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REPORT ON AND RECOMMENDATIONS FOR THE REHABILITATION OF THE DISTRICT COOPERATIVE UNIONS

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for

World Bank
Agency For International Development

as a contribution under

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Appendices.

List of Acronyms

MCM	-	Ministry of Cooperatives and Marketing
NRA	-	National Resistance Army
DCU	-	District Cooperative Union
UCA	-	Uganda Cooperative Union
WG(s)	-	Working Group (s)
BOU	-	Bank of Uganda
AS	-	Agricultural Secretariat
BGCU	-	Busoga Growers Cooperative Union
BKCU	-	Banyankole Kweterana Cooperative Union
BCU	-	Bugisu Cooperative Union
MGCU	-	Masaka Growers Cooperative Union
MOF	-	Ministry of Finance
USAID	-	United States Agency for International Development

ACTION PLAN FOR IMPLEMENTATION OF THE AGRICULTURAL SECTOR POLICY AGENDA WORKING GROUPS, LOCAL AND INTERNATIONAL CONSULTANTS

WORKING GROUP (Coordinating Ministry)	INSTITUTION/NAME	INTERNATIONAL CONSULTANT SUPPORT
1. Rationalization of coffee processing capacity (MCM)	a) UCA - Mr. C. Kabuga - Chairman b) MOA - Mr. T. Buchyanayandi c) CMB - Mr. P. Kavuma d) UNCA - Mr. J. K. Wasswa e) Agric. Sec. Mr. J.L. Katunze f) MCM - Mr. C. Owach	Peat Marwick and Associates and USAID
2. Restructing of CMB (MCM)	a) BOU - Dr. E. Suruma - Chairman b) CMB - Mr. A.K.K. Mubanda c) MCM - E. Busingye d) MOF - M.N. Kamugisha e) UCA - Mr. L.K. Msemakweli f) UNCA - Mr. D. Musoke g) Independent Consultant : Mr. Leo Kibirango h) MPED - Mr. G. W. Lutaya-Kamya i) MOJ - Mr. F. Ruhindi j) Agric. Sec. - Mr. K.M. Agarwal	Peat Marwick & Associates and USAID
3. Financial Rehabilitation of District Cooperatives (MCM)	a) MCM - Mr. P. Batarinyebwa Chairman b) MOF - Mr. G.S. Odong c) UCA - Prof. J. Batarinyebwa d) Union's Rep. - Mr. G. Mwandah (Busoga Union) e) BOU - Mr. Walugembe - Musoke f) UCB - Mr. S. Owori g) Agric. Sec. - Mr. J. Kyamanywa h) MCM - Mr. S. M. Mukama	Peat Marwick and Associates and USAID
4. Agro- Economic Study of Cotton Production (MOA)	a) MOA - Mrs. S. Kiyingi Chairman b) MOA - To be nominated by PS c) MOA - Mr. Y. Mwaule d) LMB - Mr. M.L. Busulwa e) MCM - Mr. F. Ntuhe f) Agric. Sec. - Dr. N.S. Shetty	Overseas Development Administration

5. Rationalization of cotton processing capacity MCM	a) LMB - Mr. J. W. Obbo - Chairman b) MOA - Mrs. S. Kiyingi c) LMB - Mr. D.L. Boroa d) LMB - Mr. W. Baziwe e) Unions Rep. - Mr. J. Rwampwanyi (Bunyoro Union) f) NYTIL - Mr. Onegi - Obel g) UCB - Mr. P. Masembe-Nteyafa h) Coop. Bank - Mr. H. S. Mugerwa i) Agric. Sec. - Dr. V.J. Akenda-Odonga	Peat Marwick and Associates USAID
6. Restructing of LMB (MCM)	a) MCM - Mr. M. Olobo - Chairman b) MCM - Mr. E. Sekabembe c) MOF - Mr. O. O. Aswa d) MOA - Mr. S. Okwakol e) Unions' Rep. - Mr. Sam Opoya (South Bukedi) f) Independent Consultant Mr. J. M. Byagagaire g) Agric. Sec. Dr. W. O. Odwongo h) MCM - Mr.s Alele Opito i) LMB - Mr. G. Kakuba	Peat Marwick and Associates and USAID
7. Restructing of UTGC (MOA)	a) MOA - Mr. J. B. Mubiru/Chairman b) UTGC - To be nominated by P.S. - MOA c) MOF - to be nominated by ST d) MCM - Mr. J. Kabuubi e) UTA - Mrs. M. Mugabi f) Tea Growers Representatives - Mr. George Magezi g) UCB - Mr. S. Kanakulya h) Agric. Sec. - Dr. E. Muwanga-Zaake i) IMPED - To be nominated by PS	EEC
8. Restrucuing of PMB (MCM)	a) MOF - Mr. Justin Zake - Chairman b) MCM - Mr. D. Omolo (ACD) c) MOA - To be nominated by PS d) MOC - Mr. Bwanika Ddungu e) PMB - Mrs. E. Kapampara f) Uganda National Chamber of Commerce and Industry - Hon. Manji Tumubweine g) MPED - Mr. J. Nsimbi h) Agric. Sec. Mr. J. S. Johnson	Peat Marwick and Associates and USAID

9. Group Consultant	Consultant - Prof. Mugerwa J.	ISNAR
a. Reasearch (MOA)	a) MOA - Prof. J. Mukiibi - Chairman b) MAIF - Dr. Y.K. Sentogo - (Veterinary) - Dr. F. L. Orach - Meza (Fisheries) c) MOA - Dr. I. S. Kibirige d) Makerere University - - Dean, Faculty of Veterinary Medicine Dr. J. Nakasula Situma e) Agric. Sec. - Dr. C. Tizikara f) MEP - Mr. Karani	ISNAR
b. Extension	a) MOA - Mr. F.A. Ojacor - Chairman Mr. J.O.Y. Omoding b) MAIF - Dr. E. R. Rwamuhanda (Veterinary) Mr. Deo Mukiibi (Fisheries) c) MEP - Mr. M. Oloya d) MCM - Mr. F. Songol (ACD) e) Agric. Sec.- Mr. C. Tukacungurwa	UNDP/FAO

Coordinators: Ministry of Cooperatives and Marketing: Mr. M. A. Kaliisa.

Ministry of Agriculture: To be nominated by the Permanent Secretary.

Annex 2, WG3

WORKING GROUP 3

FINANCIAL REHABILITATION OF DISTRICT COOPERATIVE UNIONS

Draft Terms of Reference

Background

1. The APC has approved the board recommendation of Agricultural Task Forces (ATF) for regularizing the financial standing and improving the financial management of unions. This is required in order to:

   a) enable the restoration of credit worthiness of financially weak unions so that they may meet their borrowing requirements from commercial banks rather than rely on Government support;

   b) improve their financial viability and operational performance in order to attain cost effectiveness in crop processing and marketing.

2. Financial rehabilitation of unions will proceed parallel with rationalization of processing capacity. Working Group 1 and 5 are expected to address the latter aspect. The implementation of a program of financial rehabilitation of district unions will have to be supported by enhanced management skills at the union level. Such a program is being launched by the Uganda Cooperative Alliance (UCA).

Objectives

3. To operational the ATF recommendations, it is necessary to formulate a detailed action program. Such a program formulation should focus on unions primarily involved in coffee and cotton processing. The main objectives are:

   a) to identify and make specific recommendations for measures for financial rehabilitation;

   b) to establish standards and a system for operational efficiency and financial management and control;

   c) to set targets and detail an action program to implement the above objectives; such a program should in design and implementation be integrated with UCA's Union management improvement program; it should also be synchronished with the capacity rationalization programs in the coffee and cotton sub - sectors.

Tasks

4. The working Group would base its work on the findings and recommendations of ATF reports of working groups 2 and 9 (March 1987), the UCA Cooperative Development Programs (March 1988 and November 1988), FAO/World Bank report on coffee subsector (July 1988), ACDI report on National Cooperative Survey Project (August 1985) and other relevant reports. The Ministry of Cooperatives and Marketing (MCM) will supply updated financial statements (latest balance sheet, draft annual accounts and monthly accounts) of the concerned unions.

5. The specific tasks are:

   a) Assess the present financial structure of unions with special reference to:

      i) shareholders funds (equity, share capital reserves, accumulated profits/losses) and other long and short term sources of funds.;

      ii) deployment of these funds in various activities of the unions both in fixed assets and current assets;

      iii) net working capital and liquidity; and

      iv) net worth of unions.

   b) Examine the operations of the processors (Unions and private), assess management capabilities and performance of the unions, establish production efficiency and financial management standards, and propose a time schedule for the progressive achievement of these standards. Such standards should cover capacity utilization, labor productivity, stock turnover, production out turn, crop finance management, and accounting and budgetary control systems.

   c) Based on the assessment of (a) and (b) above, work out the financial rehabilitation program to serve as models, and prepare guidelines for implementation of models in individual cases, taking into consideration:

      i) accumulated debts and losses and their contributing factors;

      ii) alternative ways to strengthen the equity capital base and liquidity position of unions; and

      iii) merger of economically enviable units with a viable unit.

d) In the context of (c), ii) above, pay particular attention to taxation measures related to asset revaluation/capital gains as well as to the overall incidence of taxation in the cooperative sector.

e) Assess the needs at the union level for training and other forms of assistance towards management improvement in the areas of financial management and develop a program to meet such needs based on progress made and projected activities under ongoing programs.

f) Prepare and submit a report covering the above tasks to MCM.

Organization

6. The study will be undertaken by a Working Group, to be appointed by the APC, consisting of representatives from MCM, MOF, UCA, Unions, the Cooperative Bank and other relevant agencies. The working Group will be supported by a cooperative finance specialist, a cooperative management specialist, a processing technologist, and as appropriate other technical specialists from MCM's Planning Unit. The work will involve selected field visits. The working group is expected to complete its work in five months. It should organize its work to finalize Task 5 c above for coffee unions first.

SECOND COOPERATIVE REHABILITATION PROJECT

I. EXECUTIVE SUMMARY

A. Forward

This final report for the IDA Mission and the United States Agency for International Development (USAID) is only one segment of the Second Agricultural Rehabilitation Project (ARPII) action program for the agriculture sector and deals with the Financial Restructuring of the District Cooperative Unions. The purpose is to discuss their strengths and weakness, its present condition and its prospects for the future. For the reader to understand the objectives sought by this study and the resultant recommendations, the cooperative philosophy of the author should be made clear:

Cooperatives are business enterprises. The princ... al difference between a cooperative and non-cooperative business enterprise lies not in the nature of property ownership, but rather in the manner in which the surplus from the business operations is distributed. In a cooperative enterprise, this surplus is returned to the owners of the cooperative (who are also the members) on the basis of their patronage or use of the cooperative, in addition to a certain return on their investment in it. In a non - cooperative business enterprise, surplus distribution is made to the owners solely on the basis of their investment in the enterprise.

To grow and succeed, cooperatives must be managed and operated as efficient business enterprises. The first ...d foremost role of cooperatives is to perform an econ... ic function. Sociological purposes are far less important, and in no case should cooperatives be thought of or used as a tool for political purposes.

Neither can cooperatives be studied or analyzed in isolation from the socio economic milieu in which they exist. Thus, for the reader to obtain as accurate an understanding as possible of Uganda's Cooperatives, a word or two is in order here to describe briefly the overall socio economic context in which the country's cooperatives are now functioning.

From the early 1970s up to the present time, the nation infrastructure has suffered badly as a result of war, purposeful damage, destruction and neglect.

Communications and transportation, perhaps, have been affected most adversely. Telephone service within and between cities is frequently interrupted for hours or days at a time. Streets and roads in and around the capital city of Kampala are in unbelievably bad condition. Roads in parts of the country are in equally miserable state of repair. As a result, travel time between any two points is considerably increased and the useful life of automobiles, trucks, and buses is considerably reduced. Electric power failures in Kampala, and in many other cities as well, are frequent and lengthy.

It is true that some progress has been made in ameliorating these conditions during the past year or so. Today, the average Ugandan citizen is perhaps a bit better off than he was a year ago, yet much worse off than 10 to 12 years ago. So much remains to be done that it is difficult to estimate the enormous cost of restoring the nation's infrastructure to the condition it was in 20 years ago.

Future growth and progress of Uganda's cooperative sector will inevitably be linked to the progress realized in repairing and restoring the nation's infrastructure -- particularly in the areas of communication, transportation, and electric power.

B. Summary of findings

1. Seventy five percent of the primary cooperative societies are agricultural and most of these are engaged in the marketing of coffee and cotton.

2. The primary societies belong to district cooperative unions, 33 in all. Sixteen are engaged in the marketing of coffee, ten are engaged in the marketing of cotton and the rest are engaged in the marketing and/or processing of tobacco, livestock, vegetables, hides and skins.

3. The annual audit reports of the DCU's are not of a standard that is acceptable or useful in analyzing and evaluating the time financial condition of he unions.

4. The DCU's do not maintain fiscal year ends to coincide with the end of their crop season which prevents comparative analysis of the Unions by supervisory authorities and Union Management.

5. The 26 DCUs that were visited and reviewed were found to have serious financial and managerial problems, in varying degrees.

6. Some of the problems of the DCU's were caused by external factors, but gross mis - management over an extended period of time has been the root cause.

7. During the war of liberation the DCU's lost a substantial amount of their assets, primarily to the National Resistance Army and opposing forces. This had a crippling effect on their operations from which, to this day, they have never recovered.

8. Eleven of the DCU's have revalued their fixed assets and brought themselves in line with current conditions, the rest still carry them at historical cost.

