

BA - ARP-100
BA 5210

TERMINAL REPORT
OF
ESTABLISHMENT COMMITTEE OF THE
UGANDA AGRICULTURAL FINANCE AGENCY
(UAFA)

COOP AGREEMENT # 617-0102-A-00-2005-00

By: Lewis Clark, Credit adviser,
Et al
For: ACDI

July 1987

CONTENTS

	Page
Background	1
Up-dating June 1985 UAFA Document	1
Ownership Structure	2
Capitalisation	2
Memorandum and Articles of Association	4
UAFA Branch locations and Expansion Plan	4
Cashflow and break-even budgets for UAFA	5
Management and Systems Manuals	5
Automation of UAFA management Systems	6
Agricultural Input Situation Studies	7
Cost of Production Studies (Farmmodels)	7
Farmer profile studies	8
Training	8
Concluding Remarks	9

Annexes

1. Terms of Reference of the Establishment Committee.
2. Itinerary of the Establishment Committee.
3. List of Members of the Establishment Committee.

TERMINAL REPORT
OF
THE ESTABLISHMENT COMMITTEE OF
THE UGANDA AGRICULTURAL FINANCIAL AGENCY
(UAFA)

July 1987

THE BACKGROUND

The Board of Directors of the Bank of Uganda approved the establishment of UAFA in December 1985. Following that decision Management of the Bank at its meeting in March 1986 detailed its Development Finance Department to provide leadership for organizing and facilitating the setting up of UAFA by opening up a desk within the Department for that purpose.

At the Departmental meeting held on March 27, 1986, a nucleus committee was established under the chairmanship of J. Nsereko to work out in detail the modalities of establishing UAFA as a corporate entity. Specific terms of reference of the committee are annexed to this report. Between April 1986 and March 1987, the committee held twenty four working meetings and the product of that effort constitutes this report. During the period, USAID provided two rounds of Technical assistance under the provisions of USAID/ACDI cooperative agreement for about 40 man-months to assist the committee with its work.

UP-DATING JUNE 1985 UAFA DOCUMENT

The Inter-Agency High level credit committee in June 1985 prepared a document which outlined the salient features of the proposed smallholder credit system. That document was discussed by shareholders vis Bank Managers, Marketing Boards and Cooperative Unions. Prospective owners raised a number of questions and issues necessitating a thorough review namely ownership structure, capitalisation, management, interest rates, disbursement and loan recovery. The Establishment committee was specifically asked to address these issues. Given the technically broad spectrum of the assignment, the initial committee had to be enlarged to assume an Inter-disciplinary, inter-Agency outlook in its composition and include people familiar with Agricultural Financing, banking, accounting and audit systems, cooperatives and company law. To this effect, members of the enlarged committee were drawn from the Ministries of Cooperatives and Marketing Agriculture, Animal Industry and Fisheries, USAID/ACDI and the Bank of Uganda. The full list of members of the establishment committee is presented in the Annex to this report.

OWNERSHIP STRUCTURE

Ownership was addressed during April and May 1986 in conjunction with the design and preparation of the memorandum and articles of association of UAFA. The issues shareholders had raised in July 1985 and which the committee addressed included: the dominance of commercial banks in the ownership of UAFA; Cooperative Unions which should hold shares in UAFA, constitution of the Board of directors and whether Marketing Boards are permitted to invest funds in the manner proposed.

The committee in dealing with these issues recognized the need for dialogue with shareholders. However, lack of a GOU decision on UAFA and the apparent reluctance of MCM to facilitate contact with grassroot members of the cooperative movement precluded the desired refinement. As a basis for dialogue and a GOU decision, the committee recommended the structure as presented in the draft memorandum and articles of association with the following observations:

- (i) The dominance of commercial banks should be retained
- (ii) Marketing boards are by law allowed to invest in ventures outside their normal business when they have surplus funds or funds not immediately required, provided further that the responsible Minister permits them to do so. For example, LMB (Lint Marketing Board) Act, section 13 (1) provides that "the Board may invest any money under its control not immediately required in such investments and securities as are allowed by law for the investment in trust funds or with the permission of the Treasury in any other investments, securities or loans." UTGC (Uganda Tea Growers Corporation) Section 9(3) provides that "The Board may with approval of the Minister invest any money of the Corporation not readily required for use by the Corporation in any securities approved by the Board." UTA (Uganda Tea Authority) Section 9(2)(d) provides that "The authority may invest any surplus funds in any manner permitted by law or in any project approved by the Minister after consulting with the Minister responsible for Finance."

CAPITALISATION

The main task the committee had to handle was determining the criteria and basis of allocating shares to the respective owners. A technical sub-committee was set up consisting of J. Kyamanywa of the Agricultural Secretariat, D. Serebe/Kakaire Tampa of BOU accounts Department, D. Mubalya of the Savings and Credit Section of MCM, F. Karugonjo of BOU Legal office and Thomas Carr the USAID/ACDI credit planning advisor. The committee studied audited financial statements of commercial banks, Marketing Boards, Cooperative Unions and Institutions during April-June 1986 and recommended shareholding ratios as contained in the draft memorandum and articles of association of UAFA.

For commercial banks, the deposit position as of 31st December 1985 was used as the determinant of their respective shareholding ratios. The only problem here is that with some banks such as the UCB, the derived subscription exceeds 25% of the paid-up capital. However, without a formal dialogue with UCB, and in the absence of a GOU decision on UAFA, the establishment Committee was precluded the opportunity to pursue this matter any further.

Whereas the basis for commercial banks was distinct and easily quantifiable, that of Marketing Boards and Cooperative Unions was diffuse. Of the Boards, as of December 31, 1985, only two, CMB and LMB had financial capability and funds of their own to invest in UAFA - to the extent proposed. There was no clear basis therefore for allocating shares to other boards viz FMB, UTA, UTGC and Dairy Corporation (DC). The two CMB and LMB would take all the shares in the ratio of 99:1 respectively. Desirous not to leave any Board out of UAFA ownership and hopeful that at some future date the capital strength and a better command of resources would be acquired by weaker boards, the Committee subjectively recommended the ratio of 4:2:1:1:1:1 to CMB, LMB, FMB, UTA, UTGC and DC respectively out of the 5% share allocated to Marketing Boards.

For the Cooperative Membership, the Committee met with similar problems. Using the 1985 ACIDI Cooperative Survey Report and MCM Union performance rating criteria, it was still difficult to assess the capability of Unions equitably. The first problem was that not all Unions had audits as of December 1985. The second related to differences in accounting systems adopted by the Unions. The third presented itself in the ACIDI Survey Report which had not taken into account the fact that some Unions had in their audits revalued their assets while others had not. After appraising various approaches and options, the Committee found it logical to use 1984 as the base year and the MCM Union grading criteria consisting of annual business turnover, operating profits and net worth. Accordingly, National Cooperative Institutions (UCCU, UCTU, UCI, and UCSCU) were placed into two grades A and B to acquire ownership in the ratio of 3:1 respectively out of the 10% UAFA share for such unions. District Cooperative Unions in grades A, B and C were allocated each 160, 50 and 30 shares respectively. All together 24 district cooperative unions mostly coffee and cotton were considered for share holding participation in UAFA.

These four groups of shareholders would capitalise UAFA to the extent of Shs. two billion (two hundred million) over a three year period in the ratio of 70:10:15:5 (Banks, National Cooperative Institutions, District Cooperative Unions and Marketing Boards).

By amendment No. 4 of 29th July 1986 to the FPSP the USAID/GOU local currency capital contribution from the special account, will be treated as a grant to the private equity shareholders of UAFA on a one to one matching basis tied to paid up share capital. In the event that there is a temporary shortfall in the paid up equity share capital of the private shareholders of UAFA, the GOU through the Bank of Uganda will make up the deficit, pending repayment by the private equity shareholders of these funds advanced by the Bank of Uganda on their behalf.

However, since the GOU decision on UAFA has not been received, issues relating to capitalisation and USAID grants still require refinement through dialogue with shareholders of UAFA. Proposals by the establishment committee provide the basis for that dialogue.

MEMORANDUM AND ARTICLES OF ASSOCIATION

In June 1985, Bank of Uganda asked its lawyers Mugerwa and Matovu advocates to provide a legal opinion on the proposed structure, ownership and management of UAFA. Their opinion was provided on 12th June 1985 (Ref. 890/357/85) with a draft investment agreement. The establishment committee in pursuit of its TORs used that document in April-May 1986 to prepare a Memorandum and articles of association of UAFA. Fred Karugonjo of the Legal Office of BOU examined all relevant aspects of Company Law and drafted the Memorandum and articles of association which were discussed and reviewed in four rounds by the establishment committee. Using ACIDI manual preparation budget, the draft document was computer processed and professionally bound in June 1986. Copies of the draft Memo and articles of association were distributed to commercial banks as a basis for securing their agreement to incorporate UAFA. Distribution to other shareholders was precluded by MCM's reluctance to permit contact and dialogue with Unions and Boards.

UAFA BRANCH LOCATIONS AND EXPANSION PLAN

The task of determining UAFA operational areas and expansion plan constituted the core of the establishment committee effort. To facilitate a comprehensive and professional approach to the problem, USAID upon the request of BOU Development Finance Department, provided a credit planning specialist Tom Carr during May-August 1986. Assisted by Kiwanuka-Mayega of MCM, Tom Carr reviewed statistical data in the June 1985 Cooperative Survey Report and derived parameters and criteria for determining UAFA areas of operation and expansion plan. Through a series of working meetings, the establishment committee discussed the variables and proposals and out of the options and scenarios presented, concluded that there is no better network in the country to deliver production credit to smallholder farmers close to their localities outside the cooperative structure. Consequently eight cooperative regions were identified for Uganda as a whole. Each of these regions would have located in it a UAFA branch (8 branches all together).

The opening of branches per year would assume a 2:3:3 regional expansion programme targeted at covering the entire country within three years. There would be society expansion of 50:50:50 for all eligible societies affiliated to the Union to be reached in three years from the start-up year. There would be loan expansion of 50:50:50 for all eligible members to be covered in three years from the start-up year. Considerations and proposals on branch locations and expansion programme form part of the UAFA Credit Planning manual. This manual prepared by the Credit Planning advisor Tom Carr was processed and professionally bound using ACIDI manual budget. Copies were distributed to commercial banks early this year along with the Memo and articles of association. It has not yet been possible to distribute the same to Unions and Boards for reasons stated earlier.

CASHFLOW AND BREAK-EVEN BUDGETS FOR UAFA

Bank Managers when presented with the June 1985 cashflow projections noted that key parameters were over and/or under stated and overly optimistic. They therefore suggested that parameters such as salaries, interest and default rates be reviewed and adjusted down or upwards to arrive at more realistic projections. During July-August 1986, the establishment committee constituted a technical sub-committee which included Tom Carr, Larry Wisniewski, and J. Gardner of ACIDI, J. Nsereko, M. Matovu and Kakaire Tampa of BOU to review financial projections of UAFA. Using statistical data from MCM on the historical cooperative credit scheme and considering provisions of the BOU credit Guarantee scheme, a weighted default rate was derived. The technical committee reviewed salary structures of all financial institutions in Uganda including BOU and adopted weighted but competitive salary structure for UAFA. Assumptions were up-dated on staffing, sources and cost of funds, loan volume, premises and equipment to determine annual variable and overhead costs of the UAFA headquarters and branches. Break-even scenarios were prepared, discussed and reviewed in several rounds by the establishment committee. Tom Carr, the ACIDI credit Planning advisor completed the work and a formative financial plan/break-even budget was finally discussed by the establishment committee on August 8, 1986. Financial projections capable of guiding an investment decision were processed and constituted Memo C in the credit planning manual prepared by the ACIDI credit planning advisor Tom Carr. That document was distributed to commercial banks early this year.

MANAGEMENT AND SYSTEMS MANUALS

The basic tenet of a credit programme is pragmatic and well conceived systems, policies and procedures. A major task of the establishment committee was to conceive such systems to guide the establishment and operation of a credit delivery programme for smallholder farmers in Uganda of course taking cognisance of the conflict between the demand and supply sides of credit. That is, while the demand side craves for softening bolts and easing credit procedures, the supply side on the other hand advocates tightening those same bolts to guarantee loan recovery and institutional viability. That reconciliation was no easy task for the establishment committee. Upon the request by BOU Development Finance, USAID fielded two ACIDI systems specialists L. Wisniewski and J. Gardner in May-August 1987 to assist the committee with manual preparation. These were assisted by MCM counterparts familiar with operations of the historical cooperative credit scheme J Mpungu and L. Kyazze. These were later joined by A. Mbangi of IPA whom ACIDI contracted out of the ACIDI manual budget to assist with certain aspects of Accounting and audit. Their work which extended over a four months period centred on specific credit functions namely management, Accounting, Audit and field operations. Drafts of their work were presented in twelve rounds to and for discussion and review by the establishment committee.

On September 5, 1986, final drafts of the manuals were presented and discussed by the Committee. Tom Carr and Lew Clark of ACDI carried out the editing and reproduction of the four-volume manual in June 1987. Each volume covers a major function of UAFA" operations: Volume 1 Management, Vol.2 Accounting, Vol.3 Internal Audit and Vol. Field operations.

We now have on hand these four volumes which together constitute the systems which should be put in place to support the successful launching of UAFA on receiving a GOU decision.

AUTOMATION OF UAFA MANAGEMENT SYSTEMS

As the establishment committee worked on UAFA systems (Management, accounting, audit, and loan procedures) it became increasingly clear that UAFA would face an uphill struggle in clearing its loan transaction load if loan processing and accounting were manual rather than an automated function. In recognition of the need for automation, the establishment committee prevailed upon USAID to provide under ACDI cooperative agreement a computer systems specialist to assess UAFA's computer requirements.

In October 1986 USAID/ACDI fielded Edward Murrery to work with the establishment committee and determine computer needs of UAFA. The consultant observed that during the pilot stage of UAFA's phased development programme, the transaction load will be about 400 per day and as UAFA gets to full implementation, the load could grow to as much as 3600 transactions per day and possibly even three times that number when all eligible primary societies are participating in the programme. If UAFA assumes responsibility for providing loan accounting for primary societies, as may well be necessary to ensure that the programme works effectively, it will be possible to handle this load only through the use of computers. The key to UAFA's success lies in the analysis of large amounts of data to manage its cash, fulfil its input coordination requirements, maintain up-to-date accounting records and properly analyse the risks involved in loans.

During the course of his work and in addition to analysing UAFA's computer (hard and soft ware) requirements, Murrery assisted in stream lining and strengthening management systems as they related to data processing requirements and ease of reference.

