agricultural inputs.

Where the necessary industrial capacity does not exist, CAAS will import finished goods through UCCU, but again, with prices and margins to be determined by commercial considerations, so that these commodities do not become a burden to the cooperatives.

Under such a distribution scheme, the need for monitoring is kept to the minimum. It would be necessary only to ascertain which inputs were in shortest supply, so that this item received favorable consideration for a further supply of foreign exchange. (Repeated shortage of items might be caused by smuggling as a result of an over valued Uganda Shilling. It should be noted that exhaustive monitoring under previous input distribution systems did not solve this problem either.) Inputs should become more available at all levels of the distribution network. In this regard, it will be important to strengthen the capacity of the system at primary society/trading center level to be involved in the distribution process.

D. Capacity of the Cooperative Distribution Structure

Currently, bank interest constitutes about 45% of UCCU's overhead costs. Easing the burden of depositing 100% of local cover when first requesting foreign exchange to, say, 25%, would add greatly to UCCU's flexibility and ability to import. Goods would have to be imported into bonded warehouses and not released to UCCU for sale to district unions until the balance is paid. UCCU has the storage and management resources to undertake its importation and distribution role.

District unions, with the exception of East Mengo due to its proximity to Kampala, all have farm supply shops, though these tend to be run at least in part as a service to farmers, with consequent subcommercial pricing policies. As a result, they receive low priority for funds within the union, and tend to be understocked. This could be corrected by CAAS originated loans for farm supply shops, which would be conditional on more realistic pricing policies.

Few primary societies at present run farm supply shops at trading center level, and few traders stock many inputs. Consequently there is a great demand for the establishment of such outlets. Not all primary societies at present display the business acumen to run such shops, but undoubtedly there are others which could, with the assistance of CAAS originated commercial loans, successfully do so.

E. Credit

There are a number of types of credit and approaches to providing it which might be considered in CAAS.

1. Production Credit for Small Farmers

In the present climate of high inflation there is considerable demand for the provision of agricultural production loans, with the assurance that this would boost output. However, a number of factors militate against its inclusion in CAAS at the present time.

Firstly, the high level of inflation in Uganda now means that an annual rate of interest in excess of 200% would be necessary to prevent decapitalization of such a scheme. There is no evidence that such a rate would be acceptable either to the Government of Uganda, while Bank of Uganda interest rates are between 22% and 25%, or to the farmers themselves.

Secondly, the resources required to establish such a scheme in a meaningful way would be very considerable in relation to those available to CAAS, whereas CAAS has identified other worthwhile uses for its funds and administrative resources.

Thirdly, it is felt that provision of rural/agricultural/production credit is a major development activity in its own right, which if supported, should be as a separate, specialized project, rather than as a sub-component of a this or any other project.

2. Credit for Cooperative Organizations

Organizations at all levels of the cooperative movement are seriously impeded in their choice of business operations and in their flexibility by a shortage of capital and the fact that they are not very creditworthy.

In the context of input distribution, both district unions and primary societies which would like to play a role, or a more active role, are seriously constrained by lack of capital with which to adequately stock a farm supply shop. Loans raised tend to be prioritized for use in the purchase of coffee or cotton. Thus credit specifically for the establishment or restocking of farm supply shops might have a useful role in CAAS. However, such loans would have to be considered on a strictly commercial basis after a suitable feasibility study. CAAS should not have the administrative staff or funds to make special loans for this purpose, as this might divert investment from more economically justifiable purposes, and excuse the nonadoption of commercial pricing policies by the organization concerned. The desired strengthening of the movement will only occur with the sensible use of credit provided, and this is encouraged by paying the full cost.

It is anticipated that funds made available for agribusiness through the commercial banks might be applied for for this purpose. Uganda Commercial Bank considered that primary societies were often more credit worthy in this respect than district unions, while Uganda Development Bank were of the opposite opinion. Were credit to be offered on goods supplied for example by UCCU to district unions, then this should be on a commercial basis and the cost included in the price of the goods. However it is extremely unlikely that this will occur, given the weak capital position of all concerned, and UCCU's bad experience with this in the past.

F. Further Suggestions

1. Inventory Control

Overheads in both UCCU and the district unions could be kept down by more effective stock control. This might be achieved by computerization, particularly as and when accounting procedures are computerized. At UCCU at present the procedures for requisitioning stock are inordinately complex so as to prevent pilfering. This system could only be relaxed and streamlined when alternative stock control and security measures are in force.