9. The Cooperative's have an usually high income tax rate (60%) which appears to stifle their enterprise.

10. The Cooperative Societies Act 1970 is still in affect and the cooperative sector is still not autonomous.

C. Summary of recommendations

1. It is recommended that any action taken to rehabilitate the unions be headed up by UCA as they have the resources, both financial and staff expertise "to get the job done".

2. It is recommended that UCA enlarge its present staff in UCA audit Services (UCAAS) to provide the comprehensive financial and managerial audits that are desperately needed by the DCU's.

3. All coffee and cotton unions should have their fiscal year end at the end of their crop season.

4. Considerably increase the fees or commission the primary societies and district unions now are receiving for their services of handling, storing, processing and transporting the agricultural commodities.

5. Pay the farmer a more equitable share of the final sale price of his produce, and at the same time, increase the present equity requirements for cooperative member as member equity is negligible.

6. The DCU's should receive full compensation for war losses either by direct payment or forgiveness of income taxes until the full loss is recovered.

7. Revaluation of fixed assets should be mandatory and should not result in adverse tax consequences for the Cooperatives.

8. The present tax laws stifle enterprise and encourage misrepresentation of operating results. The need for government led tax reform/incentives that allow renewal of capital assets and encourage the build up of working funds is recommended.

9. The "proposed Cooperative Societies Act - 1988" has granted more autonomy, however, complete autonomy is not granted under the Act. They should be given full autonomy.

The rational behind these summarized recommendations will be reflected in the section of this report - "Conclusions and Recommendations".

II. REVIEW OF THE DISTRICT COOPERATIVE UNIONS

A. Introduction

There are 33 District Cooperative Unions (DCU's) of which 75% are agricultural. Sixteen of these unions are engaged in coffee processing and 10 are involved in cotton processing. The balance are engaged in marketing and/or processing of tobacco, livestock, vegetables, hides and skins.

Most of the problems of the cooperative Union's are caused by their top management. They are lacking experience in business administration, they are not results oriented and they had no commercial experience. Many of them come from government institutions and have no conception of the complexities of managing a large business enterprise. It is true that many of the problems are caused by external factors, however, good managers can forestall any impairment to the unions operations by using their "know-how"

Most of the coffee and cottons unions are experiencing severe financial and operational problems caused by a prolonged period of extensive and wide ranging mis - management. Management performance in mis - handling crop finance by diversion of funds for capital expenditures, payment of past - due debts and other activities, both legal and illegal, has had a disastrous affect on their financial condition.

Another flaw, and perhaps the most costly to the unions, is the holding of large quantities of stock. The mis - management of inventories of coffee stocks has drained the working capital and drastically increased their interest costs.

The lack of budget and accounting utilization by managers is quite evident. Generally, the unions lack adequate systems of internal controls. Those that have adequate systems do not use them or do not know how to use them as a management tool. In the case of one major union (East Mengo), a review of their accounts as of July 31, 1987 revealed that the entity was bankrupt, yet the annual audit report nor the balance sheet gave any indication of this. From contacts with union managers, accountants and auditors it is clear that there is a need for implementing modern management techniques at all cooperative levels.

Management accountability <u>must</u> be established throughout the cooperative movement.

B. Financial Analysis

This is section analyses the balance sheets by determining net margins before and after taxes, determines working capital and calculates various ratios (See table 1).

The annual audits ranged from June 1987 to September 1989 for the 24 DCU's reviewed. Four had 1987/88 information available which is reasonably up to date. Sixteen had 1987/88 audits and four had 1986/87. Eleven of the 24 unions have revalued their fixed assets, the use historic values. As a result, their is an on- going distortion in the balance sheets and income statements of these DCU's caused by an understatement of annual depreciation expenses and a corresponding over statement of net income/taxable margin. The unions then pay an unrealistic amount of tax each year. Sixteen of unions operated a surplus and nine operated at a deficit. The surplus after tax is approximately 50% less than before taxes. The tax problems become evident when analyzing net margin. Only 1 union made a net margin of more than 10% (percentage of turnover). The rest operated on a net margin from 5% to 0%. These percentage drops much lower after taxes.

By comparing equity (share capital and capital reserves) to current liabilities determines how much of the short term debt is covered by the unions own money. Eight of the unions have net worth greater the amount of current liabilities. In the rest of the unions the current liabilities exceed total equity. Five of these have a negative net worth. The under capitalization in most of the DUC's is critical.

By comparing equity to fixed assets it can be determined what value of the fixed assets are covered by equity. What is not covered belongs to the creditors. Only two of the DCU's had equity that covered 50% or more of the value of fixed assets. Of the twenty two unions that had less than 50% equity, five had a negative net worth.

Liquidity

An assessment of the unions working capital (difference between current assets and current liabilities) shows that twelve have a negative working capital. A current ratio of >.5 to 1 or assets more than half of the liabilities is acceptable. Only one union had assets more than half of liabilities. The acid test ratio reveals a worse situation.

The current ratio varies from union to union as seen in table 1.

The figures of the average DCU listed below shoe how it was financed. The figures are in Uganda shillings and are in millions.

Average Coffee union

	Average for the 16 coffee unions before revaluation	Average for the 8 coffee unions after revaluation
Current assets	186,105 (49%)	44,177 (46%)
Fixed Assets	187,780 (51%)	52,946 (54%)
TOTAL ASSETS	373,885 (100%)	97,123 (100%)
Current Liabil.	188,676 (49%)	266,120 (45%)
Long term loans & conditional tax on revenue	32,986 (22%)	22,419 (7%)
Equity	154,228 (29%)	300,893 (48%)
TOTAL CAPITAL	375,890 (100%)	589,432 (100%)

(Note that the 8 unions that revalued their assets improved their financial standing).

Average Cotton Union

	Average for the 8 cotton unions before revaluation	Average for the 3 cotton unions after revaluation
Current assets	44,177 (33%)	38,106 (25%)
Fixed Assets	90,983 (67%)	112,429 (75%)
TOTAL ASSETS	135,160 (100%)	150,535 (100%)
Current Liabil.	51,165 (38%)	49,098 (20%)
Long term loans & conditional tax on revenue	39,850 (29%)	74,514 (30%)
Equity	44,144 (33%)	123,710 (50%)
TOTAL CAPITAL	135,159 (100%)	247,322 (100%)

Profit and Loss

The net margin -(surplus, before and after tax, weighed against equity) reflects a dismal picture. Of the 16 coffee DCU's 7 have a deficit surplus. The average net margin (surplus before tax) was less than 2%. The average net margin after tax was negative figure. The average net margin for the 8 cotton unions was negative.

War Losses

During the war of liberation (1985/86) the DCU's lost a substantial amount of their assets, primarily to the NRA. Lost were motor vehicles, coffee and cotton, livestock, building and stores and various implements and materials. This had a crippling effect on their operations from which, to this day they have never recovered.

The Ministry of Cooperatives and Marketing, in 1986/87, has assembled a list of the DCU losses which is valued at about US# 25 million. It is understood that claims have been made to government but so far there has been no reparation for their losses.

The Pricing Structure

The Agricultural Secretariat was formed and began operations in June 1983. Its functions are to:

1. Advise the government on the pricing of agricultural commodities and the amounts to be paid to the farmer and others who are engaged in processing and marketing;

2. Oversee and coordinate the several agricultural rehabilitation programs that are now underway in Uganda;

3. Coordinate training and technical assistance for the agricultural sector;

4. Serve as policy consultants to the several government ministries concerned with agriculture; and

5. Make detailed studies of the costs of production, processing and marketing for all major agricultural commodities.

The Agricultural Secretariat, after detailed studies, transmits its findings and recommendations on pricing and policy to the Agricultural Policy Committee (APC). The APC then transmits its recommendations on agricultural matters to the President's Economic Committee (PEC). .e price is announced in May/June to coincide with the a ual budget. Further review and adjustments are made during harvest season - October/November or January/February.

The timing of the price adjustments have precluded the farmer from benefiting from the new prices; The DCU's and CMB accumulate large inventories in hopes of collecting windfall gains which slows down the marketing process from the farmer to the export market. This creates late payments to the farmers and processors, whereby, intere t costs increase and working capital / cash flow problems are further manifested.

<u>Management Problems</u>

As previously stated, most all of the DCU's are caused by their top management. In all of the 26 unions reviewed there has been a prolonged period of poor management, and in many cases extensive mismanagement.

The four District Unions that have been chosen by government for coffee export are Banyankole Kweterana Cooperative Union (BKCU) in Mbarara, Bugisu Growers Cooperative Union (BGCU) Mbale, Busoga Growers Cooperative Union in Jinja and Masaka Growers Cooperative Union (MGCU) in Masaka. Of the four, BCU processes coffee of export quality and does not ship their coffee to the CMB - Kampala but turns it over to the CMB branch office in Mbale. The analyses that follows was made by the three Task Force Groups of Working Group 3 and clearly show the degrees of mismanagement in these DCU's.

BCGU is the worst of the DCU's. It provides just about every facet of financial mismanagement and operational deficiencies.

Busoga Growers Cooperative Union

Background

The activities of Busoga Growers Cooperative Union (BGCU), for the 1989/90 crop season, have come to a standstill due to a critical financial crisis in the Union. The size and importance of the union for the operations of its 350 societies in 3 districts serving 300,000 farmer/members and the role it has played and could play again providing the Uganda Cooperative Alliance (UCA) can develop a plan of resurrection.

Financial Situation

Liquidity

The present crisis which has brought BGCU's operations to a standstill is its inability to honor its obligation to the Bank of Baroda. The Union borrowed U/Shs. 400 million for crop finance for 1988/89 at an interest rate of 50% per annum. BGCU repaid the principle and a good part of the interest, however, a substantial balance is still outstanding in accrued interest which it cannot repay. The balance owed as of January 31, 1990 was U/Shs. 144 million which continue to grow at a rate of U/Shs. 5 to 6 million per month.

The comparative balance sheets show the determining trend of the union.

	1988	1987	1986
Bank and Cash Balances	1,656,900	20,579,476	3,[illegible],[illegible]46
Affiliated societies (Receivables)	78,831,098	10,284,302	9,315,641
Other Debtors	125,068,627	31,446,286	18,478,784
Stocks	398,665,531	84,434,108	19,878,138
Total Current Assets	604,222,156	146,844,172	51,355,409
Fixed Assets	3,708,904,338	26,863,072	11,715,213
Investment	86,102	67,674	67,674
TOTAL ASSETS	4,313,212,596	173,774,918	63,138,296
Current liabilities	655,692,028	155,204,773	55,130,966
Long Term Loans	-	280,238	280,238
Total Liabilities	655,692,028	155,485,011	55,411,204
Share capital	451,271	259,208	257,683
S.R.F.	17,108,930	14,816,355	4,573,605
Revaluation & Reserves	3,635,960,000	-	-
Balance Disposable	4,000,367	3,214,344	2,895,804
TOTAL LIABILITIES	4,313,212,596	173,774,918	63,138,296
Total Turnover	852,113,038	342,184,841	203,756,704
Surplus before Tax	19,175,025	53,836,486	16,027,314
Net Margin S/T	0.02	0.16	0.0[illegible]
Taxation	10,004,724	12,865,486	4,115,159
Surplus after Tax	9,170,301	40,971,000	11,912,155

<u>Solvency Ratios</u>

		1988	1987	1986
1.	Current Ratio	0.92:1	0.95:1	0.93:1
2.	Acid Test Ratio	0.31:1	0.40:1	0.57:1
3.	Receivables Average Collection period	459	1,088	793
4.	Equity Assets ratio	0.85%	0.15%	0.41%

To make an assessment of the liquidity situation in the BGCU, one has to look at the available working capital, or the difference between current assets and current liabilities. If the ratio between current assets and current liabilities (current ratio) is below 1, the union might have problems meeting its debts. A rule of thumb says that this ratio should be 1,5 for the union to be considered having a good liquidity.

The current ratio above indicates that the union has less Shs tied in current assets to off-set one unit of Shs in current liabilities. This indicates that the Union cannot off-set immediate liabilities using only 92 cts available to it in current assets.

The Acid Test Ratio reveals a worse situation. In 1987/88 for instance the Union had only 31 cts available in current assets to retire one shilling in current liabilities without touching stock. It indicates the Union has very limited assets in the form of ready cash to be able to settle immediate obligations which is a serious financial crisis.

To make matters worse, the union has tendency to keep large stocks and mainly in form of clean and Kiboko Coffee.

It would be financially capable of retiring short-term liabilities as they fall due by keeping stocks at minimum level. Large stocks also mean a lot of tied working capital. The Union does not have long term liabilities and yet there is capital spending in progress. It means it has been utilizing crop finance which funds are meant for crop buying.

Receivables - Average collection period range from 1/14 years in 1988 to 3 years in 87. Funds dished out to members, societies and other debtors are not recovered quickly whereas it should at most take one year. Hence the Union can not rely on receivables in order to retire short - term liabilities as the fall due.

Looking at equity ratios, the position has been retrogressing since 1986. The percentage of total assets owned by members has been diminishing in favor of creditors. By owning less that 1% of total assets for members patrons is not safe, as creditors claim financing of the entire business. The situation was saved by revaluing of assets which improved the ratio to a unique figure of 85%. Obviously this is a hypothetical situation considering that it has been a factor of assets appreciating in value. The union is seriously undercapitalized, which in the long-term will compel the union to sell of fixed assets in order to pay off creditors.

A financial audit for 1988/89 has not been performed, however, the following figures were acquired by WG-3's Task force.