The Murrery report entitled "Review of the Computer Requirements of UAFA" was compiled and reproduced by ACDI Washington and copies are now available with the establishment committee for distribution. On receipt of that report, USAID in January 1987 approved the purchase of two IBM compatible micro computers for UAFA Head office. These were acquired in May 1987 and are in the custody of the USAID Mission Kampala pending a GOU decision on UAFA.

AGRICULTURAL INPUT SITUATION STUDIES

Small farmer credit is predominantly farm-inputs oriented. Questions of farm inputs presented themselves in almost all of the establishment committee's planning tasks. To address these questions a technical sub-committee was designated to tackle problems related to farm inputs. This sub-committee which assumed an inter-agency composition was chaired by S. Mukasa of BOU and drew representatives from MCM, MAF, MAIF, UCCU, and USAID/ACDI. The ultimate goal was to enable UAFA to know what could be made available where and at what prices so that the in-kind credit component of the credit programme could be estimated and availability and distribution better coordinated. A comprehensive list, identifying sources of inputs, both locally produced and imported was researched and compiled. All sectors involved in production and importation of inputs were listed (commercial, government, donor agency, cooperative and NGO), contact names and addresses were included along with type of business and related products. Surveys on input availability and retail prices were conducted at various farm shops in Kampala, Jinja and Luwero, later hoped to be extended to Masaka and Mbale. Recommendations on UAFA's role in the input supply process and strategies were made. The complete work of the Inputs Sub-committee is compiled and constitutes Memo D/Report 4 and Memo F/Report 6 in the UAFA Planning Report by the ACDI Credit planning specialist referred to earlier.

COST OF PRODUCTION STUDIES

The establishment committee had as one of its tasks to determine cost and profit parameters of various enterprises (crops/livestock) and to work out farm models for use in agricultural lending. A sub-committee chaired by S.A. Okello MAF and composed of D. Lubega MAF, T. Kiwanuka-Mayega MCM, Akenda Ondoga BOU and Tom Carr USAID/ACDI conducted farm surveys in Jinja, Iganga, Kamuli, Mukono and Luwero, collated production statistics and prepared farm production models for 17 of the 30 or so crops commonly grown in Uganda. Their analyses provide a basis for ranking the crops in the model according to their profitabilities and the extent to which they would benefit from loan funds. The results of these studies make it possible to estimate loan break down ratios with regard to cash and in-kind components. The formula used does present a reliable method of projecting input requirements (volume and value) for a credit programme in a given district, or ecological zone in Uganda. Working papers and reports on farm models and cost of production have been compiled by the establishment committee and are now available for use in preparing and/or appraising loan applications.

FARMER PROFILE STUDIES

The establishment committee recognized that in order to have credit tailor-made to the end-user, production behaviour related characteristics of the farmer and his environment had to be delineated to facilitate targeting of UAFA services. Using various statistical reports including the report on Uganda census of Agriculture 1966 and actual house hold surveys conducted in Jinja, Iganga, Kamuli, Mukono and Luwero during October-November 1986, Kiwanuka-Mayega of MCM compiled characteristics of a typical farmer in two of the start areas for the UAFA credit programme viz East Mengo and Busoga. Farmer profiles derived provide a firm basis for characterizing the recipient of UAFA credit. The profiles included: age, sex, size of holding, enterprises, cultural practices and farm income. According to the profiles, UAFA will be dealing with predominantly subsistence farmers. The profiles are reproduced in Memo G/Report 7 in the UAFA Planning Report by the ACIDI Credit Planning specialist and contain very useful baseline information.

TRAINING

Training directed at building capacities is a critical input in a credit programme. To address this problem, the establishment Committee designated a training and Education sub-committee in December 1986 to coordinate and facilitate the planning and designing of that programme. The sub-committee was necessary due to the number of institutions involved with the planned rural agricultural credit programme and also to ensure that all such institutions have the opportunity and forum to make contributions and to share expertise.

To achieve the objectivity and professionalism necessary, the sub-committee was formed from the two line Ministries which are directly involved in the formation of the credit organisation and which are directly concerned with the welfare of the farmer namely the Ministry Agriculture and the Ministry of Cooperatives and Marketing. The sub-committee chaired by T. Kiwanuka-Mayega of MCM, and consisting of A. Nyamayaro MCM, S.A. Okello MAF, J.W. Mpungu MCM, L.M. Kyazze MCM, E. Onega UCA and T.H. Carr USAID/ACIDI assessed training needs and designed a Training/education manual for various target groups including: shareholders, UAFA management and staff, involved Ministries Input related commercial firms/donor agencies, primary society officials, farmers and the General public. The Training and Education proposal for UAFA credit programme was prepared and formatted according to target groups, their respective training requirements and the sequence in which they should occur. The programme is arranged in three phases. The first is a combination of a public relations programme and an information/education/orientation of programme. The second phase concerns the training of UAFA management and staff using the manuals designed for UAFA operations (Management, Accounting, Internal Audit and field operations) and the Memorandum and articles of Association. Phase three relates to the field components of the credit programme at the grassroots level involving recipients of UAFA credit (Cooperative societies and farmer members) and extension staff (MCM, MAF and MAIF) whose job is to provide support services to borrowers. The training/Education Manual is now available for use when UAFA is given take-off orders.

The Governor,
u.f.s. The Director, DFD

4th August, 1987.

J. Nsereko,
Chairman UAFA Establishment Committee.

Ref: DF/48/85

TERMINAL REPORT OF THE UAFA ESTABLISHMENT COMMITTEE

Mr. Governor, I submit the terminal report of the UAFA establishment committee which started its work in earnest in April, 1986. This committee was charged by BOU Management with the task of facilitating the launching of UAFA. The report which is attached underscores what seems to be a fact that UAFA as a concept and system has come to an unceremonious end and has either been shelved or cast aside. Hitherto, inspite of BOU and your incessant effort, it has not been possible to get a definite answer from the GOU as to whether UAFA would or would not be sanctioned. The precipitate of this impasse has put the committee in disarray and it has in effect been disbanded. In Annex 1 I present for your reference the chronology of the UAFA decision scenario since 1983 to-date.

Governor may recall that UAFA represented an Inter-ministerial, Inter-Agency Cooperative effort to facilitate the establishment of a small holder production credit system based on the salient features of the historical Cooperative Credit Scheme (CCS). UAFA was to have been a farmer sensitive, non-parastatal entity jointly owned and controlled by the cooperative movement and the banking system as a whole.

Mr. Governor, Agriculture being the lead sector wherely a slight increase in productivity nets a dramatic impact in the GDP I don't think the Bank of Uganda, given its mandate to nurture bouyance in the economy, should give in on the UAFA proposal. We as a Central Bank should endure with UAFA as a concept and system until it is translated into reality. It is not the institution in the physical sense that we are concerned about. What is at stake, and indeed a key issue, is putting in place a pragmatic and self-sustaining system for production credit to small holder farmers who carry the burden of Uganda's economy.

The task of mobilizing financial resources and delivering credit to small holder farmers is specialized and enormous. It cannot receive sufficient attention and impact if it is treated as a surrogate annex to a single bank such as the UCB or CBU. Acting singly, any commercial bank which takes it on will

soon discover that it is a loss leader to be discarded at the earliest opportunity. This is primarily because the undertaking carries with it a very high inherent social charge calling upon a joint and cooperative effort in which the government may have a big initial role to play. Certainly we need to avoid a situation of trial and error and demonstrate some semblance of seriousness in the eyes of the farming public. The fundamental premise and indeed the bottom line is that if the CCS is to be revitalised, it needs to have an institutional home stronger than that which could be provided by even the largest bank in Uganda. It would need to be lean, efficient, cost effective and able to gain access to funds from the domestic money market exceeding the capacity of the cooperative movement and the largest commercial bank. The design embodied in the UAFA concept attempts to cause this to happen.

Unfortunately, due to circumstances beyond the control of the UAFA establishment committee, the committee was precluded the opportunity to have dialogue with and explain what the UAFA small holder credit programme was all about and to orient the cooperative movement at the grassroots level. Without the benefit of the background and facts concerning UAFA's proposed structure and credit programme, the cooperative movement was denied the opportunity to promote and defend the effort which could have produced substantial economic and financial benefits for rural people and for Uganda.

It is clear that small holder farmers have in the past and will in the future carry the burden of the Ugandan economy. With unfavourable input/output price relationships, prolonged delays in payment for important crops, lack of access to purchased inputs, lack of access to production and development credit from viable credit institutions with which to purchase inputs, farmers have been denied the opportunity to increase their productivity and incomes and to adequately capitalise their cooperative movement.

It is hoped that the work which went into the development of the UAFA concept as a system, including the preparation of the manuals and planning documents will not go in vain. With or without external assistance, UAFA is the kind of project the Government of Uganda should sanction and support.

Against this background, I now turn to specific activities and accomplishments of the committee. The main task was to study and attempt to crystallize all aspects relating to the incorporation and successful launching of UAFA including formulating proposals for the procurement and distribution of farm inputs to end-users of UAFA credit facilities. Mr. Governor, with the assistance of USAID/ACDI consultants, all pre-incorporation foundation documents and manuals named in the attached report are available to guide the incorporation and implementation of the UAFA credit system. Given the terms of the establishment committee, the work that remains to be done can only be undertaken after the GOU has sanctioned the incorporation of UAFA.

Due to extended delays in getting a GOU decision, USAID/ACDI technical assistance personnel and all counterparts on the UAFA establishment committee have since July 1, 1987 been redeployed by the Ministries of Cooperatives and Marketing and Agriculture.

Besides withdrawing personnel from the committee, it was agreed between USAID and the Ministry of Cooperatives and Marketing that eight of the ten Suzuki vehicles granted to UAFA be handed over to MCM to be replaced with new ones by USAID on receiving GOU sanctioning of UAFA. These eight Suzukis have already been collected from Luzira Upper prison where they were kept for safe custody since June 1985 and handed to MCM. Two vehicles were left with BOU to support on-going work of the UAFA establishment effort.

We also have in custody 50 bicycles granted by USAID/FPSP to UAFA, two IBM type-writers and vehicle spare for the ten Suzuki vehicles. There may be a need to transfer these items in a formal and documented manner. I suggest this because certain officers in MCM have approached me about re-allocation of equipment and vehicle spares provided to UAFA by USAID.

It had been agreed between USAID and MCM during October 1986 that out of the generated FPSP funds, Shs. 50 million be put into UAFA pre-incorporation account to supplement BOU/UAFA budget. Following instructions by USAID/MCM, the account was opened by BOU to pay for specific expenses such as pilot area surveys and per diem to MCM/MAF counterparts. However, due to failure to receive signatories from MCM, the account never became operational and it has since been closed. During October 1986 and January 1987, the Chief Accountant on the strength of the USAID/MCM letter to open the account, paid expenses of the UAFA pilot area survey (Shs. 5.52m/-) and counterpart re-imburement allowances for October-January (Shs. 5.76m/-). It will be in order for BOU to claim Shs. 11,280,000/- (112,800/-) from USAID/MCM out of the FPSP generated funds.

It would be desirable for you, Mr. Governor, to ensure some formal and smooth dissolution of the UAFA establishment effort and in the disposal of commodities granted by USAID to support the launching of UAFA. To this effect, you may convene a meeting to up-date concerned parties on the status and future of UAFA in an effort to elicit appropriate decisions with regard to a GOU decision, the fate of UAFA vehicles, spares, bicycles and typewriters.

Joseph Nsereko
CHAIRMAN UAFA ESTABLISHMENT COMMITTEE

CONCLUDING REMARKS

After years of intense effort, the work of the establishment committee has reached the final stage of dialogue with potential shareholders and has come close to instituting a system that could address the smallholder credit problem. This report has outlined basically what has gone into the establishment effort. It must be pointed out that the work on the UAFA programme was a long four year struggle involving personnel from the three line Ministries namely MCM, MAF and MAIF including MPED and several USAID/ACDI advisor and consultants. During this time period UAFA concept had to be sold to three different GOU administrations, two different USAID administrations and two BOU administrations.

It is unusual and ironical that a country such as Uganda so dependent on smallholder agriculture does not have a national agricultural credit system to serve the needs of the key producers of Uganda's wealth. The propriety and roles of the Uganda Commercial Bank and the Cooperative Bank in bridging the credit gap are overstated. Perhaps these could serve as a stop gap measure but not as a long term strategy. If an institution is contemplated in the future, it would be inconceivable to ignore the structure and features contained in the UAFA concept. UAFA represented an Inter-Ministerial, Inter-Agency Cooperative effort to facilitate the establishment of a smallholder production credit system based on the salient features of the historical Cooperative Credit Scheme (CCS). UAFA was to have been a farmer sensitive, non-parastatal entity jointly owned and controlled by the cooperative movement and the banking system as a whole. It is not the institution in the physical sense that UAFA design is concerned about. What is at stake, and indeed a key issue, is putting in place a pragmatic and self sustaining system for production credit to smallholder farmers who carry the burden of Uganda's economy.

The task of mobilizing financial resources and delivering credit to smallholder farmers is specialized and enormous. It cannot receive sufficient attention and impact if it is treated as a surrogate annex to a single bank such as the UCB or CBU. Acting singly, any commercial bank which takes it on will soon discover that it is a loss leader to be discarded at the earliest opportunity especially if there is a political change often attended by shifts in key personnel. This is primarily because the undertaking carries with it a very high inherent social charge calling upon a joint and cooperative effort in which the government may have a big initial role to play. Certainly we need to avoid a situation of trial and error and demonstrate some semblance of seriousness in the eyes of the farming public. The fundamental premise and indeed the bottom line is that if the CCS is to be revitalised, it needs to have an institutional home stronger than that which could be provided by even the largest bank in Uganda. It would need to be lean, efficient, cost effective and able to gain access to funds from the domestic money market exceeding the capacity of the cooperative movement and the largest commercial bank. The design embodied in the UAFA concept attempts to cause this to happen.

It is hoped that the work which went into the development of the UAFA concept as a system, including the preparation of the manuals and planning documents will not go in vain. With or without external assistance, UAFA is the kind of project the government of Uganda should sanction and support.

The work of the establishment committee cannot proceed any further without receiving a positive GOU decision on UAFA. Consequently, the following tasks and activities remain outstanding: (1) Convening shareholders meetings and inducing them to accept the UAFA concept and sign the Investment agreement (Memorandum and Articles of Association); (2) Calling Capital subscription for UAFA (capitalising UAFA); (3) Registering UAFA as a Limited Liability Company, (4) Constituting a Board of Directors for UAFA; (5) Recruiting Management and staff; (6) Identifying and securing premises for UAFA branch locations and (7) conducting training preceeding credit operations and disbursement. On receiving GOU sanctioning, UAFA could be translated from concept to reality (operations stage) within a period of 6-9 calendar months.