2. Training

Given the need to extend and strengthen the network of farm supply shops beyond the level of the district centers, special consideration might usefully be given to the training needs of managing these.

3. Matching Grants

The provision of matching grants to primary societies which wish to build crop storage facilities or collection points might usefully be extended also to those which wish to establish premises for farm supply shops in particular in trading centers which are relatively accessible.

IV. ACCOUNTING AND AUDITING IN THE COOPERATIVE MOVEMENT

A. General

The great majority of cooperative primary societies are rural based. Two thirds of these are coffee and cotton marketing societies. Almost all are affiliated to one of the 31 active district unions who are in turn affiliated to central organizations. Inadequacy of accounting practices and unreliable and often belated audits have been identified as a major weakness in the Uganda cooperative movement, inhibiting sound management and preventing the direction of management by committees and membership.

The Ministry of Cooperatives and Marketing plays a very active supervisory role, which it says it would be willing to relinquish in favor of a passive oversight role if the relevant organizations within the movement were strong and responsible enough to make that possible.

They consider this intervention neccessary because of the low level of accountability, in particular financial accountability, of management to the membership, insufficient training and a break down of trust. Unions' claim to autonomy has, they feel, been abused for the benefit of the management at the expense of the membership, who in general have too little understanding of their role and rights to fulfill a watchdog role.

B. Accounting Procedures

1. Primary Societies

Time permitted brief visits only to five (good) primary societies, and the following is based on previous experience with the primary societies, on interviews with those currently working with them and on reading of previous reports.

Primary societies vary considerably in size and in the diversity of their activities. Most use a single entry system which does not easily reveal mistakes (intentional or otherwise), does not quickly provide management information, and which needs quite a high level of external supervision. It does not appear to have been designed purposely for use by rural cooperators of modest educational attainment. The only societies to use a double entry system are the savings and credit societies, and their system might be improved by the addition of a current cash balance column.

In addition to a less than ideal accounting system, many primary societies are constrained by the lack of proper equipment such as adding machines or calculators, weighing scales (in the case of the marketing societies) and safes. Few have satisfactory stores, and almost uniformly they are too short of capital to build these without assistance.

2. Accounting Procedures: District/National Unions

All unions visited have centralised accounting sections processing paper from diverse activity centers, manually, usually months in arrears. While some moves are being made to decentralise, so that individual managers have slightly more control, nevertheless most accounts are so far in arrears that they have no meaningful use for management purposes. Levels of accuracy are less than satisfactory, and even after auditing, sums of money sometimes remain unaccounted for. Many of the old mechanical posting machines are breaking down and replacement parts are unobtainable since the technology is outdated. Thus replacement by up to date technology, that is to say computers, is becoming imperative, and this need is recognized by the managements concerned.

C. Auditing

Poor accounting is sometimes a symptom of the deeper problem of lack of public morality which has arisen in a period of acute political and economic uncertainty. In many cases this dishonesty has been promoted more by the need to supplement inadequate salaries, than by greed. But the unlikelihood of being caught has exacerbated the situation, and in this context auditing has not been taken seriously enough. It is important this aspect or purpose of auditing be reintroduced.

1. Primary Societies

Primary societies' accounts are normally audited by Ministry of Cooperatives and Marketing (MCM) field staff, who are also responsible for assisting the preparation of the books, where necessary, on a regular basis; that is to say the supervisory accountant is also auditor, and it would be preferable to seperate these functions. These staff are under paid, often lacking in suitable transport, and fail to visit the societies as often as necessary. The audits are often months or even years in arrears, and are too late to have any management utility. They are often incomplete or inaccurate. One society visited in the Wamala Union area had a note in the annual report to the effect that USh.20 million (old currency) of transactions had not gone through the books, out of a turnover of USh 115 million. It might be considered informative that there was apparently some resistance from MCM field staff to Wamala Union's project to set up a bookkeeping service for some of its primary societies.

The cost of the audit to this (large) primary society was USh 380,000, in old currency; that is to say about $68.

2. Auditing of District and National Unions

Most unions use Coopers & Lybrand, the only internationally recognized firm presently operating in Uganda, as their external auditors. The characteristics of the service they require from their external auditors are that it should be fast and accurate, at reasonable cost, that management advice should be offered, and also that the firm should be a recognized one so as to lend credibility when they are requesting bank finance.

The lack of competition and the excess of demand over supply of external auditors has led to a generally unsatisfactory level of service. Additionally, because the unions' accounts are so far in arrears, auditing is inevitably very out of date.