Schedule of Coffee Crop Finance 1988/89 Repayments as at 31.12.1989

	Operation Expenses A/C Shs.	Crop Finance A/C Shs.	Total Shs.
Amounts borrowed	59,556,183	355,443,817	415,000,000
Interest charged to 31.12.89	39,771,628	69,135,545	108,907,173
	99,327,811	424,579,362	523,907,173
Less outstanding balances	31,007,558	107,314,938	138,322,496
Repayment effected	68,320,253	317,264,424	385,584,677

N.B Coffee processing cost is attached as Appendix 1 and gives partial explanation for shortfall.

a) Coffee Crop Finance Received 1988/89 and Repaid so far

Total crop finance & working capital received.		249,200,000
Less Invoices of Lint & Cotton seeds Submitted and accepted by LMB		275,377,095
Surplus		26,177,095
Crop finance shortfall 87/88 B/f		18,764,312
Value of inputs received from LMB		6,003,665
Interest accrued up to 31.1.90		34,657,300
		59,425,277
Less surplus above	26,177,095	
Amount still with societies	22,230,684	
B.R. seed cotton	3,289,275	51,697,054
		7,728,223

The real cause of the shortfalls in the 1988/89 crop season is diversion. This is obvious as the union had U/Shs. 55,569,731 in capital expenditures in 1988/89 with a negative WC of 51,461,872. Had BGCU not diverted this amount the societies could have been paid the U/Shs. 30 million owed them and their bank loan reduced.

b) **Reasons given for Shortfalls**

i) High interest rates

ii) Delayed reimbursements by LMB/CMB

iii) No profit margins (price margin) given to societies/unions.

iv) Delayed release of crop advances by the financiers.

v) High operational cost-influenced by rampant inflation in the country etc. (please see operation costs for both coffee and cotton which are attached) in appendix II.

c) The latest balance sheet was at 31/7/88.

d) All the farmers crops for the last season in the unions area of operation were bought and paid for.

e) All four coffee factories and the cotton ginnery at Bulumba are operational. The remaining six ginneries are silent due to slow production of cotton in the region.

Working Capital January 31, 1990

Cash	0
Receivables on societies	19,000,000
Coffee stocks	31,000,000
Total Current Assets	50,000,000
Accrued Interest Bank of Baroda	144,000,000
Expired Loan to UCB for spares	25,000,000
Payables to various creditors	110,000,000
Accrued staff salaries	20,000,000
Payables to Societies	30,000,000
Total Current Liabilities	329,000,000
Working Capital end of January 1990	(279,000,000)

The short term liabilities are U/Shs. 279 million more than the short term assets and this figures is changing daily because of interest.

The union lacks both long and short-term planning. Priorities and objectives seem not to be clear neither to the Board nor to the management. Operational, cash flow or capital budgets are not used and consequently no follow ups have been made of actual figures against plans. The union seems to have been managed on a day to day basis without attempting to first gather the necessary information for decision making. It is obvious that the present serious liquidity situation could have been foreseen at the time when BGCU applied for the Shs. 400 million loan from Bank of Baroda, but proper planning and follow ups were not made which brought the situation to where the union is today. It is true that there might have been a number of other factors which aggravated the problem, like slow turnover of stocks due to transport logistics etc. However, I still maintain that the situation would never have gone as far as it has had the union had proper planning and control.

The Union has not tried to keep up to date accounting records. The accounts have been in arrears during at least the last five years and very little has been done to rectify the situation. On the contrary it seems like it has been a deliberate policy of not keeping up to date accounting records. Many of the necessary financial reports are generated from the general ledger systems and since the general ledger has not been available to management. Other important information within the areas of inventories, production, transport planning, purchasing forecasts, cash flow forecasts etc. have also not been available. The lack of adequate MIS makes it difficult to manager the union efficiently and has without a doubt contributed to the bad management of the union.

In spite of the lack of adequate planning and MIS, the main problems of the union must nevertheless have been known to management. The very fact that certain decisions were not made to rectify the situation implies deficiencies in the management decision making mechanism. It cannot be ruled out that management was lacking basic management skills. The lack of adequate business administration at BGCU is not a recent development, it has been there for many years. It is only this acute liquidity crisis, which brought the union to a standstill. The lack of proper management of the union has for a long time prepared the union for this crisis.

Solution

Busoga Growers had their fixed assets appraised as of December 21, 1987 - the amount was set at U/Shs. 3,703,904. BGCU has solidity with which it can revive its financial viability by disposing of non-earning assets and unprofitable operations, however, some of these are not readily marketable and will take time so as not to give the appearance of a distressed sale. For example, of the 7 cotton ginneries six are not in operation and they will be difficult to sell because of the lack of cotton to gin, however, some of the ginneries have value for purposes other than cotton ginning, i.e., Busembatia Ginnery is valued at U/Shs. 500 million and has storage facilities, offices, residential housing and a railroad siding which could be used for other purposes.

It has been recommended that BGCU obtain a loan from their banks, pledging the 6 ginneries, for U/shs. 300 million to retire their most urgent current liabilities. The loan should be for a period of 18 to 24 months or less in order to find a suitable buyer so a working capital loan from U/Shs. 50 or 75 million is need. While this is an immediate solution for the union its root problems have not been addressed, namely the problem of management and Board.

The proposed "Turn around" model will provide the necessary resources and rational to solve their root problems.

BANYANKOLE KWETERANA COOPERATIVE UNION LTD.

REG. NO. 1490

BALANCE SHEET INFORMATION:

	1988	1987	1986
Bank and Cash Balances	10,290	2,398	1,342
Affiliated societies (Receivables)	937	1,425	1,092
Other Debtors	30,605	16,445	10,136
Stocks	54,342	24,591	15,885
Total Current Assets	96,174	49,859	24,455
Fixed Assets	956,066	73,886	11,285
Investment	321	280	279
TOTAL ASSETS	**1,052,561**	**124,025**	**40,019**
Current liabilities	88,511	64,353	29,172
Long Term Loans	452,811	12,187	11,672
Total Liabilities	541,322	76,540	40,844
Share capital	1,431	128	111
S.R.F.	6,152	1,535	1,535
Revaluation & Reserves	514,427	61,753	3,814
Balance Disposable	(10,771)	(15,931)	(6,285)
TOTAL LIABILITIES	**1,052,561**	**124,025**	**40,019**

Income Statement Information

	1988	1987	1986
Total Turnover	538,857	148,327	59,114
Surplus before Tax	17,662	(1,683)	(6,286)
Taxation	5,448	--	--
Surplus after Tax	12,214	(1,683)	(6,286)

Solvency Ratios

		1988	1987	1986
1.	Current Ratio	1.1:1	0.8:1	1.0:1
2.	Acid Test Quick Ratio	0.5:1	0.3:1	1.0:1
3.	Receivables average coll. period	842 days	982 days	684 days
4.	Equity assets ratio	0.5:1	0.4:1	0.02:1

Interpretation of Ratios

1. <u>Current Ratio</u>: This measures the unions ability to use current assets (CA) to liquidate current liabilities (CL). The ideal is that for each shilling in current liabilities there must be two in current assets to meet it. The unions ratios for the three years are unfavorable measuring that the union has a liquidity problem - it cannot pay current liabilities as they become due using current assets.

2. <u>Acid Test Ratio</u>: This measures ability to liquidate current liabilities using current assets but not touching stocks because they are easy to turn to cash at short notice. The ideal is that for each shilling of current liabilities there must be one in current assets to meet it. Again the unions ratios are unfavorable. for example in 1988 for each shilling of current liabilities there was only 0.5 of it available in current assets to meet it! But this considers receivables which may not be collected in the agreed time.

3. <u>Receivable Average Collection Period</u> This measures the time union takes to receive back crop finance to societies. This includes to be to staff and outsiders. This money is supposed to be collected in at most 12 months (365 days) i.e. used for one crop season. The money recovered is used to settle CMB/Banks from where the union receives crop finance. Looking at the days it takes for the years under consideration, it is obvious the collection period is too long. The societies default and also the union has the same to her financiers. Receivables cannot be banked on to meet current liabilities.

4. <u>Equity Assets Ratio:</u> This measures the extent to which the members finance the assets of the union. From the information in the table most of the members equity is composed of reserves especially revaluation reserve. This makes the ratios look impressive as they favorably compare with the ideal of 0.3 - 0.4 (30% - 40%). The losses in 1987 and 1986 are mostly due to cost of capital employed.

<u>**Conclusion**</u>

The union has management problems. The personnel in the management team cannot coup up with the volume of business. One of the Unions which could benefit from stepping up the quality of management.

BANYANKOLE KWETERANA COOPERATIVE UNION - MBARARA

Officials interviewed:

Mr. S. Dakitari - Accountant

Management Capacity

a) The union operates in the District of Mbarara and Bushenyi.

b) Membership is paid up and fully registered societies.

c) The Unions owns a total of 5 coffee factories, a ranch farm supply shop, petrol station and 22 lorries. All the 5 coffee factories are operational.

d) Crop Finance was fully funded during 1988/89. It was a total of U/shs. 250 million from UCB and Cooperative Bank.

e) All the farmers coffee was not bought.

f) Latest Balance sheet is 88/89

g) Board meeting are regularly held.

Crop Finance

a) A total of Shs. 250 million was received during 1988/89 and coffee total bank drawings were Shs. 614 million. coffee worth Shs. 767 million was bought. This is an indication that there was more coffee than crop finance given to the union.

b) All the finance has however been refunded to CMB and on 30/9/89 the union has a credit balance of Shs. 23,075,759.

c) Stock turnover at the union level was 24

d) At societies level the situation was the same as the coffee production was too much compared to the crop finance given. The 300,000 crop finance was too little. Therefore societies continued to delivering coffee to the union on credit.

e) Liquidity at the banks especially UCB branches was a very big problem for example in Ndaija, Kabarole, Ibanda and Kyambura UCB branches. At Cooperative Bank there was no liquidity problems.

f) 1989/90 coffee season has opened and by the time of survey the union had officially known the new crop finance.

Fixed Assets:

As mentioned above, the union has 5 coffee factories and 22 lorries. 19 lorries are operational and all the factories are operational. Kakoba coffee factory was financed by African Development Bank (ADB) through Cooperative Bank. Originally the cost of the factory was U.Shs. 8 million but owing to devaluations the financiers have increased the cost to U/shs. 350 million. This has raised complaint and the matter has been forwarded to UCA and the treasury. Other assets were through capitalization of member surpluses.

War Losses

These reported to the MCM

Transport Requirements

a) 2 semi trailers are required and the union is able to pay for them.

b) As shown above (2.4) out of 22 lorries in total, 19 are operational and 3 are grounded. At the time of survey, spare requirements and cost for each of the grounded lorry had not been ascertained.

c) The feeder roads are generally good except in Isingiro, Buhweju and Bukanga where roads ar bad. They are not being worked on.

Power Supply

Power supply is in Uganda Electricity Board (UEB). In Ndaija and Burongore 2 generators are in use and 3 are on standby. On electricity, breakdown are temporary and it does not take long to repair. On diesel generators, the problem is the rice which is too high compared to electricity.

Observations

a) The survey term observed that credit buying was due to delayed payments.

b) Where societies had high turnover, these societies used their own funds for example Muhanda Murunga G.C.S. Ltd., Nyamirima G.C.S. Ltd.

c) Where power supply is diesel generators this is uneconomical.

d) It was observed that crop finance system is good and workable if only crop finance can be increased to buy a lorry full and bureaucracies at CMB are modified.

e) Primary cooperative societies still find it a problem to record bank transactions (cheques) in their books of accounts.

f) The survey team observed that the coffee peak season for the union and societies is June to December and January which is when the slack season starts.

BUGISU COOPERATIVE UNION

	1988	1987	1986
Bank and Cash Balances	2,197,668	10,739,083	2,128,635
Affiliated societies (Receivables)	57,646,208	67,451,274	38,334,248
Other Debtors	31,299,891	34,922,044	44,014,243
Stocks	100,841,841	73,895,518	163,637,869
Total Current Assets	191,985,608	187,007,919	148,114,995
Add Fixed Assets	437,848,983	418,080,203	96,327,847
Investment	1,764,690	147,141	147,141
Deposits	1,826,903		
Deficit	32,875,411		
TOTAL ASSETS	**666,301,595**	**605,235,263**	**344,589,983**
Current liabilities	257,398,349	194,293,338	246,554,973
Long Term Loans	26,429,980	17,275,131	6,657,694
Total Liabilities	283,828,329	211,568,469	253,212,668
Share capital	249,000	57,000	39,000
S.R.F.	16,793	18,429	429
Revaluation & Reserves	11,695,159	11,695,159	5,865,385
Balance Disposable	368,114,566	380,409,921	84,499,230
Other reserves	2,397,748	1,486,285	973,271
TOTAL LIABILITIES	**666,301,595**	**605,235,263**	**344,589,982**
Total Turnover	921,011,317	995,271,799	345,965,585
Surplus before Tax	41,200,406	22,509,097	16,038,162
Taxation	--	19,978,422	12,274,867
Net Surplus/loss to balance sheet	32,875,411	3,340,675	3,763,295

Solvency Ratios

		1988	1987	1986
1.	Current Ratio	0.75:1	0.96:1	1.97:1
2.	Acid Test Quick Ratio	0.35	0.58	0.34
3.	Receivables average coll. period	-1326	1757	--
4.	Equity assets ratio	0.0094	0.003	0.0058

Interpretation

a) In order for the Union to cover 1/= shilling of the current liabilities, it has only 75 cents. This compares very unfavorably with the standard ratio which is 2:1. Comparing the past two years, the solvency of the union has been deteriorating. The Union has been incurring and operating on borrowed capital.

b) Acid test ratio. The financial position if the Union is worsened when stocks are reduced from the current asse . Therefore the Union cannot readily pay off it's curre. .y liabilities without using stocks. The ratio is 0.35:1 as compared to the standard of 1:1

c) Receivable collection period:

In 1988 the collection period was 1757 days i.e. 4 days. This was bad performance. The union deals in coffee and therefore receivables should be collected within at least 365 days.