-----000-----

TERMS OF REFERENCE OF THE UAFA ESTABLISHMENT

COMMITTEE

1. To review and up-date the June 6, 1985 proposal for the establishment of UAFA.
2. To design systems and prepare operations, accounting and audit manuals which are sensitive and responsive to situations in rural Uganda.
3. To design pragmatic, simple but effective lending procedures and programmes.
4. To design such forms, as will be required based on systems and procedures developed in 2-3 above.
5. To propose a manpower requirement and development plan including job descriptions for UAFA personnel.
6. To review the background information relating to the organizational structure of UAFA and the nature of its planned lending operations and rural savings programmes.
7. To review the financial statistics and other information relating to National and District Cooperative Unions and primary Cooperative societies as contained in 1985 Report on the National Cooperative Survey.
8. On the basis of 7 above to recommend Cooperative Unions and societies which appear to have the financial and managerial characteristics which would make them viable candidates for inclusion in the UAFA credit programme for each of the initial three years.
9. To identify and provide decision data for selecting UAFA branches and expansion programme.
10. To design a Corporate plan including the research and planning functions for UAFA.
11. Prepare and process a draft Memorandum and Articles of Association for UAFA.
12. To prepare proforma financial plans and budgets.
13. To review the up-dated UAFA proposal with commercial Banks, Apex Cooperative Unions, District Cooperative Unions and Marketing Boards and finalise the proposal.

14. To prepare a comprehensive Training/orientation programme.
15. To identify and make proposals on any other matters and issues incidental to the successful incorporation and implementation of UAFA.

-----000-----

ITINERARY OF THE ESTABLISHMENT COMMITTEE (APRIL 1986 -JUNE 1987)

April 4, 1986 First working meeting to review TORs and draft the agenda for action.

April 10, 1986 Negotiated technical assistance for manual preparation with Rowland Thurlow ACDI Project Officer for Africa.

April 10, 1986 Second meeting of the establishment Committee.

April 11, 1986 Met UNDP Assistant Resident Representative Mustapha Hamid Jaff to establish present position of UNCDF (UGA/85/C002 & UGA/85/C06) and any other funds which could be channelled into UAFA.

April 15, 1986 Collected 50 bicycles granted by USAID to UAFA from Kawempe UCCU warehouse and stored them at Mbuya USAID/ACDI Flats.

April 15, 1986 Explored availability of safes with chubbs agents - Industrial area Kampala.

April 16, 1987 Met with World Bank Resident Representative Grant Slade to discuss possibility of World Bank long term Technical Assistance to UAFA (Development of Rural Credit).

April 17, 1986 Negotiated EAGEN premises for UAFA.

April 17, 1986 Third working meeting of the establishment committee.

April 24, 1986 Fourth meeting of E/Committee.

April 28, 1986 Met with World Bank Chief for African Region M. Altaf Hussein as followup on discussions held with World Bank Rep. Grant Slade.

May 2, 1986 Fifth meeting of E/Committee.

May 5, 1986 Met Italian Commercial attache Giovanni Storchi to discuss possibility of UAFA acquiring safes from Italian Aid to Cooperative Unions/societies especially out of the 300 safes UCB was purchasing from Italy under the grant.

May 8, 1986 Sixth meeting of E/Committee.

May 15, 1986 Seventh meeting of E/Committee.

May 23, 1986 Eighth meeting of E/Committee.

May 29, 1986 ACDI Consultants met with BOU Governor for briefing.

May 30, 1986	Ninth meeting of E/Committee.
June 6, 1986	Tenth meeting of E/Committee.
June 13, 1986	Eleventh meeting of E/Committee.
June 19, 1986	Met Permanent Secretary of the Ministry of Cooperatives and Marketing for a progress brief on UAFA.
June 23, 1986	USAID Mission Director I Coker held a debriefing meeting with ACDI Consultants prior to his departure.
June 26, 1986	Chairman and ACDI Consultants travelled to Entebbe to brief the Commissioner of Agriculture Mr. A. Osuban and staff concerning UAFA organizational status.
June 27, 1986	Thirteenth meeting of the E/Committee.
July 4, 1986	Fourteenth meeting of E/Committee.
July 11, 1986	Fifteenth meeting of E/Committee.
July 25 1986	Sixteenth meeting of E/Committee.
August 8, 1986	Seventeenth meeting of E/Committee.
August 22, 1986	Eighteenth meeting of E/Committee.
September 5, 1986	Nineteenth meeting of E/Committee.
September 11, 1986	ACDI Consultants met BOU Governor for debriefing prior to departure at the end of their assignment .
September 15, 1986	Negotiated the second round of USAID/ACDI technical assistance with Rowland Thurlow ACDI Project Officer for Africa.
September 17, 1986	Negotiated ACDI technical Assistance with ACDI Vice President Ron Callehon.
September 22, 1986	Met World Bank Resident Representative Grant Slade to discuss Terms of Reference of World Bank Agricultural Credit Mission.
October 27 - November 6, 1986	Pilot Area surveys of Jinja, Kamuli, Iganga, Mukono and Luwero.
October 31, 1986	Edward Murray ACDI Computer Systems Consultant commences work on UAFA's computer requirements.

November 21, 1986 November -	Twentieth meeting of E/Committee.
December 9, 1986	World Bank Agricultural Credit Mission - by Sant Dasg.
December 19, 1986	Twenty First meeting of E/Committee.
January 6, 1987	Meeting with commissioner for Cooperative Development to arrange for dialogue with shareholders (Unions and Boards).
January 9, 1987	Meeting with USAID Mission Director Podol to review UAFA Status.
January 13, 1987	Meeting with Commissioners of Veterinary, Agriculture, Cooperatives, and Marketing to review UAFA Status.
January 16, 1987	Twenty Second meeting of E/Committee.
January - March 1987	World Bank/GOU Agricultural Task Forces programme (Group 10: Agricultural Credit). - World Bank mission - by Richard Saunders (Dr.).
January 6, 1987	Twenty third meeting of E/Committee.
January 13, 1987	Distributed UAFA Planning document to all executives of commercial banks.
March 6, 1987	Twenty fourth meeting of E/Committee.
April 26, 1987	Distributed training document for conduct of a comprehensive orientation and training programme to UCA.
April - June 1987	Editing and Completion of manuals.

MEMBERS OF THE UAFA ESTABLISHMENT COMMITTEE

- A. From Bank of Uganda (BOU).
- | | | | |
|----|-------------------------|---|--------------------------------|
| 1. | J. Nsereko | - | Development Finance Department |
| 2. | P.Owani-Olet | - | - do - |
| 3. | D. Serebe/Kakaire-Tampa | - | Accounts Department. |
| 4. | M. Matovu/F.Bitwire | - | Banks Supervision |
| 5. | S.K. Mukasa | - | Development Finance Department |
| 6. | F.E. Karugonjo | - | Legal Office |
| 7. | J. Kyamanywa | - | Agricultural Secretariat |
- B. Ministry of Cooperatives and Marketing (MCM)
- | | | | |
|-----|--------------------|---|----------------------------|
| 8. | D. Mubalya | - | Savings and Credit Section |
| 9. | J.W. Mpungu | - | -do- |
| 10. | T. Kiwanuka-Mayega | - | -do- |
| 11. | L.M. Kyazze | - | -do- |
| 12. | A. Nyamayarwo | - | Training/Education Section |
- C. Ministry of Agriculture and Forestry (MAF)
- | | | | |
|-----|-------------|----|---------------------------------|
| 13. | F.A. Ojacor | -- | Development/Production Sections |
| 14. | A.S. Okello | - | Credit Section |
| 15. | D. Lubega | - | - do - |
- D. USAID/ACDI Advisors/Consultants
- | | | | |
|-----|-----------------|---|---|
| 16. | L.E. Clark | - | Credit Advisor/Chief of Party ACDI |
| 17. | T.H. Carr | - | Credit Planning advisor/consultant |
| 18. | L.P. Wisniewski | - | Credit Systems consultant |
| 19. | J.W. Gardner | - | Management systems consultant |
| 20. | E. Murray | - | Computer systems consultant |
| 21. | A. Mbangi | - | Accounting/Audit Consultant IPA
Kampala-Uganda |
- E. Uganda Cooperative Central Union (UCCU)
- | | | | |
|-----|-------------|---|----------------------------|
| 22. | H. Nanyonio | - | Projects Research/Planning |
| 23. | J.L. Picho | - | - do - |
- F. Animal Industry and Fisheries (MAIF)
- | | | | |
|-----|---------------------|--|--|
| 24. | F.R. Munyigwa (Dr.) | | |
|-----|---------------------|--|--|
- G. Uganda Cooperative Alliance (UCA)
- | | | | |
|-----|----------|---|------------------|
| 25. | E. Onega | - | Training Officer |
|-----|----------|---|------------------|

ANNEX

UGANDA AGRICULTURAL FINANCE AGENCY
(UAFA)

TRACK HISTORY AND RATIONALE

July 1987

TABLE OF CONTENTS

	Pages
Introduction	1
The Track History of UAFA:	
1979 - 1983 Return of USAID Mission to Uganda	2
- 1983 Conception of Farm Credit System by MCM	2
- 1983 Formation of GOU Task Force on Rural Credit	2
- 1983 USAID/Deloitte Haskins & Sells Study on CBU	2
- 1983 USAID/M.J. Carter Study of CBU	2
- 1983 USAID/Technoserve Inc. Study of CBU	2
- 1984 Rubaga Conference of Credit Officers (MCM & MAF) ...	2
- 1984 Setting up of Inter-Agency Committee	3
- 1984 Setting up of High Level Credit Committee	3
- 1984 High Level/Inter Agency Committee resolution	6
- 1985 BOU Board of Directors approves UAFA	7
- 1986 Submission of Draft Cabinet Memorandum by BOU Governor to Secretary to the Treasury	7
- 1986 Querries by Secretary to the Treasury	7
- 1986 Explanations by BOU Governor	8
- 1986 APC recommends establishment of UAFA	9
- 1986 Minister of Finance convenes meeting on UAFA	11
- 1986 Budget Speech announcing GOU decision on UAFA	12
- 1986 Cooperatives and Marketing Proposes merger between CBU and UAFA	14
- 1986 MCM Minister Proposes UAFA funds go to CBU	16
- 1987 BOU convenes commissioners meeting (MCM, MAF & MAIF)	21
- 1987 MCM/PS convenes meeting to resolve UAFA	24
- 1987 UCB proposes pilot scheme (SRFPS)	25
- 1987 USAID/FPSP Evaluation Report advises USAID to disengage	27
Justification of:	
- UAFA	29
- Involvement of the Bank of Uganda	31
- Involvement of Commercial Banks	32
- UAFA as a joint venture/specialized Institution	32
Compatibility of UAFA and the Cooperative Bank	33
Viability of UAFA	34

UGANDA AGRICULTURAL FINANCE AGENCY (UAFA)
TRACK HISTORY AND RATIONALE

INTRODUCTION

The UAFA is a financial Institution proposed and designed to reach small farmers with production credit. It reflects a deliberate effort to harness and redirect financial resources within the banking system towards agricultural production using proven cooperative and group lending techniques. While small farmers produce over 90% of Uganda's exports and render support to commercial banking activity through deposit accretion, crop finance and foreign exchange dealings, the small farmer sector remains starved of institutional credit. This has remained recognized since 1950 when the Uganda Savings and CREDIT Bank (USCB) now UCB was established with a sole aim of reaching "African" farmers with credit.

Upon the establishment of the Cooperative Bank (CBU), in 1964, some of the African farmer credit funds in USCB were passed on to the CBU to agurment in 1974 what is now referred to as the historical Cooperative Credit Scheme (CCS). That scheme though considered successful during its early years on the basis of its repayment performance never reached more than 5 percent of the target recipients. The CCS though still alive is in virtual state of dormancy due to the impact of the Amin years on the economy and the stagflation that ensued eroding the fund to abject nothingness. The only money for lending is presently provided by few district cooperative unions for on lending to primary societies in the respective Union area and the amount involved is a pittance in relation to the magnitude of production credit needs of small farmers. Outside the CCS, no institutional credit reaches the small farmer who spells the difference between progress and stagnation in Uganda. We shall return to this scenario later. However, the point to note is that UAFA is designed and structured to accommodate measures to overcome logistical failures of the past in as far as they relate to management and access to dependable sources of funds for credit to small farmers. Efforts are being made to put the Small farmer credit system viz UAFA on the national Grid of financial resource flows - the broad domestic money market.

THE TRACK HISTORY OF UAFA

In 1983 following the return of the USAID Mission to Uganda, efforts were made to find a pragmatic and efficacious way of reaching small farmers with production credit. Group lending through the Cooperative Movement was considered to be the best option using the CCS. However, it was noted that lack of funds was a major impediment to the expansion of the CCS. Efforts were then initiated to find a way to revive the CCS on a scale which would have a significant impact on agricultural productivity. It became clear that lack of access to funds would still be a major constraint. It was obvious that a "one short" infusion of external donor funds would not produce the desired result of a growing and eventually very large institutional production credit programme for the masses of smallholder farmers. It was clear to personnel from the Savings and Credit Section of the MCM that the Ministry could never gain access to the large volume of funds required, given the competing demands for limited funds available to the Ministry. This was recognized as early as August 18, 1983 when a working committee from the Savings and Credit Section submitted a proposal

the Ministry. This was recognized as early as August 18, 1983 when a working committee from the Savings and Credit Section submitted a proposal to the Commissioner for Cooperative Development entitled, "THE PROPOSED COOPERATIVE FARM CREDIT SYSTEM." It was that proposal which was the source of the ideas, which when expanded on by the Government of Uganda Task Force for the Development of the Rural Credit System which began its deliberations on November 24, 1983 under the Chairmanship of the Governor of the Bank of Uganda, eventually led to the conclusion that the CCS approach had continued merit but that it would have to be institutionalised in a financial institution which could gain access to the indigenous financial resources of Uganda.