3. Availability of Audit Services

The accounting profession in Uganda suffers seriously from the lack of a national level professional institution to organize training, and to set and maintain standards. With only one internationally recognized firm operating from a permanent office in Kampala, the industry suffers seriously from lack of competition, from lack of sufficient numbers of auditors, and reportedly from lack of quality of service available. The managing director of Coopers and Lybrand implicitly admitted that he could only guarantee timeliness of service to overseas based companies with deadlines to meet. At the same time these services are reported to be expensive and not wholly satisfactory. Nairobi based audit firms do operate in Kampala on an occasional basis, but the cost is very high. Various small local firms exist, but the quality of service is not guaranteed and nor is it necessarily acceptable to the banks.

If therefore the Uganda Cooperative Alliance were to establish an audit firm, it may help to meet an urgent need, so long as its services proved to be of a recognized and bankable standard. However, it should be anticipated that this will take a considerable time to achieve, unless it is established in conjunction with a previously recognized and established firm, or at least undergoes some external assessment of its performance.

Apart from bankability, of the other characteristics required by cooperative organizations, UCA-provided audit services have a reasonable prospect of being cheaper than alternative services presently available, because of the lack of competition. Computerization on its own is unlikely to make auditing an easier or faster operation, but because the bookkeeping itself should be much more up to date, the auditing could start and finish in a more timely fashion. Business advisory services related to auditing, as expected by the unions, would be available either directly or from UCA Business Services.

It would also be of benefit to the primary societies if there were to be some alternative to MCM field staff as their auditors, but UCA would only be able to audit the accounts of societies which had been computerized.

D. Current Capacity of the Cooperative Movement with Respect to Marketing of Farm Inputs and Produce

1. Decapitalization

The very high levels of inflation over the past several years has contributed to the very serious decapitalization of the cooperative movement at all levels. The problem has been exacerbated by moderate or poor levels of management, and in most cases a failure to adjust the depreciation of assets to account for inflation and the high replacement costs of capital assets.

One particular weakness has been the ambivalant attitude to making sufficient profit on the sale of goods to members in order to adequately cover all costs. It has often been the case that prices have been kept low with the intention of helping the farmer without due consideration for the fact that a financially weakened union is of no benefit to the farmer in the long run. In this regard the attitude and intervention of the Government, and also the low margins set by most of the aid agencies on the goods they have imported and distributed through the movement, have been very unhelpful. Where the interests of the cooperative unions as commercial entities have been in conflict with their perceived duty to serve farmers, the Government has tended to use its high profile of supervision within the movement to manipulate decisions for the short term interests only.

2. Input marketing

This has been extensively discussed in Section I of this report. To recapitulate, at national level, a weak capital base means that UCCU finds it difficult to raise sufficient local cover to meet the 100% requirement by the central bank for the purchase of foreign exchange, and then service this capital for the extended period until goods can be ordered, imported, distributed and sold. Thus imports tend to be available in a piecemeal and untimely fashion. There is some disquiet as to whether their choice of items for import accurately reflects the true priority of needs within the country.

At District level again, lack of capital interrupts the smooth flow of goods. Even at bargain prices, unions are sometimes unable to purchase goods for their areas. They are not at present very credit worthy, and the priority for their short term borrowing, especially in the crop buying season, is crop finance. Unfortunately, outside this period, when they are more able to stock their farm supply shops, it is the farmers who have the cash flow difficulties.

Below this, there are few satisfactory farm supply shops, run either by the primary societies or individual traders. The pressure to "help" the membership with unrealistic prices is even greater here, and lack of liquidity even more serious. At the same time, the expense of traveling to distant towns in order to find goods is considerable, and there is great potential for the societies to develop farm supply shops at sub-county level, if they can once get started and manage to run on commercial lines.

3. Marketing of Farm Produce

The cooperative movement plays a considerable role in this area, and it is a major concern for the Marketing Department of MCM that it remain strong enough to continue to do so.

The Lint and Coffee Marketing Boards are sole final purchasers of cotton, coffee and cocoa, though their consequentially strong position is undermined by weak financial management. Their activities are monitored rather than supervised by the Marketing Department.

Cotton processing is 100% dominated by the cooperative movement, since the volume of business and the margins involved have not been sufficient to attract other private investment. (This may be an example of where cooperatives are enjoined by Government to operate subcommercially).

In the recent past, margins on coffee processing were sufficient to attract excessive competition from noncooperative processors, particularly in areas nearer to and more accessible from Kampala. This was allowed by Government in the interest of competition, but has led to much excess capacity. Cooperatives still process about 60% of the crop, but this varies from area to area. Processors' margins are now lower than they were, and The noncooperative processors also have difficulty in aquiring sufficient crop finance.