Yet in 1989 there is negative response because the Union did not give out crop finance to member societies, as they were borrowing directly from the Bank. However the member societies tried to reduce their indebtedness.

d) Equity: The standard ratio is 1:1 . The actual performance of the union stood at 0.009 in 1989 and 0.003 in 1988. This means that the Union Assets are mostly financed by loaned funds.

REPORT ON BUGISU COOP. UNION LTD.

TASK GROUP ASSESSMENT EXERCISE

1. a) Crop finance has not been funded in full.

   b) The latest balance sheet available is for 30th September, 1989.

   c) All farmers crop for last season have been bought and paid for.

   d) Not applicable.

Evaluation

The amount paid and outstanding:

An overdraft of 170/= million, and outstanding balance of 87 million.

Shortfalls were due to poor margins to processors.

However, I have one observation to make on the reasons for the shortfall of shs. 87 million crop finance.

While I partially agree with the union management for the reason advanced for the shortfall as being "poor margins to processors"; I would also like to add other internal reasons as mismanagement resulting into direct diversion of crop finance. Of course there were other external factors like devaluation of the Uganda shilling coupled up with the high inflation and the unions could not break even. Every where we went coffee/cotton farmers, primary societies and the district unions are experiencing a financial squeeze while the three marketing boards and indeed the government have their own problems too, which the government gives top priority. The problem of inadequate crop finance is therefore, becomes a vicious cycle.

2. **Fixed Assets:**

   Fixed Assets are financed by borrowing from outsiders.

3. **War Losses:**

   July coup 1985 = property worth Shs. 23,893,328/34 old currency was looted. (Details are available) In addition the undermentioned items were badly damaged during the change of government on 25/1/86.

a) **Farm Supply Shop**

IDA Agric inputs)	185,278,499.85	
Ordinary shop merchandize	12,748,669.75	
Office equipment	1,295,000.00	
		199,322,169

b) **Coffee Mill**

Electrical items/the tools Welding Other stores	4,468,390.00	
Workshop Moisture testers	8,027,850.00	
	12,496,240.00	

c) **Transport**

Vehicles (4) Spares/motor tools Tyres/oils Welding plant		53,653,783.00

d) **Estate**

Timber for central store Electrical fittings Breakage to house		5,640,950.00

e) **Kofu Maize Mill**

Safe/office equipment		4,174,500.00
Sub - total		257,187,642.60

f) **Destruction to:**

Store burnt (Est.)	15,000,000.00	
Other stores/ buildings (Est.)	5,000,000.00	
		20,000,000.00
Grant Total		295,187,642.00

4. **Transport Requirements:**

1. There are four lorries in working condition.

2. There is only one lorry grounded (Mercedes Benz 1513) but can be repaired if these spares below are provided:

   sleeves, piston rings, overhaul gasket, piece bearings, main bearings, clutch plate, oil pump, oil filters, injector nozzles, regrinding crank shaft. The cost of these spares is around shs. 1.5 million.

3. We badly need 12 (twelve) extra lorries to transport though the union cannot pay for them now.

4. The state of condition of feeder roads in our area of operation is appalling, so bad that even bridges are all broken and some washed away by rain.

   The local authorities cannot manage to work on them, for they need skilled personnel, money and some equipment.

5. **Power Supply**

a) The power supply is normally three phase a.c. 415 v. Average voltage supply is roughly 380v.

   However, of late it has started fluctuating ranging between 360v - 49v. Average voltage supply is roughly 380v.

b) The regularity of the power supply is determined by how often the UEB personnel checks on the power supply to various places. This is a general fault for the whole nation.

   Rectification of any breakdown will depend on the seriousness of that breakdown. Normally it depends on:

   i) The availability of the materials

   ii) The nature of the breakdown.

Note: With breakdowns like overloading and short circuits, these can be rectified within less than an hour. Except with motor having blown off and needs re-winding, it will take roughly a week depending on the capacity and the availability of the materials.

The union has one standby diesel generator installed at the coffee mill of 200 K.V.A which was operational by the time we visited the coffee factory on 30/1/90 because the whole of Mbale town had a powerful failure. There is yet another bigger diesel generator of 500 K.V.A at the factory not yet installed. These two belong to CMB not yet paid for.

MASAKA GROWERS COOPERATIVE UNION

	1988	1987	1986
Bank and Cash Balances	42,492,400	4,350,975	11,812,790
Affiliated societies (Receivables)	1,737,015	909,643	3,651,552
Other Debtors	62,044,271	22,216,003	15,275,805
Stocks	329,842,355	100,743,261	56,733,775
Total Current Assets	436,116,041	128,219,882	87,473,922
Add Fixed Assets	340,380,564	123,548,370	41,883,521
Investment	290,413	85,113	75,255
TOTAL ASSETS	776,878,018	251,853,365	129,132,698
Current liabilities	382,970,130	121,950,088	83,835,410
Long Term Loans	315,877,278	114,662,021	39,033,696
Total Liabilities	698,847,408	236,612,109	122,869,106
Share capital	74,670,255	13,821,835	5,358,050
S.R.F.	3,117,206	1,274,855	787,756
Revaluation & Reserves	117,304	117,304	117,304
Balance Disposable	34,845	27,262	482
Other reserves	2,397,748	1,486,285	973,271
TOTAL LIABILITIES	776,787,018	251,853,365	129,132,698
Total Turnover	751,779,015	576,019,883	202,009,351
Surplus before Tax	36,847,017	9,741,980	5,447,160
Net margin S/T	0.049	0.017	0.027
Taxation	10,057,760	1,410,650	1,574,882
Net Surplus/loss to balance sheet	26,789,257	8,331,330	3,872,278

Solvency Ratios

		1988	1987	1986
1.	Current Ratio	1.14:1	1.05:1	1.04:1
2.	Acid Test Quick Ratio	0.28:1	0.23:1	0.37:1
3.	Receivables average coll. period	573 (1.57)	2.011	(1.39)507
4.	Equity assets ratio	9.6%	5.5%	4.1%

Interpretation

1. Current ratios reveal that the Union has less Shs ties in current assets to be able to retire one unit shilling in current liabilities without due stress, compared to the ind.standard of 2:1. Although there is a financial problem indicated, the union has been steadily improving on this position since 1986 as clearly shown above.

2. By looking at Acid Test Ratios, the Union is in a real financial crisis. Whereas the Industrial standard is 1:1, the ratios reveal that the Union has 28 Cts available in current assets to settle one Shs in current liabilities without touching stocks. Although most stocks are kept in form of coffee which can with relative ease be turned into cash, it is nevertheless impossible for her to meet immediate obligations using near_to_cash assets available without turning to stocks.

3. To make matters worse, receivable take too long to be recovered, with 1987 indicating a recovery period of 5.5 years. Hence, receivables cannot be relied upon so as to settle immediate obligations. Large amounts of cash tied up in receivable tend to eat working capital and with no definite credit policy, constitute losses to members as they become bad and doubtful or irrecoverable.

4. Equity Asset ratio measures to what extent members patrons have contributed towards acquisition of total assets. Comparative ratio indicate that members have been progressively increasingly their contributions since 1986. However, by 1988, members patrons were responsible for 9.6%, the rest being contributed by creditors/outsiders.

Opinion

Despite a large turnover netted, their would be surplus was eaten off by operating expenses and taxation. All the above combined do not reveal a healthy financial position and thus the union is insolvent although the future is bright.

CHAPTER 1

MASAKA CO-OPERATIVE UNION - MASAKA

1.1 Officials Interviewed

Mr. Bukenya	-	Chief Accountant
Mr. F.X. Wasswa	-	Administrative Manager

1.2 Management Capability

(i) The Union operates in the districts of Masaka and Rakai.

(ii) The Union owns a total of 5 factories. All of them are operational.

iii) Crop finance was not fully funded during 1988/89, it was a total of U. Shs 130m/= from U.C.B. By 30.9.1989, the Union had a debit balance of U. Shs 83,889,916/=.

(iv) All the farmers crops in the Union's area of operation was not bought due to little crop finance provided.

(v) Latest balance sheet is 1987/88. Last A.G.M held on 5/11/1989.

(vi) Committee meetings are held regularly.

1.3 Crop Finance

(a) A total of U. Shs 130m/= was received during 1988/89. A total of Shs 306/= was withdrawn from the bank and coffee worth Shs 784m/= was bought. This is an indication that there was more coffee than crop finance given to the union.

(b) All the finance has not however been refunded to CMB.

(c) Stock turnover of union level was 6

(d) At societies level, the situation was the same as the coffee production was too much compared to the crop finance given. The 300,000/= crop finance given to the societies was too little. Therefore societies continued delivering coffee to the union on credit.

(e) Liquidity at the banks especially U.C.B branches was a very big problem. Some societies stayed unpaid for at least one month for example in Sembabule.

(f) 1989/90 coffee season has opened and Shs 150m/= has been received by the union.

1.4 Fixed Assets

The Union has 5 factories with 28 hullers and 10 vehicles. The African Development Bank (ADB) financed Kalisizo coffee factory and 10 vehicles through Coop. Bank at a cost of U. Shs 14,256,000/= payable in 15 years. The Masaka Food Processor Canary is jointly owned by Masaka and West Mengo at 99% and 1% respectively. It was financed by African Development Bank (ADB). The amount of fund was not availed to us.

1.5 War Losses

169,296 tons of FAO	=	Shs 1,862,266/=
10 lorries taken and returned in scrap at a repairable cost	=	Shs 22,412,500/=
4 vehicles lost	=	10,082,160/=
Motor spares & Accessories	=	3,458,760/=
Transport services & maintenance to NRA	=	228,326/=
Interest charges during 1986	=	7,659,470/=
		45,644,722/=

The matter was reported to the MCM and no response yet.

1.6 Transport Requirements

(a) There are 13 vehicles in all

(b) There are 6 vehicles grounded and are repairable at a cost of Shs 24m/=

(c) 5 (five) extra lorries i.e. 2 semi-trailers and 3 single lorries are required with bank of CMB loan.

(d) The feeder roads are in very bad condition especially in Mawogola, Kabula, Kooki and Ntuusi counties. Efforts by local authorities have not proved successful.

1.7 Power Supply

Each coffee factory has adequate electricity supply of hydro-electric power. The supply is regular and it is normally rectified in a day or two.

1.8 Observations

(i) The Survey Team observed that although most of the societies had retired their crop finance and operational accounts to the banks, according to Bank Manager Masaka U.C.B. Main, still most societies' members were not paid by 30.9.1989.

(ii) Inflation affected the crop finance system. In case of devaluations, labour costs, spare parts for factories and lorries on fuel increased yet operating commission remained static in view of accumulating bank interest.
This "ate" farmers real income.

iii) Farmers sold their coffee on credit to avoid ever rising bank interest.

(iv) The union had not cleared the crop finance with the bank (UCB) and the operation account too and yet farmers societies remained unpaid at that date. The union claimed that this was due to huge stocks at the factories and receivable at C.M.B. The amount of stocks were not qualified to justify whether they could clear all the societies by the union was not easily availed to us.

(v) Delayed payments to Union was due to slow deliveries to C.M.B. as a result of slow processing because of black beans, redrying. This slowed down rate of turnover and increased bank interest.

(vi) Crop finance advances should be scheduled according to pick season. Crop finances were advanced in February/March 1989 while peak period started in July. It is therefore feared that in future this could lead some societies to diversion as the crop finance is not fully utilized at the time of low peak. This was witnessed in Kyotera - Rakai district.

1.9 Recommendations

(i) Transport rate to societies should be computed according to distance and not flat rate to all societies even those in the compound of the factory.

(ii) In light of the present inflation, and even increase in overhead costs, the union should cut down other variable overhead costs.

iii) The Union should create a fund to raise enough working capital to handle coffee without necessarily waiting for lending institutions.

(iv) Crop finance and operations account of Shs 300,000/= and 50,000/= was too inadequate.

The problems and their causes of the four unions discussed are quite evident and are examples of the problems all of the unions have severe liquidity problems. Th elack of working capital has increased bank borrowing which in turn increased interest costs. Some of the union's have disregard working capital needs infavour of acquiring propperties and making other capital expenditures. Two main reasons for the shortage of working capital are:

1. Maintaining large "accounts receivable" of which large amounts are aged and uncollectable.

2. Working capital would be enhanced by reducing stock inventories.

The ranking of the DCU's is based on four criteria. Each criteria carries a maximum of five points the smaller being the best. Other than for crop finance shortfalls, where 1988/89 figures were used, the figures used was from different periods. For the 24 DCU's involved in the analysis, 3 coffee and 1 cotton union used 1988/89 audidt figures; 3 coffee and 1 cotton used 1986/87 audit figures; the rest, 10 coffee and 6 cotton unions used the 1987/88 figures.

For the coffee unions, the analysis indicates that the amount of turnover influenced the performance. Performance was inversely related to turnover so that the large unions did not fare so well.

For the cotton unions, the analysis reflected the opposite. The larger rated better than the smaller ones with one exception, North Bukedi. This union, in spite of its large turnover, performed poorly.