Earlier in 1983, USAID, in search for a suitable delivery system and financial intermediary through which development loans could be made under USAID Commodity generated funds (FPSP) and the Rehabilitation of Productive Enterprise (RPE) Project, USAID fielded three studies on the CBU, one in April by Deloitte Haskins and Sells, the second in June by M.J. Carter and the third in August by Technoserve Inc. Based on the bleak situation made clear by these studies, USAID concluded that a financial institution other than CBU should be sought to become the financial intermediary for FPSP generated funds and RPE project. The studies indicated that where as the CBU was ostensibly organized as a Bank for Cooperatives, it had drifted and evolved into largely a Commercial Bank and it not only alienated itself from the Cooperative Movement but its status had degenerated to the point of apparent insolvency requiring an estimated U.Shs 1.2 billion in additional capital to restore its financial soundness. Later reports one by Bank of Uganda and the other by the CBU Auditors indicated that the problems were more serious than USAID studies had earlier thought. The loan and other required write-offs were likely to be much more than U.Shs. 1.2 billion. Even administered loans which Deloitte felt were reasonably secure, appeared questionable especially with respect to Cotton Factory rehabilitation loans. Most disturbing was the fact that "items in transit" constituted 47% of CBU's assets.

Upon this background efforts to identify an alternate and suitable home for the small farmer credit system intensified. The need to establish an institutional home for the CCS outside of the MCM was reaffirmed by forty credit officers from the Ministry of Cooperatives and Marketing and the Ministry of Agriculture and Forestry when they met for a week long Conference at Rubaga in January 1984. These credit officers who as a group had some 370 years of experience with the CCS expressed the view that the CBU would not be a suitable institutional home for the CCS. They recommended the establishment of a new Cooperative Institution to be known as the Uganda Cooperative Farm Credit Services (UCFCS). In their report, delegates underscored the necessity of having an autonomous Apex Cooperative Credit System in order to reach masses of small farmers with institutional credit. They noted that the Cooperative Bank was then and would not in the near future be able to provide production credit to small farmers and that an autonomous Apex Farm Credit Institution would be the most feasible approach to provide dependable credit.

Following delegates recommendations, MCM, constituted a Task Force to examine the proposals. That Task Force unanimously endorsed the proposal to establish the UCFCS as an apex Cooperative entity having linkage albeit a weak one to CBU along lines of an autonomous subsidiary

instead of being a mere department of the CBU to provide an independent command of resources and freedom of action. It further agreed that the task of providing farm credit requires efforts of Government, donor agencies, and all financial institutions in the country in order to ensure constant flow of capital funds for lending to small farmers. All these parties should be involved in deciding the type of institution which will administer the funds. The Ministry (MCM) accepted the proposal to elevate considerations of CCS/UCFCS to an inter Ministerial Committee including the Ministries of Finance (B.O.U.), Planning and Economic Development (MPED), Cooperatives and Marketing (MCM) and Agriculture and Forestry (MAF). The Permanent Secretary MCM took the matter up and requested the Governor BOU to constitute a High Level Credit Committee under his Chairmanship to review and make recommendations to the Government.

As a consequence of deliberations relating to the UCFCS and subsequent alternate proposals including the possibility of establishing the Uganda Agricultural Finance Agency (UAFA), Governor sought approval from H.E. the President/Minister of Finance to constitute a High Level Credit Committee. The Governor's argument in his letter of November 26, 1984 was and quote:

"USAID is prepared to channel Shs. 300 million from the funds generated under the Food Production Support Project (FPSP) into a financial Institution to provide production credit services to small farmers Following discussions between USAID Mission Director and Minister of Cooperatives and Marketing, USAID proposed the formation of a Subsidiary Entity to the CBU in which the above funds would be invested to provide a capital base for on-lending to small farmers.

I would support the formation of a subsidiary entity if it would have its own Board, staff, accounts and would be sheltered from the constraints now obtaining in the CBU.

There seems, however, to be a legal constraint in allowing the new entity to be a wholly-owned subsidiary of the CBU. As a subsidiary of the Bank, the organisation would be subject to the terms of Section 9 of the Banking Act which states that, "a bank shall not, with its resources in Uganda, acquire or hold any part of the share capital of any financial, agricultural etc. undertaking exceeding 25% of its paid-up capital and reserves. The CEU's paid-up capital and reserves are roughly about Shs. 596 million (after revaluation) and may not, therefore permit capital investment on a scale required to establish a subsidiary.

Further, I am also of the opinion that the small farmer oriented production credit system will need to have access to steadily increasing amounts of funds for its capital base and for expanding its lending operations to meet the needs of a large proportion of Uganda's credit-worthy small farmers. We need to look beyond the possible access to the limited amount of external donor commodity generated funds such as may be available through the USAID

and to find ways of facilitating the orderly flow of funds from our Commercial Banks into the small farmer credit system. This can be done if Commercial Banks are actively involved in the scheme, if necessary, by providing appropriate incentives.

Therefore, it may be advisable to make the new entity a joint venture of all the commercial banks. At the grassroots level, however, the credit services to small farmers can be most efficiently and effectively delivered by making loans to credit-worthy primary cooperative societies for on-lending to their credit-worthy farmer members in a manner similar to that employed under the historical CCS. The CCS approach involved loans being made in kind in so far as possible, close supervision of cooperative societies and their borrowing members and the provision of marketing services to facilitate loan collection.

If the new entity is organized as a joint venture of all the commercial banks with the CBU taking only a portion of the shareholding, it could be done under the Banking Act. The joint venture entity could be an "Agricultural Finance Agency" which could not only secure share capital from member banks but also draw on experienced staff from all the promoter banks without unduly straining the manpower resources of the CBU. It is assumed that experienced credit personnel from the Ministry of Cooperatives and Marketing and from the Ministry of Agriculture and Forestry would also be available for employment by the Agricultural Finance Agency.

... The Agency would also need to supplement the capital fund by accepting deposits ... and obtaining credit facilities from banks and other financial institutions to ensure a viable lending base. It will therefore, be better if the new entity is modelled on the lines of a credit institution which can accept time deposits from the public to augment its resources. It should not, however, resort to commercial banking which is fraught with greater risks, requires more seasoned manpower and high security operating systems.

The above approach would have the dual advantages that the loans to farmers would be funnelled through their primary cooperative societies along historical CCS lines and the Agricultural Finance Agency would be well positioned to gain access to both domestic and external sources of funds needed to sustain an expanding loan portfolio.

... The foregoing approach which has been evolved by the Bank of Uganda has been informally discussed with the Mission Director of USAID, Mr. Coker and he has welcomed it as being more advantageous in all respects. I understand from Mr. Coker that if the proposed

Agricultural Finance Agency can demonstrate that its credit support is reaching the deserving small farmers and the credit system has been effective in improving their productive capacity, USAID would be prepared to infuse additional grants of up to Shs. 700 million in the next two years and also mobilize support from other external donor agencies.

... I therefore, request, Your Excellency, for your agreement for me to constitute a small committee including the officials of USAID, to go into the mechanics of the proposal and give recommendation for further action."

Following the Governor's letter, the Ministry of Cooperatives and Marketing echoed the wisdom of the proposal as expressed in the Acting Permanent Secretary N.K. Kebba's letter of December 11, 1984 and quote:

"... this letter is to update you concerning the results of the meeting held today relating to the institutional framework or structure under which production credit services will be provided to the masses of small farmers who produce the bulk of Uganda's farm commodities for domestic consumption and for export.

I wish to advise you that there was unanimous agreement among those who attended today's meeting that there is an urgent need for the small committee which you, by your letter of 26th November, 1984 have requested His Excellency the President/Minister of Finance for agreement to constitute. There was firm agreement that such a high level committee is required to facilitate a final decision as to the structure of the financial Institution which is most likely to be able to launch a sustainable and expendable production credit service for small farmers. The approach you have suggested in your letter to His Excellency appears to offer the dual advantages of providing credit services through viable primary cooperative societies at the grass roots level while at the same time taking full advantage of the financial and manpower resources of the banking community.

Those in attendance today recognize that small farmers do not have access to dependable sources of production credit and there is an urgent need for a viable institution/system. Therefore, if His Excellency agrees to the appointment of the small high level committee you have recommended, you may count on our strong support to plan, organize and implement the agreed upon credit institution as expeditiously as possible.

Notwithstanding that affirmative communication, the Minister of Cooperatives and Marketing was not yet satisfied with the proposal and held divergent views on the matter as reflected in the loose minute from Permanent Secretary J.A. Okodoi to the Minister dated December 20, 1984 and quote:

"I understand ... that the decisions of the Task Force on the Revised Recovery Programme were not available for the meeting ... on the 11th December, 1984. I wonder whether it is possible for that record to be availed to me to study, otherwise, I proceed as follows:-

Much as our Ministry may wish to defend the Cooperative Bank and to insist that it be the institution to handle farm credit, it is obvious from the present state of affairs, including the recent detention of the Deputy General Manager and the Chief Accountant, that the Cooperative Bank is not yet in a position to regain the confidence of the Bankers and the Organisations which might wish to contribute funds to the credit scheme. Therefore, the more we resist the majority recommendations as of 11th December, 1984, the less chances we have for obtaining funds for the reactivation of the Scheme.

It is my considered view that we should not lose sight of the target of the proposed Credit Scheme, namely, the rural farmer to whom our focus is increasingly directed. I suggest that we relax our attitude and accept the reactivation of the Scheme through a most acceptable arrangement of all parties concerned. I am saying this because, as you are aware, Sir, this Scheme has ever been dear to H.E. the President's heart. Therefore, the more we spend time on discussing the future location of the Scheme the greater the chance of our coming under fire in early 1985.

Having said the above, I request you to agree that the Task Force proposed by the meeting under reference be accepted by this Ministry in the interest of speeding up the progress of reviving this scheme. I personally do not see how we could break through the Bank of Uganda, UCB, USAID, etc. short of going with their agreed recommendation that a Task Force Committee (the last one on this, I hope) delve into this matter. Of course, we shall still have the chance to discuss their ideas before they are implemented."

As more intensive and elaborate discussions were held within and outside MCM and Bank of Uganda, an inter-Ministerial/Inter-Agency Committee Meeting was convened on March 22, 1985 under the Chairmanship of the Governor to consider the possibility of establishing the Uganda Agricultural Finance Agency (UAFA).

Given the proposed support roles of Bank of Uganda in the establishment of UAFA, the matter was presented to and later approved by Management and the Board of Directors of the Bank of Uganda. Recommendations were firmed up on January 8, 1986 in a Cabinet Memorandum and submitted to the Secretary to the Treasury for a government decision.

On April 21, 1986 the Secretary, before he could fair the Memorandum for his Minister raised two issues one relating to the justification of setting up a new institution instead of using the CBU and the other questioned the wisdom of the Bank of Uganda being involved and holding shares in a financial institution it is supposed to exercise surveillance on as and quote:

"... Before a memorandum is sent to the Cabinet, I personally would want to clarify two matters both relating to policy and principle...

... I am not sure whether it would be appropriate for a Central Bank to get involved ... in the manner you propose. A Central Bank by its nature is supposed to safeguard and in a way is the embodiment of a country's financial integrity. I believe commercial banks themselves are prohibited from acquiring shares in Companies because, I supposed, allowing them to acquire such shares could probably force them to eventually get compromised

The question of policy is equally important. I have noted that the Minister of Cooperatives and Marketing is proposing to do something about the crippled CBU. You are aware that the CBU has never had a capital base to talk about and that since 1974, the bank has been literally plundered by management teams usually politically selected. On top of that the bank was forced into opening of a branch network all over the country it could not possibly sustain, apart from the fact that the bank has always lacked trained and efficient staff. The Minister of Cooperatives and Marketing now proposes to make the Bank a Cooperative Institution which should not accept deposits from and render services to the public. It is therefore necessary to coordinate that policy with the establishment of this agency because establishment of both institutions could lead to misallocation of resources and.... would wish to avoid that.

I would suggest that you put these views to the Board of Directors of the Bank who approved the establishment of this Agency so that a more coordinated policy emerges, taking into account the policies the Government apparently wishes to initiate in th is area."

On 6th May, 1986, Governor responded to the issues raised in the Secretary's letter to the Treasury as follows:

"... to encourage Agricultural Production in the country there is an urgent need to introduce a farm credit agency... designed to give specialized attention to production needs of small farmers. The success of such an agency requires the participative support and cooperation of all the established banking institutions in the country. This would enable the Agency to have a capital base and access to the money market to facilitate transfer of funds from the banking system to the farm credit system thereby providing a viable lending base. The proposed Agency will not only be a mere financing Agency but has to distinguish itself as a progressive development finance institution that should facilitate innovation and adoption of scientific farming practices... to increase agricultural production.

As you rightly point out... the CBU given its present constraints is not in position to provide the above support. The process of restructuring and rehabilitating the Bank, however well conceived and necessary, will take a long time before the bank can take on additional credit schemes. For the time being the bank is making arrangements to consolidate its operations, rationalize its branch network and reduce its operating losses.

Regarding ownership of the proposed Agency, I wish to clarify that the Bank of Uganda will not be a permanent shareholder.... In the event that subscriptions to the shares issued... are not forthcoming... to the required level, the Bank of Uganda may be requested to invest in the shares to the extent of shortfall in subscriptions. The Bank of Uganda under Section 21 (2) (d) of the Bank of Uganda Act 1966 is authorized to subscribe to the shares of Corporation established by or with approval of the Government... for the purpose of facilitating the financing of economic development. The shares held by Bank of Uganda shall, however, be sold to eligible institutions as and when the latter are able to acquire them.

The proposed participation by commercial banks is intended mainly to enable the Agency to have recourse to the financial resources and expertise of the banking system as a whole including CBU. Provisions of the Banking Act 1969 Section 9 (b) (ii) allow any bank or any credit institution to acquire or hold any part of the share capital of or make any other capital investment in any financial or commercial organisation set up for the purpose of promoting development in Uganda provided such shareholding is approved by the Minister of Finance. As

a shareholder, the CBU should eventually gain a majority shareholding and directorship position in UAFA directly or indirectly and or through the cooperative unions if it solves its problems.

The proposal to establish UAFA was examined by the Ministries of Agriculture and Forestry, Animal Industries and Fisheries, Cooperatives and Marketing and also by the commercial banks and credit institutions in Uganda and it was agreed that establishment of the Agency would enhance the development of credit facilities to the agricultural sector. It is proposed that the Agency would also be involved in mobilizing rural savings which will assist Government development efforts...."

Meanwhile, the Joint Government of Uganda/World Bank Task Force on Agricultural support services (Food Crops) had submitted its Interim Report to APC (Agricultural Policy Committee) in which they recommended to Government to expedite the establishment of the small farmer credit system with special reference to UAFA to address the production credit problem. The APC accepted the recommendation and presented it to the Planning and Investment Sub-Committee of Cabinet on Tuesday July 8, 1986. That Committee chaired by the Minister of Planning and Economic Development and composed of among others, the Ministers of Finance, Agriculture and Forestry, Cooperatives and Marketing and Governor Bank of Uganda approved the Task Force recommendation to establish UAFA and directed the Secretary to Treasury to fair the UAFA memorandum for his Minister to present to Cabinet for a Government decision.