The cooperatives play only a minor role in marketing of other produce, and that mostly in those few areas where the Produce Marketing Board does not have its own buyers.

It is worth mentioning in passing, though it is outside the scope of CAAS, that a major obstacle to the distribution of inputs and the marketing of produce is the increasingly poor state of the rural feeder road network.

E. General Review of UCA Proposals with Respect to Accounting and Auditing

A difficulty which will be faced by UCA is that at present it still lacks credibility within the cooperative movement due to the poor quality of the immediate past management, from which many member organizations had wished to be disassociated. Given the sceptical attitude of most other organizations in the movement, this may take some time to overcome. Many unions may be reluctant in practice to commit themselves wholly to a UCA-based organization. Thus while UCA has a theoretical legal responsibility to provide audit services to the movement, it might be wise to anticipate some difficulty in establishing both the organization and the credibility from a very low starting point.

As a means of countering this problem, it would be helpful to explain computerization to the unions at the earliest possible stage, and take steps to win their confidence and make them feel involved in the computerization process.

The proposals put forward by UCA form an integrated package which are to a large extent mutually interdependant. Part funding from the Swedish Cooperative Center has already been obtained for example to provide nine sets of computer hardware and three sets of software, and implementation has already started in Busoga Growers Cooperative Union, in 46 primary societies in Jinja District, in UCA itself and is about to start in Uganda Central Transport Union (UCTU). UCA has instituted certain institutional arrangements for its computerization program whereby hardware and software belong to itself and its own staff do the data input, and the client is charged for the service. It is certainly an aspect that will need to be looked at during the Project Review after two years.

If UCA succeeds in establishing audit as well as accounting services, as it might be questioned if the audit is genuinely external, and this also is something which must be kept under review during the project.

1. Computerization

a. General

In the district and national unions, the failure of the old manual/mechanical accounting systems used, the huge backlog of work for those organizations running many months in arrears, and the urgent need to have up to date information for management purposes have made computerization imperative. This need has been recognized by all organizations with whom the matter has been discussed.

However, UCA has in the recent past lacked credibility due to the poor record of previous management. As district and national union managements tend to display a skeptical outlook bred of a general past experience of unfulfilled promises, the UCA may in practice have difficulty in persuading these unions that its own is the best path to computerization.

For example, the following difficulties might be faced:-

- The proposed institutional arrangements between UCA Business Services and individual unions regarding ownership of hardware, software and access to data might be questioned by the less cooperative of the unions, UCCU.
- In unions where a change of management takes place, an increasingly common occurrence, the new management may well delay computerization pending a policy review.
- Staff shortages might make unions reluctant to allocate sufficient personnel, particularly in the context of the need to update seriously overdue accounts.
- The possibility of staff obstruction due to concern about their jobs and/or habitual malpractices.

Thus the recognized need to computerize, and verbal assent that UCA's assistance would be welcome in this matter is only part of the issue, and actually getting computerization underway among these unions may prove more difficult.

b. Computerization of Primary Societies

The appropriateness of computerizing the accounts of primary societies at this time, as the best means of improving their performance, has been questioned. Certainly the scheme has been greeted with wide spread scepticism in much of the movement, and also in MCM, though less so in Busoga where the experiment is taking place. Only 46 societies have been handled so far, and these only for a short period of time, so that it is too early to evaluate the scheme properly, and decide if it is worth extending. Problems include the remoteness of many or most of the primary societies, the undesirability of removing from them their books or at least the need to try to understand their financial situation, and the probable 2-3 month delay in supplying the necessary information to the societies. Perhaps a more appropriate scheme would be to devise and encourage the use of a bookkeeping system which more closely approximates the needs of the primary societies. That is to say, one that is easier for someone of low educational attainment to use, check for accuracy and audit.

While U.S.A.I.D. funds are not yet committed to the primary society computerization experiment, as this is being carried out by UCA with Swedish Cooperative Center (SCC) assistance, CAAS funds are being requested for the provision of motor bikes and local cost funding, without which, it is claimed, this subproject could not proceed on a wide scale.