The four criteria and the grade results as as follows:

1. Crop finance refund percentage short fall

Crop finance refund percentage short fall	Grade
0	1
1 - 20%	2
20% - 50%	3
60% - 80%	4
over 80%	5

2. Receivables

Receivables	Grade
less than 1 year	1
1yr - 1.5yrs	2
1.5yrs - 2yrs	3
2.0yrs - 3yrs	4
over 3yrs	5

3. Financial management average of solvency and liquidity

solvency (equity asset ratio)	liquidity (current ratio)	Grade
over 40%	2%	1
30-40%	1.5 - 2%	2
20-30%	1 - 1.5%	3
1 - 20%	0.5 - 1%	4
below 1%	below 0.5	5

4. Inventory control (Stocks % of current assets)

Stocks % of current assets	Grade
below 25%	1
25 - 40%	2
40 - 50%	3
50 - 60%	4
over 60%	5

UNION	U/SHS TURNOVER	CROP AMOUNT ADVANCED	FINANCE SHORTFALL	(%SHORTFALL) GRADE		SURPLUS BEFORE TAX	SURPLUS AFTER TAX	RECEIVABLES AVE. COLL. (3 YRS) PERIOD	GRADE	FINANCIAL MGM'T GRADE	INVENTORY CONTROL CURRENT ASSETS	FINAL GRADE
BANYANKOLE	538,857	250,000	25,000	2	(10%)			2.30	5	4.00	4	3.80
BUGISU	921,011	170,000	87,000	4	(51%)	41,200	32,875	4.80	5	4.00	4	4.20
BUNYORO	225,295	57,700		1	(0%)	(9,555)		1.50	2	4.00	5	3.00
BUSOGA	852,113	415,000	138,322	3	(33%)	19,175	9,170	2.10	4	2.50	5	3.80
BUAMBA	40,852	38,000	30,000	4	(79%)	(10,552)	–	0.60	1	4.00	5	3.50
E. MENGO	434,429	150,000	50,000	3	(33%)	(41,680)	–	1.87	3	4.00	5	4.20
KIBAROLE	2,687	15,000		1	(0%)	163	66	1.89	3	3.00	1	2.00
KIKUMIRO	321,778	20,000		1	(0%)	10,020	5,057	1.41	2	2.00	5	2.50
KIGEZI	127,348	20,000	13,623	4	(68%)	9,686	6,186	11.20	5	2.00	5	4.00
KITARA	125,469	40,000		?		808	721	1.90	3	4.00	3	3.30
MASAKA	751,779	130,000	83,890	4	(65%)	36,847	26,789	1.66	3	3.50	5	3.90
NYAKATONZI	275,934	45,000	45,000	5	(0%)	7,657	5,701	1.52	3	2.00	2	3.00
OKORO	5,068	14,600		?		(983)	–	0.72	1	4.50	2	2.50
SEBEI ELGON	9,477	40,000		1	(0%)	(1,336)	–	2.10	3	4.50	2	3.00
WAMALA	455,649	60,000		1	(0%)	16,091	11,091	1.90	3	3.00	5	3.00
W. MENGO	462,717	250,000	100,000	3	(40%)	1,660	664	N/A	–	3.00	5	3.70
COTTON UNIONS												
S. BUKEDI	119,160	224,500		?		6,359	3,816	1.04	2	2.50	2	2.20
N. BUKEDI	112,433			?		(4,754)	–	3.10	5	4.5	3	4.20
MASABA	48,089	66,000		1	(0%)	4,219	2,433	1.37	2	3.00	5	3.30
LANGO	139,294	5,000		?		(17,751)	–	0.80	1	4.50	2	2.10
C.W. NILE	578	38,500		1	(0%)	(4,180)	–	1.02	2	4.00	3	3.00
S.W. NILE	3,525	32,000	3,600	2	(11%)	–	–	0.81	1	5.00	5	3.00
BURULI	8,077			1	(0%)	(1,200)	–	1.25	2	4.00	2	2.50
TESO	56,053	7,000				1,321	529	1.36	2	3.50	3	2.40

C. PERFORMANCE OF A CROP FINANCE SYSTEM

The new crop finance system had specific objectives to accomplish. As indicated earlier, this section of the report assesses the extent to which stated objectives have been attained during the coffee season 1988/89. It is being asked whether:

a) Adequate crop finance has been provided.

b) Prompt payment for coffee had been effected.

c) Crop finance diversion had been kept in check.

d) 'Air' ,sales had been prevented.

e) High velocity of scale stocks had been ensured and whether,

f) Macro-economic imbalances had been circumvented.

Each of the objectives is assessed to establish how well or otherwise the system performed during the first year.

PROVISION OF CROP FINANCE

The exposure of the bank sector to the coffee industry in 1988/89 season was about Shs. 20 billion, broken down between banks and borrower categories as shown in table 1 below. Generally, this objective was accomplished and all links in the marketing chain received adequate crop finance. In some cases, however, there was over financing especially at the CMB and primary levels. Why and how this happened is analyzed in later sections of the report.

Bank of Uganda stepped in to finance the coffee sector to ensure prompt payment at the various levels by allowing adequate overdraft limits for operational as well as crop purchasing at all levels. BOU through commercial banks would provide funds to primary societies so that they may purchase coffee from farmers on cash basis, sell to unions have also been advanced funds to pay promptly. With adequate funds under CMB's command, unions had to be paid promptly to avoid a break down in the chain link system. At CMB level, BOU had to ensure funds enough to pay for all the coffee delivered by processors to avoid any delays in recycling crop finance funds.

Table 1 Total credit to coffee sector 1988/89 season

Month	Source in million (U) Shs.			
	Bank of Uganda	Consortium of banks (crop finance support funds	Commercial Banks	Total
Primary Societies	1,041		21	1,062
Cooperative Unions		235	1,409	1,644
Private Processor		591	1,200	1,791
CMB	16,094			16,094
TOTAL	17,135	826	2,630	20,591

Source: **Bank of Uganda - Coffee Desk**

PRIMARY SOCIETIES

The financing of primary societies was complete as applied for. All those which fulfilled the conditions for opening up bank accounts were advanced Shs. 350,000/= each. The majority had received the funds by march 1989. The distribution of societies financed by banks and region is as shown in Table 2. However, in May 1989, it was generally agreed that Shs. 350,000/= was insufficient for a truck load of coffee especially in Arabic areas. the ceilings were consequently raised to Shs. 550,000/= for robusta and 850,000/= for arabic areas. In consultation with Bank of Uganda, commercial banks could on a case by basis raise the limits when satisfied that the primary society in question could manage and benefit from an increase in the overdraft limit.

Table 2: <u>Bank and location of primary societies financed 1988/89</u>

Region	Bank and number of societies financed				
	Bank of Uganda				
	UCB	Coop. Bank	Barclays Bank	Libyan Bank	TOTAL
Central / Southern	541	115	51	9	716
Western	401	238			639
Eastern	624	98	13		735
Northern	19				19
Total	1,585	541	64		2,109

Source: Bank of Uganda - Coffee Desk

On the basis of the above table, Mbale and Busoga (Jinja, Iganga and Kamuli) had the largest concentration of primary societies that presented themselves to the banks for funding. However as shown later, these were the very areas where many bogus societies had access to crop finance and where the possibility of repayment as on 30/9/89 was most doubtful.

COOPERATIVE UNIONS

A total of 16 coffee unions were financed with Shs. 1.7 billion. Those financed and the amount advanced are shown in Table 3.

Table 3: <u>Crop Finance Advances to Unions 1988/89 Season</u>
(All in Shs. million)

Union	Amount Applied for	Bank	of societies financed		
			Own Funds	Refinance Funds BOU	Total Advance
East Mengo	1,039	UCB	120	50	170
West Mengo	240	Barclays	250		250
Busoga	590	Baroda	250		430
Bugisu	400	UCB	120	50	170
Banyankole	370	UCB/ Coop.	100 150		250
Masaka	450	UCB	80	50	130
Nyakatonzi	65	UCB	45		45
Kigezi	50	Cooperative	20	5	25
Kabarole	50	Cooperative		20	20
Kitara	40	Cooperative.		15	15
Bunyoro	30	Cooperative.	20	10	30
Bwamba - Rwenzori	45	UCB	8	30	38
Sebei-Elgon	60	UCB		20	20
Okoro	10	UCB	6		6
Wamala	310	UCB	60		60
Kakumiro	65	UCB	20	25	45
Total	3,814		1,384	320	1,704

The 1988/89 season recorded the highest deliveries of coffee to CMB representing an increase of 16.5% over the 1987/88 season. Of the sales to CMB, 73% was made by private processors as shown in Table 4.

Table 4 : **Coffee deliver by unions and private processors 1988/89 (60 kg bags)**

	Deliveries by				
Month	Unions	%	P/Processors	%	Total
October / Nov. 1988	76,069	27.1	204,629	72.9	280,698
Dec. 1988	672,448	32.4	151,157	67.6	223,605
Jan. 1989	34,815	14.5	205,287	85.5	240,102
Feb. 1989	56,427	20	225,707	80	281,134
March 1989	75,412	25.2	223,840	74.8	299,252
April 1989	84,913	33.9	165,567	66.1	250,480
May 1989	128,746	44.7	159,277	55.3	288,023
June 1989	52,274	39.3	80,739	60.7	133,013
July 1989	43,647	22.5	150,340	77.5	193,987
August 1989	49,149	15.3	272,088	84.7	321,237
Sept. 1989	65,725	26	185,783	74	251,508
Total	739,625	27	2,024,414	73	2,764,039

Table 5 : **Deliveries by union to CMB - 1988/89 and as Compared to crop finance received**

Unions	Deliveries 60 kg bags	Percent share of Union deliveries	Crop finance received Shs. million
1. Banyankole Kweterana	140,748	24.3	250
2. E. Mengo	73,545	12.7	170
3. Masaka	66,729	11.5	130
4. Busoga	63,107	11	430
5. Wamala	48,550	8.4	60
6. W. Mengo	46,209	8.1	250
7. Bugisu	42,402	7.3	170
8. Kakumiro	20,745	3.6	45
9. Kigezi	18,698	3.2	25
10. Bwamba Rwenzori	15,705	2.7	38
11. Nyakatonzi	14.803	2.6	45
12. Kitara	9,965	1.7	15
13. Bunyoro	7,648	1.3	30
14. Sebei - Elgon	5,769	1.0	20
15. Okoro	3,117	0.5	6
16. Kabarole	551	0.1	20
	576,291 *	100%	1,704

* Represents total deliveries actually paid for by CMB as on 30/9/89

CROP FINANCE UTILIZATION

The new system aimed at ensuring that funds provided are used for nothing other than the purchase of coffee. The system had in-built capability to detect deviations and enforce compliance. The two account "bank-customer" system which applies through-out the marketing chain, from Bank of Uganda cheques payable to CMB to Union payments to primary societies, was designed to provide the necessary checks and balances in tracing the fate of crop finance. Payment for crop finance is written on a cheque drawn against the crop finance account representing about 77% of the payment and the balance representing expenses and trading margin is written against the operator's account. All drawings on the crop finance account should generate deposits arising from coffee sales by cheques equal to the amount drawn. Shortfalls at any one period can only be accounted for by stocks, uncleared effects or out right diversion while surplus would be explained by indebtedness to farmers, underpayment or use of own funds.

In assessing performance it is not adequate to say one dealer is doing well because his account is active or that he has paid back. What is most important is to establish the destiny of funds drawn and the source of funds being credited on the coffee account. Besides the obvious cases of diversion where a dealer takes the money and never comes back, there are some cases of un-scrupulous characters who draw crop finance, use it for personal or more lucrative business, deposit cash or cheques other than CMB coffee regularly and if the accounts are not fully scrutinized such diversion may not be noticed.

Whatever kind of diversion it may be, the effects are almost the same. As far as the coffee sector is concerned, diversion reduces its capacity to acquire stocks and pay promptly. In this sense money "leaks" from coffee sector into the wider economy. It also deprives the economy of the foreign receipts it would receive from coffee purchased with those funds. Instead, the individual misdirects funds denying it to farmers and other sectors with a higher multiplier potential. At the extreme end, the lending bank suffers non-repayment of advances which, given BOU guarantee, spills over to the Central Bank.

During the 1988/89 season, at the primary society and processors' levels, there was noticeable diversion as shown in table 6 below. Some 25% of the primary societies drew money once and never returned.

Table 6 : <u>Extent of diversion of Crop Finance funds 1988/89 season</u>

Level of Marketing	Total Drawings Shs million	Total Deposits Shs. million	Shortfall represented by indebted-ness to farmers, stocks or diversion Shs Million
Primary societies	4,068	3,337	731
Unions	5,010	5,034	-24
Private Processors	7,734	7,055	679
CMB *			
Total			

Source : **Bank of Uganda - Coffee Desk**

* Figures not available at time of report.

It has not been possible to establish stocks, unpaid effects or those in transit so as to determine the extent of diversion.

From the table above, it is evident that the crop finance system during the first year was not capable of preventing diversion of crop finance funds. However, it assisted in establishing the fact that funds are diverted to other uses and that measures need to be put in place to obliterate it.

Taking the amount of crop fiance provided at each of the marketing chain, productivity or the index of utilization of crop finance was low as shown in table 7. Productivity could be measured by either total coffee purchases as reflected by sales to CMB and shipments or by total bank deposits created for each unit of credit provided. It therefore refers to the capacity credit provides to purchase coffee at each link of ne marketing chain and to create bank deposits through coffee sales. At the end of the day, the index should distinguish net borrowers from net depositors. For instance, in the case of the former, for every shilling drawn from the bank a fraction rather than a multiple of that shilling comes back to the bank in form of deposits represented by coffee sales.