On the following day July 9, 1986, the Secretary to Treasury communicated his inability to Governor to fair the memorandum for presentation to Cabinet. This was in reaction to Governor's reply of 6th May 1986 and quote:

"... My own views on this subject... have not changed. What you state in your letter, however, is surprising. You said that vehicles have already arrived in the country including personnel for purposes of implementing the Agency. I cannot understand how legal and administrative steps can be finalised to the extent of making commitment of that nature before the creation of the Agency itself has even reached the Cabinet.

This seems to be a problem I cannot possibly handle because I would not know how to introduce the subject in the Cabinet Memorandum."

On receipt of a copy of the ST's letter, the Director Development Finance Department of the Bank of Uganda suggested to Governor on 14th July 86, as follows:

"Governor may consider convening a meeting with the Secretary to the Treasury so as to thrash out the issue and merits of establishing UAFA. It appears that the matter cannot be made clearer in mere correspondence....."

On August 1, 1986, Governor rendered a further explanation to the Secretary to Treasury's query and reluctance to fair the memorandum as follows:

"... You are no doubt aware that in 1984 the USAID offered to channel Shs. 300 million from the funds generated under FPSP into a financial Institution.... Following discussions between USAID Mission Director and Minister of Cooperatives and Marketing, USAID proposed the formation of a subsidiary entity to the CBU in which the above funds would be invested to provide a capitals base for on-lending to small farmers.

It was discovered that amongst other things there was a legal barrier in allowing the new entity to be wholly owned by the CBU... In addition, the CBU was not managed in a manner conducive to effective supervision of additional projects. It was then that decision was made to make the new entity joint venture of all commercial banks with the CBU taking only a portion of the shareholding. Such arrangement is acceptable under the Banking Act....

The Board of Directors of the Bank of Uganda at their meeting held on Thursday December 19, 1985 unanimously approved the proposal to establish... UAFA. The same meeting was attended by Secretary to the Treasury as a Board Member. The cabinet Committee on Investment Programme also recently endorsed the establishment of UAFA as a means of channelling resources to the small borrower in the rural areas.

Apart from Shs. 300m ... the USAID indicated willingness to provide a total of Shs. 1.0 billion (generated from sale of 11,000 bicycles they brought into the country in 1984) for use by the new entity. The USAID also agreed to provide ten four-wheel drive vehicles, nineteen motor-cycles and fifty bicycles and to meet the cost of maintenance and operation of vehicles. The vehicles provided have not been registered until the Cabinet authorized the establishment of UAFA.

The proposal to establish the Agency is only at a preparatory stage. Neither legal nor administrative steps have been finalised as such. The USAID has availed financial resources, vehicles and technical assistance for use when the Agency is established.

It would, therefore be appreciated if the matter could be finalised by the Cabinet to allow establishment of the Agency."

The Secretary to the Treasury was still not convinced and on August 7, 1986, he again re-affirmed his objection and quote:

"...This subject continues to come up because clearly no policy decision has been defined on this matter. On my part I would wish to repeat what I said at the beginning and this is as follows:

a) I have no problem with the agency as such. However, the agency should be created with capital raised from different commercial or development banks in the country in full consultations with the Ministry of Cooperatives and Marketing, with the assistance of USAID. The Cooperative Bank which should be the best channel for this type of financing does not have sufficient capital but that is why I have insisted that the Ministry of Cooperatives and Marketing be fully involved.

b) I pointed out and I would like to repeat it that the central bank which is the guardian of the country's financial integrity should not be directly involved in promoting business. The central bank could encourage financing in certain areas by acting through commercial banks and if necessary giving guarantees. In a way this is how crop finance should, for instance, be handled. In this case, however, this agency is supposed to be located in the central bank itself and I am not sure that I agree to such a proposal. This is my position and in fact this is what I indicated to you right from the beginning.

On the following day, August 8, 1986, the Minister of Finance convened a meeting to be briefed and up-dated on salient projects and programmes. The meeting was attended by the Secretary to the Treasury (ST), Governor Bank of Uganda and the Director, Development Finance Department of the Bank of Uganda. Among the projects discussed was UAFA. Clarification was made on establishment of the proposed Agency (UAFA). The role of Bank of Uganda in the managing of UAFA was defined and agreed that:

"(a) The Agency shall be a limited Liability Company with its equity shares made available for subscription to all financial Institutions, Cooperative Unions and Commodity Marketing Boards.

(b) The Bank of Uganda would play a promotional role by providing office accommodation to UAFA in a rented building and stationery in the initial period after which, the shareholders will take up full responsibility.

(c) The Cabinet Memorandum on the establishment of the Agency was to be faired and presented to the Cabinet at its next meeting."

On the following day August 9, a public pronouncement was made by the Cooperatives and Marketing Minister Dr. Crispus Kiyonga about UAFA at the 22nd AGM of UCCU at the International Conference Centre as follows:

"Government is to channel all farm inputs and implements through the distribution system of the Uganda Central Cooperative Union (UCCU) when the newly established Uganda Agricultural Finance Agency is implemented. UAFA will give through the Cooperative structure farm inputs and implements on credit in kind."

On August 23, 1986, the Minister of Finance when presenting the 1986/87 budget to the National Resistance Council noted and proposed as follows:

In addition to growing government deficits to finance consumption and services, a large portion of bank credit went to finance commercial activity and speculation. Even where production was possible, credit to finance it was not available in banks because there were more profitable ventures in commerce and speculation for banks to finance.

The financial institutions, therefore, ignored Agriculture and Industry because it did not pay as well. This government is determined to reverse the trend.

Mr. Chairman, some of the measures that have already been taken to correct this unhealthy situation included the recent setting up of the Rehabilitation of Productive Enterprises Programme which, with supporting foreign resources supplied by the United States Government, will specially finance Agriculture and agro-related industries.

Before the end of the year, another organisation to be known as Uganda Agricultural Finance Agency (UAFA) will be set up with the single objective of financing agriculture."

It is apparent from the budget speech that the UAFA proposal had been elevated to a government level decision beyond a single Ministry to reverse. It is also clear from the debate of the budget proposals that Government raised no objection to the proposals.

As delays in approving UAFA continued, Governor on 1st September 1986 wrote a reminder to the Secretary as follows:

"The subject matter has attracted lengthy correspondence in the past. Recently, it was agreed with the Minister of Finance that the proposals be put to cabinet for approval. As you are aware, the Government economic policies are designed, inter alia towards modernizing the agricultural sector so as to increase production and raise the level of industrial and agricultural production. Credit is needed for modernization of agriculture for it serves as a crucial element in acquisition of capital assets and adoption of new technologies that go with it

For the majority of farmers in Uganda, the main source of short term credit is the delayed payment for agricultural inputs allowed to them by their cooperative societies. In order to increase agricultural production, it is imperative to ensure a steady flow of credit for farm production. The Bank of Uganda, Ministries of Cooperatives and Marketing, Agriculture and Forestry, Planning and Economic Development Finance and USAID have been examining ways of increasing agricultural credit to small farmers, and have formulated proposals for establishment of a separate entity known as Uganda Agricultural Finance Agency (UAFA)... I enclose a memorandum setting out details of the proposals to establish the Agency. The Board of Directors Bank of Uganda at its meeting held on 19th December 1985 unanimously approved the proposal. The Board resolved that the Bank of Uganda takes appropriate steps to establish the (UAFA) and provide such financial and technical assistance as may be considered necessary by providing office accommodation to UAFA's Headquarters on a non-charge basis for a period of three years, meeting the cost of stationary and related items.

... The Minister of Finance mentioned the establishment of UAFA, when he was presenting the 1986/87 Budget on August 23, 1986.

It would be appreciated if you could initiate necessary action to get cabinet approval for establishment of UAFA. The promotional role by Bank of Uganda in the project is based on section 21 (b) of the Bank of Uganda Act 1966 as amended by Decree No. 1 of 1986....."

On September 23, 1986, the Permanent Secretary, Ministry of Cooperatives and Marketing asked the Governor Bank of Uganda to up-date him on the latest position and quote:

"Please refer to your letter ... of 1/8/86 to the Secretary to Treasury Ministry of Finance concerning UAFA. I should be most grateful if you could let me know the latest position. My Minister's view is that this fund should eventually be absorbed by the Cooperative Bank. Would you please confirm that if the share capital of the CBU is increased to an acceptable level and the Bank is efficiently managed, then UAFA would eventually be absorbed by the CBU."

On October 28, 1986 Governor responded as follows:-

"The UAFA Establishment Committee which is composed of officials from the Ministries of Agriculture and Forestry, Cooperatives and Marketing, the USAID and Bank of Uganda has completed the preparation of the UAFA Project which incorporates the physical and financial aspects of the Agency and a draft memorandum and Articles

of Association of the Agency. With technical assistance provided by USAID, the Committee has also prepared the Management, Accounting and Audit manuals and is at present engaged in quantifying the credit gap in the pilot areas which have been identified as the initial operational areas of UAFA. Since technical assistance is already on the ground, the remaining pre-incorporation activities would be undertaken as soon as Government has given its approval.

If UAFA is established along the lines proposed, it would be the shareholders of UAFA viz the commercial banks, the commodity marketing boards, and the cooperative unions which will consider any proposal involving the merger of UAFA and the CBU.

Following this reply, the PS. Ministry of Cooperatives and Marketing wrote on November 11, 1986 as follows:

"Contents of your letter have been noted with great interest. As I have already indicated to you, our backing the establishment of UAFA is conditional on the fact that at some appropriate time, the shareholders of UAFA will positively consider proposals involving the merger of UAFA and the CBU."

The exchange of comments within Bank of Uganda revealed that at this point in time it would be premature and counterproductive to contemplate or promote a merger. It is most unlikely that commercial banks would be willing to consider participation in UAFA if they know they will be under pressure to divest their interests in UAFA in a few years in favour of the CBU. It simply would not be worth the bother for them to get involved. Without the participation of commercial banks, the essential linkage with the Ugandan financial market would not exist and the objective of providing a viable and eventually very large production credit system for small holder farmers would not be achieved. However, Bank of Uganda noted that there is a simple solution to this matter. All that would be needed to increase the farmer-cooperative level of ownership and control of UAFA would be for the CBU, either alone or on behalf of the other participating Cooperative Unions, to purchase additional shares in UAFA. This would be a practical approach, but the incentive to do so would be contingent on the success of UAFA and the success of the CBU in becoming a strong "Bank for Cooperatives."

Meanwhile, during October-December 1986, the Government of Uganda agreed with the World Bank to provide a consultant (Mr. Sant Dass) to review the proposals to reactivate production credit to small farmers under the auspices of the APC (Agricultural Policy Committee). The consultant's impressions were presented and discussed by APC on December 9, 1986. Interim conclusions and recommendations were as follows :

"In view of the urgent need to provide credit facilities to the small and medium farmers in Uganda the Government is presently considering setting up a new specialized agency (UAFA) to cater to the production credit needs of

the farmers who are not being served by existing financial institutions. The Bank of Uganda has since provided expert and secretariat assistance for giving a concrete shape to the proposal. The World Bank has been approached by the Government of Uganda to look into the feasibility of the proposed Institution.

It is true that there is a felt need for providing credit to farmers to enable them to procure essential agricultural inputs and services, as none of the banking institutions in Uganda are today meeting this need. The main function of the banks has been to provide funds for the procurement, movement and processing of major crops like coffee and cotton from farmers to the relevant marketing boards generally using the cooperative structure. Provision of essential inputs has not received their attention mainly for the reason that it involves making unsecured loans to the small and medium-size farmers who have no tangible security to offer.

The Mission recognizes the need for providing production credit to the farmers, but it is of the view that first of all it is necessary to attend to certain macro-level problems in the economic scene of Uganda.

The Mission feels that in view of existing constraints there is need for a very cautious approach to the question of setting up a new financing agency for serving the farmers.

The first attempt should be to use one of the existing Institutions for the purpose in view. This approach will be less time-consuming and there should not be much problem in utilizing existing staff and branch network of one of the institutions such as the Uganda Commercial Bank."

A follow-up Mission in January-April 1987 (Uganda Agricultural Task Force Programme) reviewed the production credit scenario and at the Agricultural Policy Committee (APC) meeting at Jinja held on April 10-11, 1987 adopted and recommended a three pronged approach to agricultural credit as follows:

"The task of providing credit to farmers is a huge and diversified one. Also several channels will create a degree of competition and allow for variations in approach. The Uganda Commercial Bank (UCB) and the Uganda Development Bank (UDB) schemes for agricultural credit to small farmers should be complimented by establishing a new institution (UAFA) to serve the cooperative movement."

On 27th December 1986 Hon. Sebaana Kizito, the Minister of Cooperatives and Marketing, following a meeting with the USAID Mission Director and the USA Ambassador to Uganda expressed the views of the ministry as follows:

"... I noted with appreciation the various activities of your agency in aid of our cooperative movement.

For a long time, there has been discussions between various organs of the Government of Uganda and your Agency concerning (UAFA). It is my understanding that your Agency would make funds available to aid small farmers and that you consider setting up a special agency to administer these funds. When we held our discussions, I made it clear to you that the idea of your agency bringing in funds to help our farmers is very much welcome. However, I do not consider that it is necessary to set up a separate Agency for the administration of these funds.

As you know, in Uganda, we have a Cooperative Bank which is owned by the various Cooperative Unions in the country. Cooperative Movement in the country is organized in such a way that many farmers are members of the movement. Therefore, the Cooperative Movement is wide spread and is fairly representative of the farmers of this country. Consequently, I consider that the Cooperative Bank which has a good network of branches in the country and which has got a lot of potential to expand, can administer the funds in question without setting up any new organisation.

I admit that currently, the Cooperative Bank has got some problems of management but these are being taken care of and I am confident that the steps I am taking will enable the Bank to strengthen its management and to become more effective. Besides, at a recent meeting which was held by several big Cooperative Unions, (at Masaka) they reiterated their confidence in the Cooperative Bank and pledged to strengthen the capital base of the Bank which would go a long way to make it a thoroughly strong financial institution ready to serve the cooperative movement. Such a body would no doubt be the best administrator of the funds in question."