Were computerization of this sector to be undertaken, the proposed exclusive emphasis on marketing societies should be reviewed. A selection of larger, more viable societies, and/or those with a range of activities may be more appropriate for selection. In particular, savings and credit societies and multipurpose societies, with more complex bookkeeping problems, might be prioritized, along with the more geographically accessible.

c. Computerization of District and National Unions

The UCA has already expended considerable time and effort, with the assistance of the Swedish Cooperative Center, in the search for and perfection of a computerized accounting system for these organizations, and the computerization of the first two, UCA itself and Busoga Growers Cooperative Union in Jinja, is well in hand. Results so far are very satisfactory. The computerized system and the old manual/mechanical system will be run in tandem for two years to ensure a smooth and accurate change over. Though much safer, this entails extra effort for overworked staff. The exercise has not been without difficulties (it has not for example been possible yet to start computerized stock control), but the system itself appears suitable. Other unions such as East Mengo Union and the Uganda Central Transport Union are keen to start.

2. Accounting and Management

In so far as these proposals refer to primary society computerization their applicability is questioned, for the reasons outlined above, pending an evaluation of a fuller experiment.

Also in line with what has alread y been said, regarding UCA credibility in the movement, staff and institutional resistance, and the deep seated nature of the problems of dishonesty, the targets set within the UCA proposals are too ambitious. They are however very laudable and necessary, and successful implementation would greatly strengthen the movement, especially at district union level.

One item which might be questioned is the intention "to liaise with UCA's Coop. Dev. Department regarding the establishment of a data collection system .... ", which might need some strong safeguards to protect commercial confidentiality.

3. Management Training

Again, the proposals are laudable within the context of the rest of the project request, and there is a need for the training of primary society managers (where they exist) with or without computerization.

However, it should be remembered that poor accounting may be due to lack of understanding of how a system should work, in which case education and training may suffice, or it may be that correctly understood procedures are ignored for the benefit of persons concerned. The latter may be a common situation, and it is a harder problem to solve.

4. Performance Analysis

The resources required for this element of the proposal are disproportionate to the results to be gained from it. This is particularly so since it is MCM which uses the results of performance testing to grade the unions. Thus it would be wiser for any funds for this item to be channeled through them. Another problem might arise from UCA using information which might be considered confidential to a client, i.e. the union, to make comparisons with others.

5. External Audit Program

This has already been discussed in section II c.

There is an undoubted need for alternative, cheaper and more efficient auditing services, and more competition generally, but the task facing UCA in this matter should not be underestimated.

As presently conceived, UCA auditing services will only be available to those societies which have had their books computerized, since UCA feels that this could be provided by fewer staff, and at muc h less cost, than the present MCM system. But UCA would be unable to take over the large organization currently run by MCM for the supervision of the manually accounting primary societies. Its feasibility in practice remains to be seen; and the commitment of more than very limited U.S.A.I.D. funds can and should await further evaluation.

For the various reasons already outlined, it remains to be seen if the provision of auditing services to the movement by UCA will be acceptable in practice, but given the serious shortage in this area, the proposals should be cautiously accepted, and an attempt made to implement them.

F. Supplementary Proposals

As a means of assisting the primary societies overcome their problems of weak accounting, it should be possible to develop a standardized system of bookkeeping based around a double entry tabulated cash book format, which would be more suitable for the education level of many primary society members (and managers where they exist), and the size of businesses they manage. Being double entry, it should be easier to check for accuracy, rather than wait for the occasional visit of an outside Cooperative Assistant. Its tabulated format would lend itself to the easy construction of summary sheets to provide management information. The desired characteristics of a system are that it should be easy to understand and use, easy to audit, informative, and flexible enough for use by small societies which, for example, only buy coffee, and larger, more diverse ones.

While it is not the intention of CAAS to maintain the habit of previous projects of supplying large numbers of vehicles, it should be recognized that transport is still a constraint, particularly in rural areas, and project implementation (in particular the training element) might be expedited by the provision of a small number of motorcycles. This aspect may be considered in the review during Year 2.

UCA has proposed concentrating its activities on marketing societies. This reflects MCM's emphasis, which is to concentrate its interest and activity on those societies which have a foreign exchange generating ability. But emphasis on marketing societies would lead to an unintentional sectoral and geographical bias, and exclude many societies that could very usefully benefit from project assistance.

For example:-

- There is a need to encourage the cooperativization of the fast growing fishing sector.

- The strength of the savings and credit group of societies, and their ability to survive during the recent period of high inflation, is to a large extent the result of diversification into other areas of business activities. Their success in this might indicate that some of them are suitable candidates for assistance in establishing farm supply shops.

The savings and credit group of societies is the only one to contain societies specifically for women, and indeed the womens' societies are some of the best in this sector.