Table 7 : **Productivity Index of Crop Finance for various Links of the Marketing chain.**

Level of Marketing chain	Total finance provided shs. million	Total deposits made Shs. million	Productivity Index of Crop finance
Primary societies	1,062	3,337	3.1
Unions	1,704	5,034	2.95
Private Processors	1,791	7,055	3.94
CMB	16,094	5,034	-24
Total	20,591		

Source : **Bank of Uganda - Coffee Desk**

The 1988/89 index for various unions is as shown in Table 8. The index is higher for more productive unions and lower for those that did not perform well or are believed to have diverted crop finance funds. Some unions which are know to have performed badly such as Kitara, Bunyoro, Nyakatonzi and Okoro have a high out turn and attractive index because the credit extended by farmers to them isn't reflected in the calculations. Indeed Kitara and Bunyoro were heavily indebted to farmers by close of last season.

Table 8: Productivity Index of various Unions 1988/89 season

Union	Crop finance Provided shs. million	Total Deposits Shs. million	Productivity Index
Kitara	15	108	7.2
Masaka	130	784	6.0
Wamala	60	358	6.0
Okoro	6	27	4.5
Kigezi	25	107	4.3
Kakumiro	45	188	4.2
East Mengo	170	720	4.2
Bunyoro	30	127	4.2
Banyankole	250	767	3.0
Bwamba-Rwenzori	38	112	2.7
Nyakatonzi	45	122	3.0
Bugisu	170	340	2.0
Busoga	430	843	1.96
West Mengo	250	431	1.7
Sebei - Elgon	20	N/A	N/A
Kabarole	20	N/A	N/A
Total	1,704	5,034	2.95

Source : Bank of Uganda - coffee desk

PREVENTION OF 'AIR' SALES

It had been commonly argued that claims on CMB by Unions and private processors before the new system was in place carried with them a large element of fictitious or "air" sales which made CMB pay for "air" thereby endangering the financial position of the Board as well as fueling inflation in the economy. The new system consequently aimed at ensuring that what CMB actually paid for represented coffee delivered to it by processors.

To ensure prompt payments and availability of sufficient funds for the coffee crop, it is necessary that only real stocks are paid for because this is the only way to keep adequate funds revolving within the coffee industry. Payment for non-existing stocks, "air sales", leads to leakage of funds out of the sector. To safeguard against leakage and pilferage, stock verification becomes a necessity in the performance assessment exercise. Stocks, purchases, deliveries and sales should tally. Purchases must reflect sales in case of primary societies, unions, private processors and in case of CMB stocks paid for should be reflected in domestic sales and shipments to international markets. Any discrepancies in stock positions should be taken seriously.

To provide facts and figures on these two forms of leakage Bank of Uganda Coffee Desk in conjunction with CMB agreed to set an independent unit to monitor and record deliveries at the Reception areas of Bugolobi and Mbale. Bank of Uganda staff through-out the 1988/89 season recorded deliveries at Bugolobi daily. At the end of the season Bank of Uganda figures were compared with the payments CMB had actually made over the season. The difference between BOU and CMB figures was relatively small compared to the total volume of coffee involved. Physical flows appeared to correspond with financial flows which would indicate little or no possibility of "air" sales during the season. Table 9 gives comparative figures for BOU and CMB for the 1988/89 season (January - September). The difference between BOU and CMB figures possibly represents processing waste.

As for pilferage of coffee along the routes to the coast and at the point of shipment, no system was put in place during the season to verify whether there is leakage at these points of the marketing chain. It would be desirable to monitor stock flows to ensure that all coffee is received and sold officially. If pilferage actually occurs, it is detrimental to CMB and the economy as a whole and it ought to be prevented.

Table 9 : **Comparative figures on Deliveries and Purchases 1988/89 season**

Month	CMB Kg millions	Bank of Uganda Kg million FAQ	Difference Kg millions
January 1989	14.4	17.1	2.7
February 1989	16.9	17.1	0.2
March 1989	18.0	18.0	-
April 1989	15.0	15.0	-
May 1989	17.3	16.3	-1.0
June 1989	8.0	0.1	-0.1
July 1989	11.6	12.1	0.5
August 1989	19.3	19.3	-
September 1989	15.1	15.1	-
Total	135.6	138.1	3.2

Source : **CMB and Bank of Uganda - Coffee Desk**

WHERE AND WHY THE NEW CROP FINANCE SYSTEM FAILED

In this section, questions of effect and efficiency are being raised. Given the aims, did the new system work and with what effect and at what cost to the economy? In which specific areas did it succeed or fail? It is noted that before the new policy was adopted, coffee marketing was a problem as a consequence of lack of crop finance, non-cash payment to farmers, sale of "air" to CMB, how coffee exports attended by extended delays in the realization of export proceeds. Further, until the system was introduced, crop finance, limited as it was operated under a patronage system. Commercial banks would finance CMB which in turn had to finance Unions and down the line to primary societies. In that way the old system had noticeable drawbacks. It encouraged in particular unfair preference for certain Unions and primary societies over others and it allowed diversion or leakage of funds from the coffee sector into the wider economy without much provision for accountability and apprehension of those directly responsible. Under the old system, the burden of financing coffee marketing functions was practically headed on the farmer. Where the new system appears to have succeeded is in the transfer of that burden from the farmer to the banks. With appropriate checks and balance, in providing for independent accountability by each participant in the marketing chain, the new system reclaimed discipline and played an active "hands on" role in the coffee industry. Under the system, those who divert funds can be known and appropriate penalties can be out to them more precisely.

However, being the first year, coupled with other circumstances in the market place, the new system to have failed on a number of scores and counts. Notable failures were registered on: prompt and accurate payment to farmers and processors; diversion of crop finance; indebtedness and disposal of stocks at CMB level. In the sections that follow an analysis of the expression and causes of these failures is presented.

PROMPT AND ACCURATE PAYMENT

Generally, farmers were not paid promptly. In most cases they were neither paid nor the normal farm-gate price of Shs. 60/= per kilo. In spite of the staggering sum crop finance provided to primary societies, the new crop finance system did not cause on delivery. This having been a key objective of the new system, it causes great concern as to why it happened and what needs to be done to eliminate the problem of non cash payment to farmers.

Piecing together all the circumstance surrounding coffee marketing, one could option first blame on the inaction of ministering organs at the village level where the cooperative and bank staff in conjunction with chiefs and resistance committees were assigned to mandate to monitor and steer the cause of events at that level on behalf of government. In no area is this reported to have been understood and properly exercised. There was a general feeling that it was the roll of Bank of Uganda to monitor and ensure compliance. Consequently, primary societies and agents of private processors were left with plenty of flexibility to manoeuvre the basic provisions and requirements of the new crop finance system at the village level. If only the receipts of crop finance, the drawings on the crop finance accounts, purchases and sales by primary societies had been monitored as planned, things would have been different. It would appear monitoring organs at the village level were not informed and trained to engage in their expected roles and this cost the system the reported failure.

The second reason for failure has to do with lack of cash bank branches. There is a general feeling that although true in some cases, lack of especially in the case of UCB appears to have rural overstated. It was not so much the lack of cash, but the tendency and attitudes of managers of rural branches to treat primary societies as surrogate or auxiliary customers who had to be served after every body else in a residual manner. The problem was therefore largely a question of attitude and lack of cash per sec. It was only in some cases not all that primary society cheques were not paid due to lack of cash.

The third cause relates to delays by unions to pay for coffee delivered by primary societies especially in those areas where union management was bad such as Kitara, East Mengo, Nyakatonzi, West Mengo, Bunyoro, Okoro and Kakumiro. These delays created desperate situations among farmers and opened up opportunities for private buyers to pay any price for coffee as was frequently reported in the East Mengo, Kitara and Kakumiro areas. In some unions are know to have diverted funds while in others delays were actually due to the hold-up of funds by CMB and the tideous clearing arrangement of up country cheques drawn on Bank of Uganda.

TURN AROUND

The new crop finance system failed to minimize stock - build up, that is reducing the turn around period and working capital cycle especially at the CMB level. This translated into excessive pressure on domestic credit and money supply from an estimated budget of Shs. 7 million to well over 20 billion. Clearing stocks was a peculiar problem with cooperative unions especially during the first three quarters of the season.

Stocks failed to clear for a number of reasons. At the CMB level, two main factors explain the position.

First is the problem that relates to lack of transparency in marketing policy and procedures including the authority line and division of labor in carrying out marketing functions. Efficiency uprightness speed and accuracy in market penetration left much to be desired. Often benefit buyers were shut out on the pretext that all coffee was committed or sold while stocks built up at Kampala and the ports. Second is the problem of quality. There is an obvious shortage of salable grades of screen 12 and above. Much of the coffee CMB holds as stocks classifies as BHP which is more difficult to sale. An analysis of CMB stocks by age and grade would confirm quality as a major explanatory variable as to why stocks do not clear. Crop finance funds remained tied up in what one may consider perhaps correctly as dead stock.

Other explanatory factors include; Shortage of working funds in convertible currency at the ports, lack of ICO stamps, shortage of wagons and handling equipment such as fork lifts at the ports.

At the cooperative union level, stocks accumulated primarily due to managerial short comings and speculation. Most unions had very low capacity utilization varying between 7 - 35% as a consequence of management, power failure, break - downs and lack of spares. There was a general lack of a managerial cadre that is up right, skilled, devoted and adaptive to changing situations especially with regard to power failure at factories. Down time characterized union factory operations. Rarely would one find management that could organize labor to shift work and operations in rythym with availability of power.

Management tended to be glued to a single shift processing regime even when power would be off the next day.

The other problem at the union level relates to speculation for a price differential soon after the budget is read in June. The more stocks held the more windfall gains. May - June is the period when most crop finance funds are diverted by unions while anticipating that shortfalls would be made good by windfall which earlier price policies seemed to reinforce. It is also the period when most coffee is taken from farmers on credit.

Bad feeder roads especially during the rainy seasons contributed to stock holding by unions and primary societies whose stores and factories are located in inaccessible areas. There is also the problem of lack of vehicles. Most unions had their fleet looted during the 1979 - 1985 wars and due to the limited vehicle capacity movement of coffee from factory to CMB proved a problem.

The "Crop Bond" System

Currently crop finance is extended at all three procurement levels, societies, unions and CMB. These buyers all draw cash advance from BOU or Commercial Banks to finance coffee purchases. The excess liquidity created by crop finance funds has enabled the unions and societies to divert funds for purchases other than crop procurement.

An alternative method of payment for crop procurement from the farmer, has been suggested by I.D.A. The method of payment to farmers which would be guaranteed by I.D.A. The guarantee would be backed up by a "Credit Guarantee Fund" fully contributed under ARP II and administered by BOU. The Bonds should hear an interest rates equivalent to 5% below the interest charged to CMB for its advances, i.e. 40% assuming a current interest rate of 45% with maturity after six months, the current time lag, permitted under A5 bench mark, between procurement and export of coffee. However, farmers would be permitted to cash the bonds at any bank institution at any time before maturity, with appropriate discounting of the interest elements of the bond. The 5% would be defray BOU's cost of administrating the bonds. The same system will be used for cotton sector.

The "crop bond" will only succeed if control procedures are put in place and they are followed through.

D. UGANDA COOPERATIVE ALLIANCE

The Uganda Cooperative Alliance (UCA), under the leadership of the General Secretary, has become the voice of the Cooperative movement. UCA and its subsidiaries have developed programs to enhance development planning and systems improvement. A

Management Improvement Programs (MIP) was developed by UCA in October 1987 and has been revised to incorporate the practical knowledge and experience gained over the last two years and to take advantage of the new capacities, competencies and resources which are now available. This was done because of the new challenges facing the cooperatives, i.e. proposed Cooperative Societies Act, 1988, changing government policies regarding marketing, diversification of union activities, etc. This revision was in concert with the World Bank team consultants (ARP - 2) to avoid two different management programs for the unions.

For the reader to fully understand what is involved in building a solid foundation for good management and business administration, find the implementation of the MIP, in pertinent part, presented below, verbatim.

5. MAIN STRATEGIES

UCA will use the following strategies within its Management Improvement Program (MIP) for district and national cooperative unions.

5.1 COORDINATION AND INTEGRATION

The various components of the program must be geared towards member benefits and to achieve the objectives of the cooperatives. The programs must therefore be well coordinated and sometimes integrated with other programs and efforts aimed at solving other problems of the cooperatives like within the areas of profitability, financing infrastructure and transport.

5.2 ACTIVE PARTICIPATION BY UCA

UCA will play a very active role in all phases of the MIP from planning and implementation to evaluation.

Huge resources will be required and it will be necessary for UCA to make sure that all resources are efficiently and effectively used in order for it to succeed in continuing to attract donor funds for these and other programs.

In unions where UCA is expected to channel considerable resources UCA shall only do so if the members at a special general meeting directs its own Board of Directors to delegate all its powers to a Management Committee to be appointed by UCA for the period of time UCA needs to put the union on the right footing.

5.3 CONCENTRATION OF RESOURCES

Resources will be concentrated to few unions at a time in order to make a real impact. Moreover resources should mainly be channeled to solve major problems at these unions, sophisticated systems, routines etc. should be avoided at this stage of development.

5.4 DEMANDS AND CONDITIONS ON PARTICIPATING COOPS.

Unions will not be allowed to play a passive role. They will have to make the necessary personnel and policy changes and any other decisions necessary in order to achieve the set objectives. UCA will not waste resources where they cannot be put to effective use.

5.5 TOILER MADE IMPLEMENTATION TACTICS

UCA will use the necessary expertise to first analyze the situation of each individual union, which qualify to be included in UCA's MIP. This analysis will then form the base for whatever action should be taken.