What the view seems to have lost sight of is the fact that Cooperative Unions and Societies are net borrowers from the banking system and have no funds of their own to transfer to the CBU. It also ignores the fact that a single short infusion of funds in CBU/OCS would not produce the endurance desired as these would soon run out. What is most desired is a credit system firmly connected to resource flows of the banking system as a whole including the Bank of Uganda.

On January 11, 1987, Director Richard Podol of USAID replied Hon. Sabaana Kizito as follows:-

"This letter is in response to your letter dated December 29, 1986 and as a follow-up to the December 19 meeting Ambassador Houdek and I had with you. I appreciated the opportunity to discuss matters relating to USAID's program of assistance to the Ugandan cooperative movement. As you know, our bilateral program has a long history and I wish to assure you that we will continue to assist programs and activities which will result in significant and enduring benefits for the Ugandan people. Given the fact that approximately 90 percent of the volume of farm products for domestic consumption and for export is produced by smallholder farmers, and an estimated two-thirds of farmers are cooperative members, we recognize that a viable private enterprise oriented cooperative movement will enhance the economic well being of farmers and the country.

Since you raised the issue of the future of the Uganda Agricultural Finance Agency (UAFA) as the institutional home for a revived and modernized version of the Cooperative Credit Scheme (CCS) I believe that I should present the background leading to the desire to create UAFA.

UAFA has a long history. AID's decision to support its establishment was reconfirmed in the July 29, 1986 amendment to the Food Production Support Project agreement signed by the Minister of Finance and myself. The pertinent section of the agreement reads as follows:

"The GOU will ensure that the (UAFA) is registered as a limited liability company under the provisions of Uganda's company Act"

Thus, we are dealing with an agreement between your Government and mine that involves several other ministries - Finance, Agriculture, Livestock and Planning - as well as the Bank of Uganda. Changing that agreement may well require concurrence at the Cabinet level as well as by my own Government.

Based upon prior approvals we have already expended considerable funds on technical and capital assistance to UAFA. In fact the roots of UAFA and our involvement go back to 1983. It is my understanding that although the Cooperative Credit Scheme (CCS) successfully demonstrated a workable approach under which loans were made to primary societies for on-lending to credit-worthy farmer members it never reached more than five percent of those eligible. Lack of funds was reported to be a major impediment to the expansion of the CCS. In 1983 when efforts were initiated to find a way to revive and expand the CCS on a scale which would have a significant impact on agricultural productivity, it became clear, once again, that lack of access to funds would be a major constraint. It was clear to personnel from the Savings and Credit Section of the MCM that the Ministry could not gain access to the large volume of funds required, given the Government's budgetary situation. This was recognized as early as August 18, 1983 when a working committee from the Savings and Credit Section submitted a proposal to the Commissioner for Cooperatives Development entitled, "THE PROPOSED COOPERATIVE FARM CREDIT SYSTEM". That proposal was expanded by the Task Force for the Development of the Rural Credit System which began its deliberations on November 24, 1983 under the chairmanship of the Governor of the BOU. The Task Force's conclusion was that the CCS approach had merit but that it would have to be placed in an institution which could gain access to the financial resources of the Commercial Banks.

The need to establish a home for the CCS outside the MCM was reaffirmed by forty credit officers from the Ministry of Cooperatives and Marketing and the Ministry of Agriculture and Forestry when they met for a week long conference at Rubaga in January, 1984. We also see a continuing role for the Co-operative Bank (CBU). We believe that the CBU could, if its financial condition and other factors permit, be revitalized as a true "Bank for Cooperatives." Even so, I suggest that you may wish to review the enclosed August, 1983 report by Technoserve, Inc. relating to the CBU, and the reports of M. J. Carter and Deloitte Haskins & Sells which should be in MCM files. A specialized "Bank for Cooperatives" would have a large and challenging role to finance the agri-business requirements of the cooperative movement. By agri-business finance I mean working capital for unions and societies including crop finance and capital funds for facilities (i.e. buildings, factories, storage, and materials handling and processing equipment), transport vehicles and tractor hire services. For example, in 1985 the CBU provided only 16 percent of the crop finance disbursed by commercial banks and this represented 96 percent of CBU's advances to agriculture. Since demands for crop finance may be expected to increase during the years ahead, crop finance lending by itself is likely to require more funds than the CBU will be able to command.

Again we think that only by mobilizing the commercial banks will sufficient credit be available to small farmers, as opposed to co-operative needs. Thus, there is an erroneous presumption that the establishment and expansion of UAFA would have a negative impact on the future of the CBU. On the contrary, these institutions would compliment each other. The UAFA lending program would provide loans to primary societies to enable them to on-lend to their members for production increasing activities. This will result in a greater demand for inputs and for marketing and processing services through the cooperatives. In order to finance these input and marketing services the unions and societies will need to heavy demands on the Co-operative Bank for agari-business finance.

It should also be pointed out that the CBU is expected to become one of the founding members and shareholders in UAFA. The financial extent of its shareholding (ownership) would only be limited by its financial capacity and willingness to participate. This involvement of the CBU will help to assure that UAFA is cooperative oriented and farmer sensitive. The participation of other apex and district unions would also contribute to the achievement of these ends.

All that would be needed to increase the farmer-cooperative level of ownership and control of UAFA would be for the Cooperative Bank and/or the apex and district unions to purchase additional shares in UAFA. This would be a practical approach, but the incentive to do so would be contingent on the success of UAFA and the success of the CBU in becoming a strong "Bank for Cooperatives."

In summary, the basic premise underlying the necessity for direct involvement of the commercial banks is that the commercial banking community has the bulk of the funds available for lending. Only these banks can provide the funds needed for full capitalization of the institutional home of the CCS. The commercial banks have made it clear that they will not make their funds available to the Co-operative Bank. Given appropriate incentives and with the facilitating role of the Bank of Uganda, there is a reasonable chance that they will co-operate in forming UAFA. In addition to funds, we believe these banks would have a strong interest in providing their expertise to promote the efficiency, financial strength and integrity of UAFA. As a businessman you can appreciate that they would want to do this in order to protect their investment. Likewise, the involvement of the farmer cooperative movement could help to assure that UAFA will be cooperative oriented and farmer sensitive. This would be the best of both worlds.

You can now see why we have supported the creation of UAFA. After years of intense effort the work of the Establishment Committee has reached the final stage of dialogue with the potential shareholders (i.e. cooperative unions, marketing Boards and commercial banks). It is essential that your concern be resolved soonest and final decisions made on the respective role of UAFA and the CBU. Delay means a loss of credit to the farmers in this critical period in Uganda's history. It is also important to keep in mind that the planting season is fast approaching. We are ready to meet with you or with the Establishment Committee if it can help resolve the situation."

On January 13, 1987, the Director of Development Finance Bank of Uganda convened a meeting with the Commissioners of Cooperatives, Marketing, Veterinary Services and Agriculture to arrange for getting the feelings of the proposed UAFA shareholders. The meeting noted and agreed as follows:

"Because of the felt need to increase input supply to farmers to increase productivity a system to avail credit facilities to small farmers has to be established. Because of the many risks in agricultural credit, as many institutions as possible should be involved so as to:

(i) Improve accessibility to resources in the commercial banks.

(ii) Spread risk sharing and lessen the burden of losses.

(iii) Ease availability of suitable personnel. Thus the need to set-up UAFA to be jointly owned by the banks, marketing Boards and the unions and access the backing of the country's financial system, cooperative movement and marketing institutions.

However, some of the authorities involved have divergent views on the UAFA concept and system. For example:

(i) The Secretary to Treasury feels that instead of creating a new institution, the Cooperative Bank should be rehabilitated and strengthened. The UAFA establishment committee feels that because of the many high demands on CBU's resources to finance on-going processing and marketing of produce, CBU cannot provide adequate production credit. Hence the need for a specialized institution (UAFA).

(ii) The Ministry of Cooperatives and Marketing view is that UAFA and CBU should be merged some time after take-off. However as UAFA is planned to be a limited liability entity, such a merger is a prerogative of the shareholders. The Ministry also feels that USAID/FPSP funds should be placed with CBU. Here the problem is that such funds are limited and may not make the desired impact over time.

(iii) Cooperative Unions (6) resolution at the Masaka meeting rejecting Government decision to establish UAFA. From the Masaka minutes, it is evident the Unions were not clear on the UAFA concept and the role of Bank of Uganda in the venture. The six unions cannot be taken as being representative of the entire cooperative unions in the country. Further no one should think that there are any ready resources being denied the Cooperative Bank or that unions have funds of their own to transfer to the CBU as they are net borrowers of the banking system.

To expedite the establishment of UAFA, dialogue should be initiated with all shareholders particularly cooperative unions and societies."

On January 27, 1987, Hon Sebaana Kizito re-affirmed MCM's view for CBU to administer USIAD/FPSP funds in his letter to USAID Mission Director R. Podol as follows:

"I am grateful to you for the long explanation you have given of the origins of this agency (UAFA). I am sure that in Uganda we have too many parastatal organisations. The NRM government has taken some steps to identify the parastatal bodies that have got to be scrapped merged or sold to private business enterprise. Although an announcement was made to create the above Agency by the Minister of Finance in his last budget speech, I do not think that we should not feel free to look at the question of UAFA afresh.

.... when a decision to create UAFA was taken, and ... when the Minister of Finance announced the Government's intention to set up the Agency, the state of the Cooperative Bank and indeed its future was uncertain. We now know the state of the Cooperative Bank and we have taken steps to ensure that it will have a good financial future. Therefore, I wish to reiterate my earlier statement that the Government feels that the Cooperative Bank will be in a position to administer funds that UAFA would have administered.

In your letter (11th January 1987), you have mentioned that commercial Banks have made it clear that they will not make their funds available to the Cooperative Bank. I am not expecting them to make their funds available to the CBU. What I am expecting, however, and which I am certain of, is that Cooperative Unions have expressed their confidence in the CBU and they have pledged to support it financially, first by purchasing more shares in it and secondly by banking with it. As the Cooperative movement in the country mobilizes a lot of funds and as these funds are now kept in the commercial banks which you have referred to, when they are removed from such Banks to the CBU, it will not need the support of the commercial banks.

In conclusion, I wish to state how weary I am of setting up more new organisations. Taking into account the experience we are discovering, I think it is better to strengthen the existing institutions, to see that they are on sound financial footing, to see that the management is re-structured and strengthened, and to see that they really serve this nation in accordance with the objectives of the NRM government."

In all foundation documents of UAFA, the agency is conceived as a private company limited by shares although there is indirect government participation through UCB, and Marketing Boards. The CBU and the Cooperative movement are private entities. If any parastatal is needed it is a small farmer credit institution.

On 25th February 1987, Permanent Secretary S.B. Rutega of MCM wrote to the Secretary to the Treasury communicating the points and decisions arrived at a meeting convened by him to determine the future of UAFA. Those who attended the meeting included Governor S.J. Kiggundu, Commissioner P.K. Batarinyebwa, Senior officials from the Ministries of Agriculture, and Finance and the General Manager of the Cooperative Bank. The ST was advised as follows:

1. The USAID participation in the formation of UAFA was after a request from the Uganda Government. The decision took a long time to be arrived at. Any structural change concerning UAFA would necessitate protracted negotiations which would take a long time to finalise. It is, therefore, important that the present arrangements should not be unduly altered in order to save time.
2. The re-organisation of the Cooperative Bank Ltd. which is currently going on will take between 6-9 months to complete. While this exercise is going on therefore, the operations of UAFA should continue;
3. The credit facilities which will be provided by the Cooperative Bank Ltd. and UAFA will be complimentary and not competitive.
4. The 10% shareholding in UAFA which is supposed to be taken up by the Cooperative Unions can temporarily be purchased by the Bank of Uganda while the Cooperative Unions concentrate on re-organizing and financing the CBU Ltd.
5. At some stage when the CBU is ready to purchase shares from UAFA, it will be authorized to do so.
6. After the UAFA is fully operational it will operate as an independent body and will not appear to be seen operating as a branch of the Bank of Uganda.

It is therefore clear that UAFA can go ahead with its work while the CBU is being re-organized. At an appropriate time in future, the two institutions can be merged if it is considered necessary. I have accordingly advised my Minister to discuss this issue with your Minister so that the future of UAFA can be settled without any further delay. You may wish to advise your Minister accordingly."

On 9th March, 1987, Governor S.I. Kiggundu wrote to the ST advising him on the decisions reached at the Farmers House meeting of 24th February 1987 as follows:

"At a meeting held in the Ministry of Cooperatives and Marketing on the 24th February 1987, it was recommended that the Uganda Agricultural Finance Agency should be established to complement the efforts of the CBU, in extending production credit to the farming public. Please refer to the minutes of this meeting which were sent out by the Permanent Secretary, MCM for ease of reference.

It would, therefore, be appreciated if you would, please, expedite the presentment of the Cabinet Memorandum for discussion. I append an amended draft memorandum for your consideration."

On the 11th March 1987, the ST J. Kahoza responded to Governor Kiggundu's letter as follows:

".... I received the minutes of the meeting in the Ministry of Cooperatives and Marketing on 24th February, 1987. I have passed on these minutes to the Minister of Finance who asked a number of questions on the minutes which he had apparently received. Certainly, I have to wait for his further instructions."

On 17th March 1987, the Chairman/Managing Director of UCB communicated their intentions to Governor Bank of Uganda to launch the small Rural Farmers pilot scheme and requested as follows:

"Since this is the first time that UCB has undertaken such large scale rural credit programme, we are soliciting views ... on the proposed ... scheme. We would appreciate your comments...."

On 20th March 1987, the Governor Bank of Uganda responded to the Chairman/Managing Director of UCB as follows:

I am glad to learn that you will soon be launching a "small Farmers Pilot Scheme" for assisting Rural farmers. I wish to draw your attention once again to the fact that Government has already set in motion the process of establishing the Uganda Agricultural Finance Agency (UAFA) which is already at an advanced stage. UAFA is intended to make credit readily available to rural farmers. USAID is assisting this effort and it is hoped that all commercial banks will put funds into its capital outlay since they will own the agency jointly.

By copy of this letter, I am requesting the Director Development Finance of the Bank of Uganda to arrange a meeting with you in order to provide you with further details regarding UAFA. This is to try to avoid unnecessary duplication of effort since the objectives of UAFA are also directed at reaching the rural farmers."

On the 6th May 1987, Dr. F.A. Mwine of UCB responded to Governor Kiggundu as follows:

I wish to agree with your Director of Development Finance that most commercial Banks have shown negative response towards demand for credit by farmers so much so that there can be no talk of duplication in this sector even if all banks came out tomorrow to provide credit for production in the agricultural sector. As you know, all credit currently attributed to agriculture is for processing and marketing what banks don't help to produce in the first instance!