- A group with an unfulfilled potential import substitution role are the hides and skins societies, whose output at present is reportedly not of a standard to meet the requirements of local shoe manufacturers such as Bata, but which could be greatly improved.

ANNEX F

TERMS OF REFERENCE

Annex F.1 Advisor for Audit, Accounting an Management Improvement

Post: Audit, Account Advisor

Responsibilities

1. Generally

To assist the Chief Auditor to establish an audit firm capable of conducting external audits of internationally accepted standards.

2. Specifically:

To work out and establish:

A. 1. Audit programmes for co-operative unions.
2. Audit programmes for co-operative societies
3. Audit routines including:

-documentation of Audit work
-filing and indexing systems
-preparation of audits including "letters of
-representation" etc.
-budget procedures and routines for audit work
-invoicing routines
-audit ethics
-systems for review of audit work by the chief auditor
-systems for follow-ups of quality control of audit work.
-any other routine as per request by the chief auditor

4. Internal control questionaires for co-operative unions.

5. Internal audit programmes for co-operative unions.

B. External Audits

To assist the Chief Auditor to conduct complete external audits of co-operative unions. (preferably unions that have had their accounts computerized.)

C. Accounting and Management Improvement:

1. Working with the UCA Accounting Services develop improve and standardize suitable Management Information Systems.

2. Assist UCA and the Accounting Services on installation, improvement of the computerized accounting system to ensure countability with the audit programs being established.

D. <u>Training of Audit and Accounting Personnel</u>:

To assist the Chief auditor and the Manager of the UCA Accounting Services in on-the-job training of employees.

3. <u>Duration of Post</u>:

The Duration of the post should be 24 months.

4. <u>Reporting to</u>:

The Audit Consultant will be responsible to the Chief Auditor of UCA Auditing Services and to General Secretary of UCA.

5. <u>Qualifications of the Auditor Advisor</u>

The Advisor must be a very qualified and experienced external auditor, who has been working at a senior level in an internationally recognized firm of accountants for several years. It is necessary that the Curriculum Vitae of the chosen consultant is sent to UCA for approval.

6. Other comments:

The detailed workplan and terms of references will be worked out by the Chief Auditor at a later date. No changes will however be made that would change the type of work to be done or the qualifications of the consultant or the length of the period of consultancy. It should be noted that the work of UCA Auditing Services must be well coordinated with that of UCA Accounting Services.

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Annex F.2. Cooperative Development Advisor

Job Description

I. Title Senior Advisor for Cooperative Development/COP

II. Duty Station: UCA Head Office, Kampala

III. Supervisor: General Secretary, Uganda Cooperative Alliance Ltd.

IV. Responsibilities:

A. General:

To assist Officers of UCA and its Subsidiaries with tasks within the fields of cooperative development and planning, agricultural marketing, rural credit and member education.

B. Specific:

1. To assist in the planning and coordination of educational programmes within the co-operative movement.

2. To assist in the establishment of a databank of relevant data necessary for UCA's representative role, including agricultural price monitoring and Co-op. Development and Planning.

3. To assist with the planning and coordination of short-term consultants within UCA and its Subsidiaries.

4. To assist with issues relating to improvement of efficiency of agricultural produce marketing.

5. To assist with feasibility studies regarding the distribution of consumer goods through primary agricultural marketing co-operative societies.

6. To assist with feasibility studies regarding agricultural ventures.

7. To assist UCA on all matters concerning agricultural credit schemes.

8. To be responsible for the "Co-operative Performance Analysis Programme."

V. Qualifications

The successful applicant should have a university degree in agricultural economics and/or business administration.

He/She should also have the following experience gained from work in a developing country:

--- agricultural credit schemes to small scale farmers,
--- wide experience in policy and planning for co-operative development,
--- planning for education of members of primary societies,
--- feasibility studies and project preparations,
--- agricultural marketing issues

In addition it would be an advantage if the applicant had experience from work for the co-operative movement in Uganda.

Annex F.3. Input Distribution Advisor

Job Description

I. Title — Senior Advisor for Input Distribution

II. Duty Station: UCCU Head Office, Kampala

III. Supervisor: General Secretary, Uganda Cooperative Alliance Ltd.

IV. Responsibilities:

A. GENERAL

To ensure that right commodities are procured and distributed within the cooperative movement at the right time and at a minimum cost.

To constantly review the objectives and commodity management policies of UCCU Ltd in light of the present and future threats and opportunities facing UCCU in its endeavor of contributing to the standard of the living of rural people.