6. IMPLEMENTATION

The details about the programs, which will follow the main strategies outlined above, will be a function of an analysis which UCA will conduct of each union that wants to participate in UCA's MIP. UCA will in this analysis use a cross disciplinary approach and focus on all major problems of the unions not be limited to management problems alone. From what is already known one can however make the following outline of some of the major components involved in the implementation of UCA's MIP for district and national cooperative unions:

6. CRITERIA FOR SELECTION OF COOPERATIVES TO BE INCLUDED IN UCA'S MIP

Only those coops. which fall into all of the following categories will initially be included in the MIP:

Economically or potentially economically viable business entities, Recipients or planned recipients of external assistance through UCA,

Those that patronize UCA programs,

Those that fulfill their obligations towards UCA,

Those unions that respond positively to UCA recommendations following UCA's analysis of union's problems,

Unions that are willing to accept UCA as an active partner in their development efforts.

6.2 PROBABLE MAIN AREAS TO BE INCLUDED IN UCA'S MIP

6.2.1 Board of Directors:

The quality of the work performed by the Board Members must be improved. The following are some of the possible ways to do this:

i) participation by UCA in Board meetings

ii) problem oriented training

iii) training inc certain skills involving the use of certain information and decision making

iv) UCA assistance with policy formulation and long term planning,

v) training in the division of duties between Board and management,

vi) participation of Chairmen of Unions' Board of directors in the meetings of the UCA appointed Management Committee, where those have been established.

6.2.2 Top Management

The quality of the work performed by the top management must be improved. The following are some of the possible ways to do this:

i) To make an organizational review to identify if there are needs for personnel changes as a result of necessary organizational changes,

ii) To recommend replacement of managers who are unsuitable.

iii) To assist unions with recruitment of chief executives and heads of departments

iv) To assist unions financially in order for them to be able to attract competent managers and/or to provide external technical assistance personnel.

v) To work closely with union managers in order to assist them in preparing for Board meetings, implement various recommendations within the financial administration etc.

vi) To provide practical problem oriented training.

vii) To provide specialized training for certain skills.

viii) To organize seminars and conferences for CEO's and heads of department together with officers of other unions in relevant subjects of common interest.

ix) To involve the union managers in the work of the UCA appointed Management Committees, where those have been established.

6.2.3 Management Information Systems:

UCA shall assist unions to develop, maintain and use relevant management information systems. The following components will be included;

i) MIS reviews, UCA/BUS and/or other consultants,

ii) UCA/BUS to assist unions to streamline existing computerized general and personal ledger systems,

iii) UCA/BUS to assist those unions that have not yet computerized their general and personal ledgers to do so.

iv) Standardization of forms and reports.

v) To assist unions to computerize other routines like stock control, salaries and budgeting etc.

vi) To assist unions to design and generate the most important reports at various levels.

vii) To use external consultants and to work through the new association for coop. accountants and internal auditors in order to improve and standardize appropriate accounting policies which are suitable in the Ugandan inflationary environment.

6.2.4 Systems of Internal Control:

UCA shall assist cooperative to improve their systems of internal control through UCA/STAT. and/or UCA/BUS.

This exercise will include detailed work within the following areas:

Review of existing routines and procedures,

Recommendations re. improvements,

Standardization of forms,

On the job training of union staff on how tao implement and maintain the recommended system.

The work has to be very well coordinated with the referenced efforts within MIS and Internal Audit.

6.2.5 Internal Audit:

UCA shall assist cooperatives to set up suitable internal audit functions.

This exercise will include detailed work within the following areas:

Review of existing organization, personnel, internal audit programs, reporting system and relationship with the external audit.

Recommendations regarding the proper organization and operation of the internal audit function including detailed audit programs and reporting formats.

To assist unions to ·ecruit suitable audit personnel.

To give the personnel on-the-job training.

6.2.6 External audit

UCA shall assist cooperatives with external audit through its subsidiary UCA/STAT.

These external audits will be more comprehensive than traditional audits since it will also include audit of 'management efficiency' as per the proposed new Cooperative Act. UCA has initiated a 'coop. performance analysis program', which aims at working out criteria and guidelines for how the auditor shall measure 'management efficiency'.

6.2.7 General Membership Training

It is necessary that there is adequate accountability to the members in order to maintain good quality of management in the long run. Members should know how to determine the performance of their Boards of Directors and what action to take if they are not satisfied. Training is necessary with this field.

7. IMPLEMENTATION PLAN

It is envisaged that it will between one or two years to make a considerable impact in any particular union. It is recommended that UCCU, UCTU and two of the following district cooperative unions are included in the program during 89/90; Bugisu, Busoga, E. Mengo, W. Mengo, Wamala, Masaka and Banyankole Kweterana Cooperative Unions. It is possible that all district cooperative unions in Uganda that qualify to be included in UCA's MIP shall have significantly improved business administrations within five years. (UCA has a separate program aimed at improving the performance of the Cooperative Bank which is preferred to as the Cooperative Bank project and is therefore not included in UCA's MIP)

The details of some sub-programs under MIP are presented in separate documents, e.g. Sr. Management training program, Computerization program etc.

8. ORGANIZATION

The Human Resource Development Department within UCA is the coordinator of the program. This department will be strengthened with a SCC financed MIP advisor, who will assist with the coordination and various other aspects of the implementation of the program. Below follows a list of some of the other's 'players' within the MIP:

UCA General Secretary, Director of Human Resource Development Department, Sr Management Training Coordinator, Rural Education Officer, director of Research and Planning, Director of Projects, Coordinator for the Luwero and the North North East Projects, Coop. Deve. Advisor (ACDI).

UCA/BUS; General Manager, Management Consultants, Computer Manager, Programmers, Printing Press Manager.

UCA/STAT; Managing Director, Sr. Auditors, Audit Advisor (ACDI).

OTHERS; External Consultants, Coop. Union Staff etc.

9. FINANCING

Financing has already been arranged and the recommended action all fall within the areas that have already been planned and budgeted for within UCA, UCA/BUS and UCA/STAT. The financing is mainly done by UCA using the resources made available under its agreements with SCC, ACDI and USAID.

10 CONCLUDING COMMENTS

The MIP presented above represents an integration of programs and activities already in operation or planned separately within various departments of UCA and its subsidiaries. The new approach in this revised MIP is that it is an integrated program spanning over the capacities and competencies of several departments within UCA and its subsidiaries rather than being confined to the activities of UCA/BUS only, as the original MIP was. An other novelty is that all the 'players' will more closely be following the same strategies and strive towards the same goal using compatible priorities.

The problems outlined under section 4 above are well known to us and do not represent loose speculations, the recommended action are also very well known to us since most of the components are already in operation although not properly coordinated and integrated. Thus the necessary 'know how', capacity and competence are available and what is left to do is to use these resources more efficiently in line with the new strategies and priorities well coordinated and integrated between the various implementors and programs.

FINIS

It is recommended that any action taken to rehabilitate the unions be headed up by the Uganda Cooperative Alliance (UCA) as they have the resources, both financial and staff expertise "to get the job done". As the apex organization of the Cooperative sector, they are the organization to provide the Union's with whatever assistance and guidance that is needed.

UCA has developed programs and are ready to implement these. They are the UCA's Management Improvement Program (MIP) which will provide systems to improve the quality of the union's business administration by improving their operations and economic efficiency. The necessary expertise will train the Board, management and staff in their respective areas of responsibility. The development, maintenance and use of Management Information system (MIS) to assist the unions managements. Develop or improve existing systems of internal control. UCA's Accounting Service UCAAS is in place and are expanding their staff for the needs ahead. Already there is activity in training the society membership as training is definitely needed.

However one area in UCA that needs to be reinforced as soon as possible is the UCA Audit Services (UCAAS). This service is understaffed and ill-equipped to do the tremendous tasks that lay ahead in the cooperative sector. The DCU's, as previous mentioned, are having serious financial and management problems. The annual audits that are now and have been published are not of a standard that is acceptable or useful for analyzing and evaluating the true financial of the DCU's. The DCU's require a comprehensive financial and managerial annual audits, one that verifies and reconciles the General Ledger and related accounts, one that will result in stating their real financial condition.

The UCAAS need the addition of several qualified persons to augment their small staff. The job ahead in the DCU's will require, at the very least, four or five teams of three or more staff to perform the audits. There will also be a need for equipment, i.e, transport (4 vehicles), adding machines, printed supply forms, calculators, etc. Each of these teams will require training of approximately six months. It is understood that funds have been allocated for the aforementioned staff and equipment through the Cooperative Agriculture and Agribusiness Support Project (CAAS) funded by USAID. The need is acute and should be expedited.

The training of General Managers and Senior Staff in management techniques and business administration should begin immediately. Those managers that are found to be competent should be allowed to manage. Incompetent managers should be released and replaced by men who are competent. The training of the above should be on going, with follow up training and supervisory audits on the results of the training in the DCU's operations.

OBSERVATIONS ON THE PROPOSED

E. COOPERATIVE SOCIETIES BILL, 1988

The Uganda Cooperative Development Council (UCDC) was established in 1952 and abolished in 1963 by the Cooperative societies Act 1963 on recommendation of the council itself. Its functions and duties were taken over by the Uganda Cooperative Alliance Ltd. (UCA) which was established in 1961. The UCA was unsuccessful until 1986. New life was injected into UCA by the appointment of a new General Secretary. By 1988/89 UCA had become a true and effective spokesman of the Cooperative Sector. Today the Government, the Unions and Primary Societies seek and take the advice of the Alliance.

In the Cooperative Societies Act 1988 the author views the re-establishment of the Cooperative Development Council (CDC) as another method to retain government control over the Cooperative Sector (Part 1, (5) (b) (6) (a)). (Additional observations on the 1988 Act and government control will be addressed later on this paper). The re-creation of the CDC does absolutely nothing to enhance the cooperative sector that UCA is not doing at the present time (Part 1, 2. (a) (b) (c)). Also, a question, where is the money to support another organization coming from? The cooperative sector can ill afford another financial drain in its resources.

Further examination of the proposed 1988 Act reflects the same amount, or more of government control. Here are a few examples in proof of this assertion:

1. The Act states that every cooperative society shall have the powers to purchase any movable or immovable property; to sell, exchange, lease, dispose of, or otherwise deal with all or any part of the property of the society; to manage improve, and develop the property of the society; to borrow or raise money etc.

   However, one sees that these apparently broad powers of action on the part of cooperative societies are severely restricted.

2. The Act provides that each cooperative society must submit to the Registrar of Cooperative estimates of its expected income and expenses for the next fiscal year, and these estimates must be submitted at least one month before the end of the present fiscal year.

3. The Act continues to state that "No expenditure on any item shall be made before society's financial estimates have been approved in writing by the Registrar". And then, if the Registrar does not approve of these estimates he receives from the cooperative, he shall notify the society of the estimates he does approve, "and such estimates shall be binding on the society .. as it they had been confirmed by the general meeting of the members of that society".

4. The Act imposes a fine or imprisonment for any officer of a cooperative society who does not comply with the Minister's requests.

5. The Act gives the Minister the power to amalgamate or divide cooperative societies.

6. The Act provides that no society may pay dividends or bonus to its member without written approval from the Registrar.

   This is not a new requirement; it appears as section 46 of the present Cooperative Act, and it is a major cause of inconvenience, irritation and resentment on the part of cooperative societies.

   In its interviews with officials of district unions around the country, the Author was told, again and again, that societies which had realized a surplus during the previous fiscal year and wished to distribute bonus or dividends to their members had to wait many months -- sometimes an entire year before receiving the necessary approval from the Registrar. Such delay is keenly resented by the farmer - members of the country's cooperatives, who know they are entitled to receive a bonus or dividends from their cooperatives but can't because approval by the Registrar is not forthcoming.

7. The Act provides that this "Supervising Manager" shall not be bound to act in conformity with advice which may be tendered by the committee.

8. The Act implies that the Minister may, at any time and on any matter give directions to the Registrar as to the exercise of his powers or the carrying out of his duties and functions under this Act or regulations made thereunder.

9. The Act states that a party to a dispute is not allowed to have Legal representation before the registrar or arbitrator.

10. The Act states that no officer or member of a registered society shall receive any remuneration, salary, commission or other payment for services rendered to the society without permission of the Registrar.

In conclusion, the Act has granted more autonomy to the cooperative sector, however, let the reader of the Act decide whether or not the Act is conducive to complete cooperative autonomy. The observations listed above contradicts any assertion that Uganda's cooperative are fully autonomous enterprises.

CONCLUSION AND RECOMMENDATIONS

The ultimate purpose of this study is to set forth a series of recommendations which will serve to strengthen Uganda's cooperative sector. This will require some basic changes in the cooperative law, in the structure and organization of the cooperative law, in the structure and organization of the cooperative sector, its relationship to government, to the marketing boards, and to the private sector, as well.

1. Increase capital base

    a) Strengthening Cooperatives

        1) Final Rehabilitation model.

Most of the problems of the cooperative Union's are caused by their top management. They are lacking experience in business administration, they are not results oriented and they have had no commercial experience. Many of them come from government institutions and have no conception of the complexities of managing a large business enterprise. It is true that many of the problems are caused by external factors, however, good managers can forestall any impairment to the unions operations by using their "know-how."

The following lists examples of mis-management and the unions involved.

1. Crop finance diversion - several unions have diverted funds for capital expenditures, payment of past liabilities and other activities both legal and illegal. There were 10 unions that diverted funds. To name a few Busoga Growers, Bugisu Union, East Mengo, West Mengo, Wamala.

2. The lack of budget and accounting (Internal Control) utilization by union managers is obvious. Generally unions lack adequate systems of internal control. Those that have adequate systems do not use them as a management tool. There are 10 unions that have internal control systems, in place, however, these are not utilized. Some of these unions that reflect non-use of the systems are Busoga, East Mengo, West Mengo, Bugisu to name a few.