I have noted some similarities between UCB Scheme and UAFA and can only say that this is how it should be if correct studies have been made. Nevertheless, I wish to state that our long experience with the cooperatives has not been very happy. I believe too, that whenever you find a good cooperative society or union, you will have found good individual farmers. We shall certainly lend to groups but our preference will be individual farmers.

We recognise the advantage of peer pressure for repayment of loans but lending to groups is not necessarily a prerequisite for peer pressure to work in a rural setting. We have designed associations which will bring together borrowers under the scheme at various branches for purposes of education.

We have noted the repeated reference to Grameen Bank of Bangladesh but wish to point out that Grameen Bank experience is different and not necessarily relevant in our context. In the Grameen Bank concept, credit is extended for any legal income generating activity, whereas here we are talking of small rural farmers who have land to cultivate. The target group under Grameen Bank is overwhelmingly landless. I should also point out that we have recruited our own extension officers precisely because we know the limitations of Government extension services

Finally I wish to point out that we are talking about active producers and what we are saying is that they should be assisted to do what they do better for everybody's benefit. After all, there is no dispute that this sector forms the backbone of this economy. Our view is that we should stop paying them lip service. There is room for UCB scheme and the UAFA and many more to participate."

Earlier, on 18th March, 1987 Governor Kiggundu wrote to ST Kahoza urging for a government decision on UAFA as follows:

"Further to my letter of 9th March 1987 and yours of 11th March 1987, I have had further discussions with the Director of USAID, Mr. Podol on this matter.

I advised him on the present status of the project. He will be travelling to Washington on Friday and he wanted to have something more definite on this matter as they will be having discussions in the first week of April regarding the future of credit finance in Uganda, among other countries. He thought that a more definite stand would help him raise more funds for rural credit.

Please convey this position to the Minister. It may help if he can proceed to get cabinet approval for this project soon so that word can be communicated to the Director of USAID before the above-mentioned discussions take place."

During the second week of April 1987, USAID received the FPSP Evaluation Report which observed and recommended as follows on Cooperatives in Ugandan Agriculture and USAID support to establish UAFA:

"After the 1979 Liberation War, Uganda's Cooperative Movement stood out as a functioning Institution at a time when most other national-level institutions were defunct ... 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 primary societies and district unions through which inputs can be delivered and output marketed in the major producing areas. Finally, about one-third of the cooperative movement has remained financially viable and credit worthy despite the political and economic upheavals of recent years and can serve as the nucleus of a commercially, oriented agricultural input and marketing system to ensure that farmers receive good service at fair prices everywhere in the country....."

Accomplishments and impact of the Food Production Support Project (FPSP) were weakened by ... the ACIDI work on establishing ... UAFA to provide agricultural credit. Right now is not the best time to launch a new financial institution ... but from a broader perspective it is clear that Uganda needs a more comprehensive financial Infrastructure that is responsive to the capacities and needs of the rural, agricultural population. However, it is possible that too much effort was devoted to establishing UAFA at the expense of other objectives, especially assisting the Development of planning in the Ministry of Cooperatives and Marketing

... the credit programme should not be allowed to dominate the (FPSP) project and careful consideration should be given to whether there is a real need for US technical assistance

The planning Advisor, who is currently working at UAFA, should return to the MCM planning Department on a full time basis to assist in the transition to a follow-on activity, particularly by further analysing the 1985 cooperative survey and by helping to organize the planning Department.

Consideration should be given to whether the credit advisor who is currently working at UAFA, should return to the MCM planning Department to assist in assessing the viability and effectiveness of existing cooperative union credit schemes and to undertake other actions that might be useful toward planning the follow-on project.

Final decisions on support for UAFA should be deferred pending (a) approval by the APC, (b) provision of funding in the GOU budget, (c) agreement of commercial banks to invest in UAFA, and (d) macro-economic stabilisation and a return to reasonable inflation and exchange rates."

On 21st April, 1987, USAID Agricultural Development Officer (ADO) Ken Lyvers wrote to Permanent Secretary S.B. Rutege as follows:

"... concerning the consultants, ... part of the team effort should be directed to the planning unit of the Ministry of Cooperatives and Marketing. This would be in line with the recommendations of the evaluation team. I have asked the credit Advisor (Lew Clark) and the Planning Advisor (Tom Carr) to prepare a work plan this week, which will allow completion of some of the high priority activities of the establishment Committee, but will have the planning advisor spend a high proportion of his time with the Ministry of Cooperatives and Marketing Planning

Unit by the end of June USAID wants to ensure that the UAFA establishment Committee continues to function until a final decision is taken by the Cabinet on the status of UAFA. We are hopeful that this decision will be taken by Mid Summer."

JUSTIFICATION FOR UAFA

This far the project path of UAFA has been long, painful and fraught with reversals and inaction short of a YES or NO decision tantamount to a waste of resources.

The UAFA concept has generated divergent feelings and issues. It is being asked whether UAFA is necessary. Whether it is not better and cheaper to absorb the special services of UAFA within the product and service range of existing banks. It is further asked whether the authority proposing UAFA has established any sizeable credit gaps which justify the services of the proposed Agency. If gaps exist, why have existing banks failed to fill them up? If they have failed because of financial limitations - how will UAFA overcome these limitations, at what cost and with what effect to the banking industry in Uganda? If existing banks have failed because of managerial short-falls - how can it be proved beyond reasonable doubt that UAFA will have better personnel and management? Those against the launching of UAFA argue that the decision

will dissipate resources which should be consolidated. It is further argued that instead of re-appraising existing institutions' failures and shortcomings and restructure their operations and systems to adequately reflect the deposit and credit requirements in all sectors of the economy, there is a tendency or syndrome to introduce new institutions which no sooner than they are introduced prove the exact replica of those they replace.

As planners, we cannot dismiss this view. We recognize some of the views are raised against a background of weaknesses and threats while others are based on purely technical and logistical grounds. What is most important is to look for evidence in support of these contrasting - arguments. The question is where and how does one go about looking for evidence on each of these issues? On the credit side one needs to examine registers of each bank to establish the profile of borrowers to whom banks extend their facilities. The results of these exercises would then indicate whether existing banks in Uganda are meeting the deposit and credit needs of the target segment UAFA is being started to serve.

We need to make some important but sensitive observations. The first is that in spite of the Charter or Act by which a bank is established, once that bank tests the convenience and profitability of a well to do recipient segment, it is difficult to bend its operations towards the small depositor and small borrower viz the disadvantaged and difficult segment of our society. This is the situation in which existing banks in Uganda find themselves. The Ordinate and act establishing the Uganda Credit and Savings Bank (UCSB), later to become the Uganda Commercial Bank (UCB), expected the institution to attend to the savings and credit needs of the

"little" natives. Since 1954 operations and the portfolio of UCSB and UCB in the "little" native's segment have continued to decline and to-date, let us face it - UCB has no portfolio for the disadvantaged segment of our society. We recognize the existence of various lines of credit especially the small scale industry and Agro-credit schemes, but these do not go to the small borrower UAFA has in mind. Beneficiaries are medium and commercial farmers and industrialists. The loan registers in UCB testify to this. Those who have been closely associated with these schemes claim that beneficiaries have their heads over the crowd. They are tall people financially.

It is possibly difficult for UCB to provide evidence that it caters to the savings and credit needs of "small" people and certainly it is not Uganda Commercial Bank's intention to concentrate on providing financial services to this sector. Indeed UCB at one time was anxious to be relieved of "small" accounts. Now what has caused this? It is basically the nature of UCB's resources and exposure to the rich and convenient segments of our banking public, especially after the positioning of 1973. The bank has made commendable headway in commercial and big business dealings, but asking it to develop skills and attitudes needed to serve small savers and borrowers is unlikely to produce the desired result. Currently Uganda Commercial Bank has no "technology" and conduit to deal with the disadvantaged segment of the unbanked public and it is improbable that it will be possible to persuade the bank to revise its corporate policy to deal with the masses of small savers and borrowers. UCB is aiming higher and it would be bad business to become involved with making large numbers of production loans to the masses of smallholder farmers.

Turning to the Co-operative Bank the story is similar. The provisions of the Co-operative Act under which the Co-operative Bank was established aim at, among other objectives, extending financial benefits to the smallest actor within the Co-operative Movement. This objective was partially fulfilled (perhaps five percent) through the sixties and early seventies with the Co-operative Credit Scheme in which the CBU fulfilled a minor supportive role until the bank went commercial in 1976. From then on, the banks' attention was progressively diverted to the easier and more "profitable" segment of the big depositor, big borrower to the total disregard of the smallholder farmers' credit requirements and the near-total disregard of the agri-business finance requirements of the cooperative movement. In the process, the bank lost the trust and confidence of its owner-member cooperatives and the masses of smallholder members of primary cooperative societies.

The Uganda Development Bank has no provisions to cater to the credit needs of small borrowers. The Decree is silent with respect to servicing the production credit requirements of smallholder farmers but articulates on "good business" practice especially when one looks at sections 3a - b of the UDB decree and 20 - 21 of the by-laws. The decree and bye-laws require UDB to invest cautiously in all leading sectors of the economy following proved practices of lending. Since its inception UDB's lending practice confirms that operations have been confined to medium and commercial borrowers. As stated earlier UDB, guided by statutory backing has been exposed to the convenience of dealing with large borrowers. Like UCB and the Co-operative Bank, asking UDB to bend its operations to the special requirements of the masses of smallholder farmers would sound like

asking them to engage a reverse gear. UDB has a further limitation in that it has no deposit relationship with borrowers or non-borrowing depositors. The administration of small loans calls for this relationship. Although the development bank concept is pre-dominant in the less developed regions of the world, these banks were established to be recipients of foreign loans and grants for on lending in development (medium and long term) sectors less attractive to commercial and merchant banks. The situation of UDB parallels this tradition but it is an approach attended with problems of local resource mobilization leading to a narrow or restricted capital base. The masses of smallholder farmers in Uganda will be difficult to reach with the narrow capital base of UDB. A further important limitation of the Uganda Development Bank is its lack of proximity to the recipient masses. Uganda Development Bank has no net-work for servicing the credit needs of small borrowers and developing this network is about the same as starting a new bank.

Finally, when we turn to foreign based banks, we note that those banks have a commercial orientation and it is not logical to expect that they will have the motivation and financial incentive to provide production credit to the masses of small farmers who account for the bulk of Uganda's Agricultural production.

It is clear that none of the existing banks is catering to the production credit needs of the masses of smallholder farmers who account for the bulk of Uganda's farm products. It seems most unlikely that these Banks will, on an individual basis, initiate production credit programmes to satisfy the demand of smallholder farmers. Thus, there is an urgent need for the establishment of UAFA, which is to be launched with a clear philosophy and methodology for dealing specifically with production credit requirements of smallholder farmers who as a group comprise the foundation of the Ugandan economy. Although this sector is difficult to reach, UAFA when linked with strengthened input and marketing services of the cooperative movement offers reasonable prospects for success.

JUSTIFICATION FOR THE INVOLVEMENT OF THE BANK OF UGANDA

The propriety and legality of the proposed role of the Bank of Uganda in facilitating the establishment of UAFA and in becoming a temporary, but nevertheless, de facto shareholder is consistent with the provisions of the Bank of Uganda ACT under section 21 (2) (d) of 1966. Indeed, the act urges the Bank of Uganda to spearhead development by opening up frontiers capable of rendering support to buoyance[^] the economy. It is not in the long run interest of UAFA or the small farmer members of primary societies for the Bank of Uganda to be permanent shareholder in UAFA. Hence, the goal is to have all UAFA shares subscribed and paid-in by the long-term owners from the beginning and not by the Bank of Uganda. The Bank of Uganda intent and commitment is basically to cause action to happen and make up on a temporary basis only if absolutely necessary, any short fall in the paid-up capital stock which the commercial banks may be unable to pay in immediately. Thus the goal of UAFA would be to retire the Bank of Uganda shares as soon as possible. The Bank of Uganda shares would be purchased by banks or other eligible shareholders or the shares might be retired directly when the UAFA has the capacity to do so.

JUSTIFICATION FOR THE INVOLVEMENT OF COMMERCIAL BANKS

The establishment and expansion of a financially viable institutional production credit system for small holder farmers is one of the essential pre-requisites to increasing agricultural productivity and profitability. This view is logical in spite of the fact that due to the prevailing high rate of inflation, the lending institution will be burdened with negative returns covering interest-loan charges to its borrowers. This is one of the important, if not critical, reasons for the credit institution to have the support and understanding of the Ministry of Finance and the Bank of Uganda as well as the direct involvement of Uganda's Commercial Banks which, through their deposits, comprise the Ugandan financial market. In Uganda, the money market is the commercial banking community and it is the deposits, held by the banks and the assets of these banks which could provide a substantial percentage of the funds needed to capitalise the institutional home for the Cooperative Credit Scheme (CCS) and to provide funds for lending.

JUSTIFICATION FOR UAFA AS A JOINT VENTURE AND SPECIALIZED CREDIT INSTITUTION

The nature of commercial banks resources is short term, so is their lending and investment pattern. Clearers give short term financing by nature of their deposits but they also control a sizeable percentage of financial resources of a long term nature represented by the core. A close analysis of commercial banks portfolios and resources indicates that there tends to be a core ranging between 10 - 40% which is in effect idle for varied periods and which could be redirected into long term investment in agriculture and possibly industry. A properly structured financial institution which commands the confidence of commercial banks' if it specialized in small farmer credit, could use these core funds in a joint venture for the development of Uganda. Presently neither the Cooperative Bank nor the Uganda Development Bank could attract Commercial Banks long term funds represented by the "Idle Core."

Agriculture requires specialized lending techniques and support systems. In Europe sectors requiring long term lending are attended to by specialized subsidiaries or corporations of clearers (Commercial Banks) often in a consortium manner and often with support of central monetary authorities. The trend in U.K. is for clearing banks to invest their long term resources (the core) in specialized subsidiaries which develop the necessary capability to attend to such investment ventures. In Uganda we have the example of Grindlays Bank with its specialized merchant subsidiary - Grindlays International.

There should be nothing to preclude the Involvement of the Bank of Uganda in continuing to fulfil its facilitating role vis a vis the UAFA establishment effort. For instance, the Reserve Bank of India initiated similar institutions which started as departments of the Reserve Bank and as time went on they became separate self-sustaining entities. The cases in point are the Agricultural Refinance Corporation of India and the Industrial Development Corporation of India now the biggest and most viable corporations.