B. SPECIFIC

Appraise the present procurement process and give guide lines on the invitation of tenders, analysis of tenders award of tenders, placement of orders and the entire procurement process.

Assist in gathering, analysis, and assessing of relevant data on UCCU markets, customers past and present, and forecast future sales.

To carry out a statistical analysis of demand characteristics of UCCU products, their associated market and potential possible channels.

Analyse variations in unit demand, timing of demand and the geographical location of it; also any pertinent co-relations between the variables involved.

Examine the true functions of inventories in relation to market demands of District Unions.

Assess the costs which would be involved in regional depots, storage and handling of products and the procedures to be followed.

Assist UCCU to establish the systems and implement other recommendations of the Evavold report.
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Verify the viability of the UCCU distribution present and future system and recommend ways to enhance profitability, efficiency vis-a-vis the service offered to Cooperative members. Assist the Director, Agricultural Secretariat, in the establishment and operations of the National Input Coordination Unit (NICU) with a focus on the needs and requirements of the Cooperative Movement.

V. QUALIFICATIONS

Must have 8-12 years of progressively more responsible management-level experience in farm input supply and distribution.

Annex F.4. End-Use Monitor

Job Description

I.	Title:	CAAS Project Commodity End-Use Monitor.
II.	Duty Station:	Uganda Cooperative Central Union, HQ Office, Kampala.
III.	Supervisor:	Reports to the Input Distribution Advisor.

IV. Responsibilities:

A. General

To monitor implementation of the CAAS commodity import program (CIP) and report on the distribution and end-use of commodities imported under the project.

B. Specific

1. To maintain a record of the importers/manufacturers participating in the CIP, together with a record of the kinds, quantities, and value of commodities financed.

2. To monitor the distribution and sales of A.I.D.-financed commodities to end-users, particularly with respect to commodities imported and distributed through the cooperative sector. In most cases this will require physicall tracking commodities from the point of importation through UCC to district unions, and from there to primary societies and farmer-members.

3. To report monthly to the Input Distribution Advisor regarding operational issues in commodity distribution.

V. Qualifications

A. A university degree in business management or a related field.

B. Three years of practical experience in a relevant field of activity.

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Annex F.5. Project Impact Assessments

I. Objective

To obtain annual reports that assess progress achieved under each project element and which draw conclusions regarding overall project impact.

II. Terms of Reference

A. Progress Review

On an annual basis an assessment team from Makerere University Social Science Research Center will review progress achieved under the following project elements:

-- Policy and Planning Improvement
-- Agribusiness Support
-- Accounting, Audit, and Management Improvement
-- Education/Training and Women in Cooperatives
-- Primary Society Matching Grants
-- Commodity Import Program
-- Local Currency Programming

B. Report Format

For each element, the team will report on (a) inputs provided (technical assistance, training, foreign exchange, local currency); (b) accomplishments; and (c) issues requiring attention.

C. Methods

In preparing this report the assessment team will interview appropriate representatives from A.I.D., the government of Uganda, the prime contractor, and cooperative organizations. With regard to the latter, the team will be expected to solicit the views of cooperative managers, staff, and members at national, district, and primary levels. This will help ensure the impact assessment reflects the experiences of those who are expected to benefit most from the CAAS project. The team will also review all written materials (reports, records, memoranda, studies) generated as a result of CAAS project activities and assess quality and utility.

D. Conclusion and Recommendations

Based upon A-C above, the team will draw conclusions about overall project impact and make recommendations for consideration by the CAAS Standing Committee.

TECHNICAL ASSISTANCE AND TRAINING

A. Allocation of Technical Assistance and Training (person/months)

Project Element/Item	UCA	MCM(PU)	MCM(MD)	MCM(DCD)	Ag Sec	UCCU	Total
Policy/Planning							
Long-Term TA	36						36
Short-Term TA	10	10	10	10	16		56
Short Courses	10		6	6	10		38
Agribusiness Support							
Long-Term TA							
Short-Term TA	8						8
Short Courses	10						10
Account/Audit/Management Improvement							
Long-Term TA	24						24
Short-Term TA	12						12
Short Courses	10						10
Education and Training							
Long-Term TA							
Short-Term TA	8						8
Short Courses	10						10
Education--long term	60						60
Women in Cooperatives							
Long-Term TA							
Short-Term TA	4						4
Short Courses	5						5
Input Distribution Improvement							
Long-Term TA						36	36
Short-Term TA						10	10
Short Courses						24	24
Grand Total							
Long-Term TA	72					36	96
Short-Term TA	42	10	10	10	16	10	98
Short Courses	45	6	6	6	10	24	97
Education--long term	60						60