3. Another flaw, and perhaps the most costly to the unions, is the holding of large quantities of stock. The Mis-management of inventories of coffee stocks has drained the working capital and increased the interest costs of the unions. The unions most guilty are Busoga, Masaka, West Mengo, Bunyoro, East Mengo and Buruli.

Hence, the need for good management is paramount for the rehabilitation of the District Unions.

In order to implement the proposed model the following actions should be taken.

It is recommended that any action taken to rehabilitate the unions be headed up by the Uganda Cooperative Alliance (UCA) as they have the resources, both financial and staff expertise "to get the job done". As the apex organization of the Cooperative sector, they are the organization to provide the Union's with whatever assistance and guidance that is needed.

UCA has developed programs and are ready to implement these. They are the UCA's Management Improvement Program (MIP) which will provide systems to improve the quality of the union's business administration by improving their operations and economic efficiency. The necessary expertise will train the Board, management and staff in their respective areas of responsibility. The development, maintenance and use of Management Information Systems (MIS) to assist the unions managements. Develop or improve existing systems of internal control . UCA's accounting Service UCAAS is in place and are expanding their staff for the needs ahead. Already there is activity in training the society membership as training is definitely needed.

The Human Resource Development Department within UCA is the coordinator of the program. This department will be strengthened with a SCC financed MIP advisor, who will assist with the coordination and various other aspects of the implementation of the program. Below follows a list of some of the other 'payers' within the MIP:

UCA; General Secretary, Director of Human Resource Development Department, Sr. Management Training Coordinator, Rural Education Officer, Director of Research and Planning, director of Projects, Coordinator for the Luwero and the North North East Projects, Cooperative Development Advisor (ACDI).

UCA/BUS; General Manager, Management consultants, Computer

Manager, Programmers, Printing Press Manager.

UCA/STAT. Managing Director, Sr. Auditors, Audit Advisor (ACDI).

Others; External Consultants, Coop. Union Staff etc.

The UCA Business Services Ltd. (UCABS) has and is introducing computerized systems for the National and District Cooperative Unions. As previously mentioned there are 10 that are operational. They will play an important roll in the MIP.

The financing for the MIP and UCABS' is in place and was provided to UCA under its agreements with ACDI, SCC and USAID.

However, UCA should not become involved until a comprehensive financial and managerial audit by UCA's Audit /Services (UCAAS) is performed to ascertain the true condition of the union. A thorough verification of assets and their values, liabilities, i.e., loans (long and short term) plus interest payables to other creditors including societies and salaries due to staff should be included in the audit, Bank Statements for the last 2 years need to reconciled. This will provide the foundation for a restructure plan, as needed, on a case by case basis.

"Restructure Plan"

The "Restructure Plan" for the rehabilitation of the DCU's will provide solutions for their root problems and the methods used to attain the necessary results. The steps of the plan in conjunction with the comprehensive external audit will provide the basis for the improvement of the Board of Directors, management, staff and farmer members and in turn the improvement of the financial and operational conditions of the DCU's.

The case that follows provides a "worst case scenario", one that can be tailored to fit the correctional needs of any union.

Busoga Growers Cooperative Union

The farmer members must be informed as to the state of affairs of their Union. The Uganda Cooperative Alliance (UCA) will attend this meeting and address the membership and propose an action plan designed for the rehabilitation of BGCU's financial viability and management capabilities. UCA will recommend that the membership delegate complete powers to a Management Committee appointed by UCA to direct the affairs of BGCU for a period 12 to 24 months. Should the membership agree to the plan, the actions to be taken are:

Management Committee

It is suggested that the Management Committee (MC) should consist of 8 member chaired by UCA's General Secretary. Other members are the Director of Research and Planning/UCA, Director of Human Resource Development UCA, UCAs MIP advisor, the CEO of BGCU, the Chairman of BGCU Board of Director, the General Manager, or his representative, of the lending bank and one independent coffee processor (from another district). Others to attend the meetings of the MC should be the Regional Cooperative Officer in order to keep Ministry of Cooperatives and Marketing (MCM) informed of actions taken and progress attained. Other than the chairman of the Board, the remaining Board members should attend the MC meetings. This will provide communication to and from the membership. Also this will provide the needed training on how to direct a union.

The MC will select a Chief Executive Officer (CEO), who in concert with the MC will employ a competent controller and a chief Internal Auditor. All staff members should receive on the job training in their areas of operation.

The MC and Union Management must review the unions' indebtedness. This should be done in concert with the unions' bankers in order to work out a realistic plan for repayment of creditor's. The debt should be restructured to fit the repayment capacities of the union. In some cases, loans made on order of government for un-needed or un-wanted equipment should be compromised or forgiven.

UCA will need to assist the union management team in the ares of long and short term planning, the building of computerized budget models and to design, implement and train staff to employ and retain adequate systems of internal audit and external controls.

The need for a Management Information System (MIS) will require UCA to assist the union to design, implement and train staff on how to use, retain and benefit from the MIS.

The MC will need to examine all staff positions relative to job descriptions, qualifications, experience and training needs to ascertain current and future needs.

The MC will need to assess other areas of the unions operations such as coffee productions, transport, maintenance of machinery and equipment and make recommendations for technical assistance where needed to assume quality production of export coffee and to improve transport management.

When the proceeding action steps are in place and functional there will be significant improvement which will be quite evident the first year.

RECOMMENDATIONS FOR FINANCIAL REHABILITATION OF DISTRICT COOPERATIVE UNIONS

It is certainly that the present capital base of Uganda's Cooperative Sector is woefully inadequate. It also is true that there is no easy or painless way to significantly strengthen this capital base.

According to statistics supplied by officials of the Ministry of Cooperatives and Marketing, the total share capital of the country's 33 District Cooperative Unions was 97,932,844 shillings, or, at an exchange rate of 60:1 (as of 30 September, 1988), $1,683,214. Currently the dollar value of the share capital is $210,618. Share capital in the national cooperative organizations, as of 30 September, 1988, was U/shs. 16,650,522 or $277,508. current value is $45,001.

The capital accounts which includes capital and capital reserves should not be less than 10% of total assets.

The 1988 Annual Report of the Ministry of Cooperatives and Marketing, cooperative Department, shows that there were 4,921 primary cooperative societies of which 3,171 were agricultural marketing societies. Ministry of Cooperatives and Marketing officials estimate that the average membership per primary society is 500. The average share capital in the average was 70 shillings, whereby the share capital in the average society would mount to only 35,000 shillings, or $583. Current dollar value is $95. Therefore, total share capital for all primary societies would come to no more than $467,495.

Of Uganda's Cooperatives 75 percent are agricultural, and most of these are engaged in the marketing and / or processing of coffee. The average annual cash income of their farmer - members is approximately $250.00, and this is true whether they are coffee farmers or cotton growers. It thus is quite obvious why there is so little member share capital in the nation's cooperatives: the average farmer is so poor he simply cannot build any significant equity in his cooperative society.

1. **Increase Capital Base**

   To strengthen the Capital base of Uganda's Cooperative , it is recommended that the following actions need to be implemented:

   a) Considerably increase the fees or commissions the primary societies and district unions now are receiving for their services handling, storing, processing and transporting the coffee and cotton commodities. This would enable them to cover their costs of operations and realize substantial meet returns. This surplus should be retained by the cooperatives to be used as working capital with an equivalent distribution to farmer - members in the form of equity shares.

b) Pay the farmer a more equitable share of the final sale price of his produce and at the same time, increase the present equity requirements for cooperative members. As mentioned earlier, present membership equity requirements are minimal.

c) Initiate a "retains" system to augment the cooperatives share capital. For example, for each sack of coffee a farmer - member delivers to his cooperative, the society retains a certain percentage of the price -- which goes to purchase additional share certificates in the members name.

d) Set up a "revolving fund" in this manner. An equity account is set up in each member's name. When the member delivers his produce to the cooperative, he is paid so much in cash and so much in the form of share certificates which are credited to his equity account. Suppose the payment due a member from his cooperative were $100. The member would receive, say , $70 in cash and $30 in the form of share certificates. This would continue for a period of five years and then beginning in the sixth year the member can draw out the share capital he put in five years earlier -- and so on for each succeeding year. In this way, the cooperative can use these accumulated funds as short term working capital, and with hundreds of members participating in the revolving fund plan, this would come to a substantial amount.

e) The "Fair Share": Each member is expected to by "X" number of shares in his cooperative each year, on which he receives interest payments. when he has done this, he is considered to have invested his "fair share" in his cooperative society -- and the approval (or disapproval) of his fellow members induces him to do this.

f) As cooperative assets are revolved to compensate for the changing values of the shilling, individual member equity amounts should be adjusted accordingly.

Implementation of any of the first five of these recommendations is not possible unless the government of Uganda is willing to relinquish some portion of the revenue it now receives from the agricultural exports and pay a greater share to the agricultural cooperatives and their farmer - members.

At present, cooperatives are dependent on Bank of Uganda through the commercial banks for their crop finance loans. Only a very few primary societies and district unions are able to borrow directly from commercial banks.

Because government agencies serve as guarantors for cooperative loans, government officials feel they must exercise control over how cooperative conduct their financial affairs. If cooperatives and/or their farmer-members were permitted to receive a larger share of the final sales price of their produce, they could greatly strengthen the capital base of the cooperatives and thus provide a substantial portion of their own crop finance. Therefore, thus rationale for continued government control of cooperatives would lose much of its validity.

Income Tax

Income tax is paid by cooperatives at the rate of 60% on their net income. Even in a sophisticated tax environment this would be a serious operating drawback (Corporate tax rate in the US is currently 33%). In Uganda where there is virtually no incentive to improve business efficiency, such a tax can only serve to stifle enterprise and encourage misrepresentative of operating results.

Without government led tax reform/incentives that allow renewal of capital assets and encourage the build up of working funds, it is difficult to see how cooperatives can become viable and eventually achieve their objectives.

Revaluation of Fixed Assets

Mandate the revaluation of fixed assets. Cooperative response to currency devaluation has not been consistent.

Whereas some have revalued their fixed assets and brought themselves in line with current conditions, many still carry their fixed assets to historical cost. As a result, there is an on-going distortion in the balance sheets and income statements of these cooperatives caused by an under statement of annual depreciation expense and a corresponding over statement of net income/taxable profit. Hence these cooperatives pay an unrealistic amount of tax each year.

The present situation is anomalous and counter productive both for the cooperatives and the government. Revaluation of fixed assets should be mandatory and should not result in adverse tax consequences for the cooperatives.

In the end of Financial Rehabilitation of the DCU's will require the injection of fresh working capital for the capitalization of the union's. This should happen in conjunction with management training.

Improve Management and Accounting

A. Significantly increase the cooperative training educational programs now under way, specifically in the areas of cooperative principles, management and accounting. This can be achieved by developing a cadre of competent cooperative department and union staff to conduct training seminars for committee members, society managers and eventually farmer - members. For this purpose rehabilitation of the training wing is essential.

B. The Ministry of Cooperatives and Marketing should grant more autonomy to cooperatives so that local managers and committees have greater freedom in making important decision and taking necessary and timely action in the day-today operations of the cooperative.

Under the present system, all important operating decisions of district unions must be approved by officials of the Ministry of Cooperatives and Marketing, and this approval usually takes months. In its travels about the country, the consultant was told by managers of district unions that the correct operating decisions they make are often overruled by someone far way in Kampala who is not ware of local conditions.

Competent mangers, given greater freedom, can manage their cooperatives more efficiently. Incompetent managers should be released by the cooperative's committee and replaced by men who are competent.

C. To strengthen cooperatives' accounting systems, Group 3's recommendation is simply that cooperatives must employ competent accountants. A cooperative which is doing an annual business volume of several hundred thousand to approximately a million dollars should have on its staff one professional accountant with a degree in accounting and some previous experience, and he should have one or two bookkeeper clerks to assist him. They can commence with a :manual: accounting system, i.e. ledgers, journals, pen ink, and eventually grow into a computer based system (this is currently being implemented).

Cooperatives doing a large annual volume of business should have the same staff described above, but with the addition of perhaps two more clerks. Cooperatives doing a small volume of business -- $100,000 or, less per year -- can do with one part-time accountant -- but he, too, should be competent.

While these are simple and straight forward recommendations they may not be simple or easy to implement. This is because competent accountants must be paid properly for their services, and too many of Uganda's cooperatives cannot afford to offer salaries which will attract qualified and experienced accountants. Again, the solution is to permit cooperatives to receive a larger portion of the final sales price of the Agricultural produce they handle.

D. Finally, the functions of keeping accounts and auditing the same accounts should be separated. As it now, field representatives of the MCM set up the books for the primary societies, help them in keeping the books, and then also audit the same books. With larger cooperative revenues, these field staff can become accountant and Secretary Manager employees of the cooperative they are serving. For the present, the audit function should be retained by the Cooperative Department.

FINAL REMARKS

All of the cooperative sector is experiencing difficult times from the farmer/member, to the DCU's and the national unions and changes needs to be made. Major changes of any kind is always difficult and painful, whether it can be economic, social, cultural or political in nature. It is difficult to implement and painful for some to accept. This is because although the change may benefit many, there always are a few who will be adversely affected. Nevertheless, most of Uganda's Cooperative leaders, whether employed in the public or private sector, recognize the need for concerned and definitive action to strengthen and improve the overall performance of the nation's cooperatives.

It has ben determined by the World Bank team leader that the financial audits which were used in this study were not current enough to accurately assess the true financial condition of the DCU's. It has been decided that teams will have to return to the field to gain current financial information in order to provide a more up-to-date financial picture. However, te financial data used in this report reflects the serious financial condition the DCU's are in. Current figures will surely show a more dismal picture.

APPENDIX A

List of people Interviewed.

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