Again in U.K. we have the example of the Agricultural Mortgage Corporation (AMC) whose initial capital was subscribed by the Bank of England and the Clearers (Commercial Banks) but as time went on most of its funds were derived from public issues. The AMC provides long term financial facilities to farmers for periods up to 60 years. There is also the Industrial and Commercial Finance Corporation (ICFC) formed by large clearing banks together with the Bank of England specifically for small and medium size companies for periods not exceeding 25 years. The ICFC also administers the Technical Development Capital Limited (TDC). The TDC funds originally were provided by insurance companies, merchant banks and commercial banks to finance and develop worthwhile specialized agencies along the lines of the Uganda Development Corporation (UDC) of the 60s. As a support and back-up institution, there is the Agricultural Credit Corporation (ACC) which provides guarantees for overdrafts to farmers who cannot provide adequate security. These examples confirm the correctness of the Bank of Uganda initiative in establishing UAFA.

COMPATIBILITY OF UAFA AND THE COOPERATIVE BANK.

Those who argue that existing banks can do the job UAFA is being proposed to do ignore several facts. First, the agricultural sector and industry is grossly underbanked. Whereas UCB and CBU have extensive branch networks, their services are not targeted to the agricultural production credit segment. Further, UCB is currently over-burdened. Being the only bank with a rural branch network it is the only promoter of commerce and trade within and outside major towns. We should not underestimate the importance of commerce and trade to the economy. Adding the burden of production credit to small farmers, which is a specialized and intricate function, could lead UCB to overexposure which could make it less efficient. There is also the need to minimize the monopoly position of UCB and nurture competition and make banking services more efficient and customer oriented.

There is an erroneous presumption that the establishment and expansion of UAFA would have a negative impact on the future of CBU. To the contrary, these institutions would complement each other as each will be operating in separate but interlinked segments of the rural market. As a specialized bank for Cooperatives, the CBU has a large and challenging role to finance the agri-business requirements of the Cooperative Unions. By agri-business finance I mean working capital for unions and societies including crop finance and capitals funds for facilities (i.e. buildings, factories, storage, materials handling and processing equipment), transport vehicles and tractor hire services. For example, in 1985 the CBU provided 16% of the crop finance disbursed by commercial banks (approx. Shs. 42 billion of which CBU provided Shs. 6.8 billion). This is a very small fraction of what Unions require and it explains partly why most unions are tempted to drift out of the CBU. Since demands for crop finance may be expected to increase during the years ahead, crop finance lending by itself is likely to require more funds for that purpose than CBU will be able to command.

On the other hand, the UAFA business segment will be production credit to farmer members of primary cooperative societies for financially viable production increasing enterprises. This will result in a greater demand for farm production inputs and related services including marketing and processing to be provided by Cooperative Unions and societies. In order to finance these input and marketing services, the unions and societies will need to place heavy demands on the CBU for agri-business finance.

VIABILITY OF UAFA

Unless UAFA is financially viable, it will not have the capacity to sustain the growing and eventually very large production credit program for smallholder farmers which is deemed to be necessary to enhance the production of farm commodities for domestic consumption and for export upon which the future of the economy and the level of living of the Ugandan population are dependent. As a financial institution, UAFA must be lean and efficient if the interest of shareholders depositor and borrowers are to be protected.

It is evident that potential profits from smallholder credit programmes do not compare favourably with other investment alternatives which may be available to banks, cooperatives and marketing boards. Nevertheless, in a wider economic context, the establishment of a nationwide institutional production credit programme for smallholder farmers through UAFA is probably one of the best investments for Uganda and its citizens. Although the direct financial return from the operation of the credit programme are likely to be nominal, if all goes well, the indirect return/benefits should be substantial for UAFA's shareholders. The shareholder cooperative societies, unions and marketing boards should benefit from the increased volume of farm products to be aggregated, processed and marketed. The cooperative unions societies should benefit themselves and their members through the expanded volume and variety of farm production inputs and services they will have an opportunity to provide in conjunction with the credit programme. Because the commercial banking community finances trade and commerce, it should have many opportunities to profit from providing credits for expanding exports, imports and crop finance as well as from foreign exchange business. Given the foregoing background, it makes sense for the commercial banking community, the cooperative movement and the marketing boards to unite in a cooperative and coordinated effort to provide a reliable production credit system for smallholder farmers based on the proven techniques of the historical Cooperative Credit Scheme. Likewise, it would make sense for the Government of Uganda to play a constructive role in bringing UAFA to fruition at the earliest possible date based on previous commitments, through expediting the action and facilitating roles of the concerned ministries (Finance, Cooperatives and Marketing, Agriculture and Animal Industry and Fisheries) and the Bank of Uganda.

The timeliness of the UAFA establishment effort will depend on the capacity and willingness of the shareholder to pay their respective contributions. A high priority must be given to eliciting the financial commitment of shareholders to induce the speedy and steady flow of capital resources to get the agency off the ground.

The financial success of UAFA will also require a steady inflow of deposits and borrowings if it is to support a growing and eventually very large loan portfolio. The agency should strive to achieve a capital mix with sufficient lower cost sources of funds/credit in order to minimize its average cost of capital and to provide a secure interest spread. To this end, financial institutions in Uganda should be induced to lend to UAFA at or close to the "prime" rates of interest. Government should participate actively to promote access to bilateral and multilateral sources of grants and credits to spur the UAFA credit programme effort.

The primary source of income will be the interest charged and collected on loans and advances. To help to ensure the viability of UAFA, the lending decision must be based on project viability coupled with prompt and timely loan repayment as overdues tie-up funds and erode the capacity for capital employed to turn over with the desired frequency and return. For this to happen, the Agency must employ personnel who possess the capability to appraise projects, monitor the use of credit and secure loan repayment. It is here where societies have to be appraised carefully to prevent improper pressure from being used to influence loan decisions. It is here also where efforts must be made to nurture institutional linkages especially between credit, production inputs and marketing. It is expected that the Credit Guarantee and Refinance Fund in Bank of Uganda will undergird UAFA which plans to utilize those facilities.

Training of personnel both within and without UAFA has to be taken seriously if the Agency is to reach its objectives. Since training is expensive for an infant institution, technical assistance should be negotiated to assist in the training of UAFA staff and build-up the required capabilities. Similarly, Government ought to play its role in providing and strengthening support services such as research, extension and marketing.

Evaluative research relating to the smallholder production credit programme will be needed on a continuing basis in order to guide UAFA's course and to facilitate adjustments. Like personnel training, evaluative research is expensive. Technical assistance should be identified to cover the cost and technical requirements of this function.

Technical assistance of varying types is needed to ensure that UAFA is properly launched. The most critical input requirement is management personnel. It is important during the initial years of UAFA's life that some line personnel be secured under technical assistance. This would enable the Agency to make savings on its wage bill, get off to faster start and serve the psychological function of stressing the seriousness of the UAFA establishment effort. The replacement of technical assistance personnel should be staggered or phased over a period of time drawing Ugandan personnel from staff who have demonstrated their competence and integrity. Failure to secure technical assistance may weaken UAFA's projected viability.

CHRONOLOGY OF UAFA DECISION SCENARIOS

- 1979 - 1983 - USAID mission returns to Uganda with aid to support increased agricultural production and productivity and became involved with CIP/FPSP and RPE projects.
- 1983 - USAID searches for suitable credit delivery system to absorb RPE grant funds and CIP/FPSP generated funds.
- 1983 April - USAID study on Cooperative Bank (CBU) Deloitte Haskins and Sells.
- 1983 June - USAID study on CBU by M.J. Carter.
- 1983 August - USAID study on CBU by Technoserve Inc.
- 1983 August - USAID concludes CBU cannot be used as the intermediary for RPE funds and that a Financial Institution other than CBU was needed.
- 1983 August 18 - MCM savings and Credit Section submits a proposal to Cooperatives commissioner to institute The COOPERATIVE FARM CREDIT SERVICES (CFCS) System.
- 1983 November 24 - Inter Ministerial/Inter-Agency Committee set-up under Chairmanship of Governor Bank of Uganda. Committee concluded that CCS (cooperative Credit Scheme) approach had continued merit but had to be institutionalised to gain access to resources of commercial banks.
- 1984 January - Rubaga Conference of Credit officers from MCM and MAF re-affirmed the need to establish an Institutional home for CCS and proposed UCFCS (Uganda Cooperative Farm Credit Services) as an autonomous apex credit system outside MCM and the Cooperative bank.
- 1984 November 26 - Governor BOU seeks approval from H.E. The President/Minister of Finance to constitute High Level Credit Committee.
- 1984 December 11 - PS/MCM confirms Governor's action to set up High Level Credit Committee as a necessary forum to facilitate a final decision on the structure the financial institution should assume and which could most likely attract, sustain and expand production credit to small farmers.

- 1984 December 20 - MCM Minister queries the logic of setting up High Level Credit Committee under chairmanship of Governor instead of putting USAID grant funds into CBU which is the Institution set up to handle farm credit to small farmers within the cooperative movement.
- 1985 March 22 - Inter-Agency Credit Committee approves the UAFA concept.
- 1985 December 19 - BOU Board of Directors discusses and approves UAFA proposal.
- 1986 January 8 - BOU Governor submits draft Cabinet Memorandum to the Secretary to the treasury for a GOU decision on UAFA.
- 1986 April 21 - ST/MF queries logic of setting up a new institution instead of rehabilitating the CBU and BOU involvement in a commercial entity.
- 1986 May 6 - BOU Governor explains to ST and justifies the proposal and BOU roles.
- 1986 July 8 - AFC presents its recommendations to set up UAFA to the Planning and Investment Sub-committee of the Cabinet. Committee directed ST to fair Cabinet Memorandum for Minister to present to Cabinet for a GOU decision.
- 1986 July 9 - ST/MF reiterated to BOU Governor that his view had not changed and he could not therefore fair the Cabinet Memorandum for the Minister.
- 1986 August 1 - BOU Governor clarifies the issues as a sequel to the ST's queries and urges him to fair the Memorandum.
- 1986 August 7 - ST re-affirms his reservations and objection on BOU involvement in UAFA. He stressed the need for consolidation and strengthening of the CBU.
- 1986 August 8 - Minister of Finance convenes a meeting to be briefed on UAFA. He directed ST to fair the Memorandum for a Cabinet decision.
- 1986 August 9 - MCM Minister announces to UCCU at AGM the formation of UAFA as a GOU decision.
- 1986 August 23 - 1986/87 Budget Speech where GOU decision to establish UAFA was announced. Speech elevated UAFA proposal to GOU level beyond a single Ministry to reverse.
- 1986 September 1 - BOU Governor reminds ST to expedite a Cabinet decision addressing the fact that establishment of UAFA had already been endorsed by all parties concerned including MCM.

57

- 1986 September 23- PS/MCM asks BOU Governor to up-date him on the latest position indicating that his Minister's view was that UAFA funds should be absorbed by the CBU and that if CBU was rehabilitated and UAFA established it would be possible for the two to merge.
- 1986 October 28 - Governor submits a status report to PS/MCM and indicates that it is the prerogative of CBU & UAFA owners to decide the merger.
- 1986 December 9 - AFC/World Bank Mission discusses UAFA proposal and recommends that in view of existing macro-economic constraints, there is a need for a very cautious approach to the question of setting up a new financial institution for serving farmers. Proposed further that the first attempt should be to use CBU for the purpose in view until inflation and exchange rates were addressed by the GOU.
- 1986 December 27 - MCM Minister seeks USAID approval for funds ear-marked for UAFA to be absorbed by the CBU. He emphasized that CBU was the Ideal home to serve farmer members of the Cooperative Movement.
- 1987 January 11 - USAID Mission Director documents UAFA origins in his reply to MCM minister. He stressed bilateral GOU/USA government commitments to set-up UAFA in the amendment to the FPSP agreement. He emphasized further that USAID had already expended considerable funds on setting up UAFA.
- 1987 January 13 - BOU Director of Development Finance convenes a Commissioners' meeting (MCM, MAF, MAIF) to arrange and enlist dialogue with the proposed shareholders of UAFA and to urge the Ministry of Finance to expedite a Cabinet decision on UAFA.
- 1987 January 27 - MCM Minister re-affirms his Ministry's stand for CBU to administer USAID/FPSP funds earmarked for UAFA in his reply to the USAID mission Director's letter of 11/1/87.
- 1987 February 24 - PS/MCM convenes a meeting at Farmers House to determine the future of UAFA (attended by BOU, CBU, MCM, MAF, and MF).
- 1987 February 25 - PS/MCM communicates decisions of the F/house meeting to ST and advises him to seek his Minister's decision on UAFA as all concerned parties had agreed to have UAFA established.
- 1987 March 9 - BOU Governor requests ST to expedite a Cabinet decision on UAFA.

58

- 1987 March 11 - ST advises Governor that his Minister still asked questions about the F/House decisions and that the only thing to do was to wait for instructions from the Minister.
- 1987 March 17 - UCB introduces a new dimension and asks BOU governor to comment on the UCB small Rural Farmers Pilot Scheme.
- 1987 March 18 - Governor writes a reminder to ST urging him to expedite a GOU decision on UAFA.
- 1987 March 20 - Governor comments on UCB pilot scheme and stresses GOU decision to establish UAFA had already reached an advanced stage and that undue duplication should be avoided.
- 1987 April 10-11 - APC/World Bank Mission meet at Jinja and recommend a three pronged approach to the small farmer credit problem embracing the launching of UCB pilot scheme UDB agro-industrialist based small farmer scheme and the establishment of UAFA.
- 1987 April 16 - FPSP Evaluation report advises USAID to go slow on UAFA. Proposed reduced emphasis on credit/UAFA and a transfer of TA personnel to MCM Planning Unit. Report noted that right now is not the best time to launch a new institution although from a broader perspective it is clear that Uganda needs a more comprehensive financial Infrastructure responsive to the capacities and needs of the rural agricultural population. Recommended further that final decisions on support of UAFA should be deferred pending: (a) approval by the APC (b) Provision of funding in the GOU budget (c) agreement of commercial banks to invest in UAFA, and (d) macro-economic stabilization and a return to reasonable inflation and exchange rates.
- 1987 April 21 - USAID/ADO implements FPSP Evaluation recommendations and advises on transfer of ACIDI Credit and Planning advisors from UAFA to MCM Planning Unit as of July 1, 1987.
- 1987 June 30 - UAFA establishment Committee completes its work and disbands till a Cabinet YES or NO decision on UAFA IS reached. MCM and MAF staff returned on a full time basis to their respective Ministries.

54'