B. Cost Estimate for Technical Assistance and Training ($'000)

Project Element/Item	UCA	MCM(PU)	MCM(MD)	MCM(DCD)	Ag Sec	UCCU	Total
Policy/Planning							
Long-Term TA	600	0	0	0	0	0	600
Short-Term TA	140	140	140	140	224	0	784
Short Courses	50	30	30	30	50	0	190
Agribusiness Support							
Long-Term TA	0	0	0	0	0	0	0
Short-Term TA	112	0	0	0	0	0	112
Short Courses	50	0	0	0	0	0	50
Account/Audit/Management Improvement							
Long-Term TA	400	0	0	0	0	0	400
Short-Term TA	168	0	0	0	0	0	168
Short Courses	50	0	0	0	0	0	50
Education and Training							
Long-Term TA	0	0	0	0	0	0	0
Short-Term TA	112	0	0	0	0	0	112
Short Courses	50	0	0	.0	0	0	50
Education--long term	135	0	0	0	0	0	135
Women in Cooperatives							
Long-Term TA	0	0	0	0	0	0	0
Short-Term TA	56	0	0	0	0	0	56
Short Courses	25	0	0	0	0	0	25
Input Distribution Improvement							
Long-Term TA	0	0	0	0	0	600	600
Short-Term TA	0	0	0	0	0	140	140
Short Courses	0	0	0	0	0	120	120
Total							
Long-Term TA	1,000	0	0	0	0	600	1,600
Short-Term TA	588	140	140	140	224	140	1,372
Short Courses	225	30	30	30	50	120	485
Education--long term	135	0	0	0	0	0	135
Grand Total	1,948	170	170	170	274	860	3,592

EQUIPMENT/SUPPLIES: ALLOCATION AND COST ESTIMATES ($'000)

ANNEX H

Project Element/Item	Organization: UCA	MCM(PU)	MCM(MD)	MCM(DCD)	AG SEC	UCCU	Total
Policy/Planning							
Computer/Printer/Software	10.0		10.0	10.0			30.0
Office Copier	3.0						3.0
Typewriter	0.5		0.5	0.5	0.5		2.0
Office Supplies*	5.0	5.0	5.0	5.0	5.0		25.0
Books/Publications*	5.0	5.0	5.0		5.0		20.0
Vehicle	60.0						60.0
Subtotal	83.5	10.0	20.5	15.5	10.5	0.0	140.0
Agribusiness Support							
Computer/Printer/Software							0.0
Office Copier							0.0
Typewriter	0.5						0.5
Office Supplies*	5.0						5.0
Books/Publications*	5.0						5.0
Subtotal	10.5	0.0	0.0	0.0	0.0	0.0	10.5
Accounting, Audit, Mgt Imp							
Computer/Printer/Software	10.0						10.0
Office Copier							0.0
Typewriter	0.5						0.5
Office Supplies*	5.0						5.0
Books/Publications*	5.0						5.0
Vehicle	15.0						15.0
Subtotal	35.5	0.0	0.0	0.0	0.0	0.0	35.5
Education and Training							
Computer/Printer/Software							0.0
Office Copier							0.0
Typewriter	0.5						0.5
Office Supplies*	25.0						25.0
Books/Publications*	25.0						25.0
Subtotal	50.5	0.0	0.0	0.0	0.0	0.0	50.5
Women in Cooperatives							
Computer/Printer/Software							0.0
Office Copier							0.0
Typewriter	0.5						0.5
Office Supplies*	5.0						5.0
Books/Publications*	5.0						5.0
Subtotal	10.5	0.0	0.0	0.0	0.0	0.0	10.5
Matching Grant Program							
Computer/Printer/Software							0.0
Office Copier							0.0
Typewriter	0.5						0.5
Office Supplies*	5.0						5.0
Books/Publications*							0.0
Subtotal	5.5	0.0	0.0	0.0	0.0	0.0	5.5
Input Distribution Imp							
Computer/Printer/Software						10.0	10.0
Office Copier						3.0	3.0
Typewriter						0.5	0.5
Office Supplies*						5.0	5.0
Books/Publications*						5.0	5.0
Vehicle						15.0	15.0
Subtotal	0.0	0.0	0.0	0.0	0.0	38.5	38.5
Grand Total	196.0	10.0	20.5	15.5	10.5	38.5	291.0

* Office supplies estimated at $1000/yr.

** Books and publications estimated at $1000/yr.