PN-ABJ-536
ISN 73934

THE IMPACT OF THE USAID/UGANDA AGRICULTURAL NON-TRADITIONAL EXPORT PROMOTION (ANEP) PROGRAM

AN ANALYSIS OF RECENT DEVELOPMENTS: 1990 - 1991

A REPORT PREPARED FOR USAID/UGANDA

by

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October 1, 1991

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EXECUTIVE SUMMARY

The Agricultural Non-Traditional Export Promotion (ANEP) Program was initiated by USAID/Uganda in 1988 to support the efforts of the Government of Uganda (GOU) "to increase Uganda's non-traditional exports in the long term."

This report updates developments in the ANEP program since the August, 1990 impact evaluation which concluded that the ANEP program has had a positive impact on the growth of non-traditional agricultural exports. (For purposes of the impact evaluation, non-traditional agricultural exports were defined as any commodity except coffee, cotton and tobacco.)

Despite a variety of strong external pressures which adversely affected the macroeconomic environment in which private exporters operate, Uganda's non-traditional exports (NTEs) continued to demonstrate robust growth during the past year.

NTEs grew by 70 percent from 1989 to 1990 and there are strong signs that there will be similar growth in 1991, despite continued infrastructural problems (primarily in financial services and transport services) and the loss of important markets in Rwanda and the Middle East.

NTEs continue to grow primarily because of the incentives created by additional GOU policy and regulatory reforms, such as exchange rate reform (legalization of the foreign exchange bureaus and liberalization of foreign exchange transactions), export licensing reform, and modest improvements in the agricultural marketing infrastructure, especially the roads.

The USAID ANEP Program has maintained firm support of the GOU policy reform program to promote NTEs. Through the ANEP program, USAID/Uganda has provided general support to non-traditional exporters and specific assistance to a few firms which has led to increases in non-traditional exports.

The Export Policy Analysis and Development Unit (EPADU), which is supported by USAID funding and technical assistance, has provided important policy analysis and advice to the GOU regarding policy and regulatory reforms that will improve the incentives for exporters. In addition, specific technical advice and export promotion programs offered by the EPADU have provided critical support to a few firms which has had a positive impact on the growth of NTEs. One example of EPADU's recent success is their support of a women's organization making handicraft exports.

However, while the EPADU has had much success analyzing the policy environment and successfully arguing within the Government for policy and regulatory change to promote NTEs, its seminars and training activities have been too broad and not focussed enough to meet the specific marketing needs of export-oriented firms. Moreover, the EPADU is late in publishing the results of an Exporters' Survey done in August, 1990 and has not yet initiated the survey for 1991 which is intended to build baseline data and information required to measure program and institutional success in promoting NTEs.

During 1990, the agricultural NTEs earning the most foreign exchange were: **Hides & Skins; Sesame; Maize; Beans; Fish; and Timber**, all of which earned more than half a million dollars.

Interviews with exporters indicate that all of these commodities, with the notable exception of timber, continue to be the most lucrative and highest volume agricultural NTEs during 1991. Indeed, these commodities have been the leading agricultural NTEs for the past three years. While horticultural products, especially banana and pineapples, have also been exports of high value, infrastructural constraints (especially appropriate storage and transport) currently prevent these commodities from growing as rapidly as other NTEs.

Commodity specific analyses indicate that most marketing arrangements remain fragile for NTEs. Lack of adequate financing to maintain high levels of marketing activities is a common constraint cited by firms involved in virtually every NTE. In addition, the ability of speculators to undermine contractual relationships between exporters and producers or to threaten the marketing relationships made by private investors also poses a threat to the development of sustainable growth in NTEs.

Nevertheless, the potential for continued growth in NTEs remains high. Fish exports, in particular, will continue to grow as new processing facilities are opened in 1991. But additional investments in marketing infrastructure, including storage and transport, could increase exports at an even faster rate than has been achieved to date. Moreover, more focussed technical assistance to specific firms could help them increase their export marketing efforts.

THE IMPACT OF THE USAID
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AN ANALYSIS OF RECENT DEVELOPMENTS:
1990 - 1991

I. INTRODUCTION

A. The Agricultural Non-Traditional Export Promotion (ANEP) Program

The ANEP Program was initiated by USAID/Uganda in 1988 to support the efforts of the Government of Uganda (GOU) **"to increase Uganda's non-traditional exports in the long term."**

Non-traditional exports were initially defined by USAID/Uganda as all agricultural commodities other than coffee, tea and cotton. However, the GOU tends to classify <u>any export other than coffee</u> as non-traditional.

The strategy which USAID/Uganda has been pursuing under the ANEP Program is to support GOU efforts "to provide the private sector with the necessary **incentives** for increasing the <u>range</u> and <u>volume</u> of non-traditional exports."

The ANEP Program has three components:

* FIRST: the ANEP Program, through its conditionality, supports specific policy and regulatory reforms designed to liberalize marketing and to encourage private agribusinesses to make more exports through official channels.

* SECOND: the ANEP Program, through a Commodity Import Program (CIP), funds the importation of specific commodities which are to be used by producers and exporters to increase the production and marketing of non-traditional agricultural products.

* THIRD: the ANEP Program, by providing technical assistance, funding and equipment, is strengthening the capacity of the Export Policy Analysis & Development Unit (EPADU) in the Ministry of Planning & Economic Development (MPED). EPADU has two roles: to conduct policy analysis and advise the Government of policy and regulatory changes which could stimulate export development and to provide direct advice and assistance to private sector exporters of non-traditional commodities.

The GOU agreed to provide incentives to the private sector to increase their participation in non-traditional export activities. Specifically, the GOU agreed to establish a **Foreign Exchange regime** that would stimulate economic growth by: first, liberalizing marketing restrictions so that the private sector could export non-traditional agricultural commodities directly and **receive an import license of equivalent foreign exchange value**, and subsequently, legalizing the parallel (kibanda) market for foreign exchange by licensing private sector Forex Bureaus.

In addition, the GOU agreed to undertake regulatory and administrative reform which would **simplify the export/import license procedures**, shifting from a system whereby each export transaction required a license to a system whereby the export license is valid for a certain period of time (six months) and any amount of commodities specified by the exporter may be exported. More recently, the GOU has also created a Border Permit system whereby traders resident in a district which borders another country may export commodities without an export license.

B. The 1990 Impact Evaluation of the ANEP Program

In July - August, 1990, the U.S. Agency for International Development in Washington, D.C. (AID/W) conducted an impact evaluation of the USAID/Uganda Agricultural Non-Traditional Export Promotion (ANEP) Program.

The evaluation of the ANEP Program analyzed the impact of the three complementary aspects of the program and concluded that the ANEP program has had a positive impact on the growth of non-traditional agricultural exports. For purposes of the impact evaluation, non-traditional agricultural exports were defined as any commodity except coffee, cotton and tobacco.

Based on an analysis of statistics available from the Customs Department, the Bank of Uganda (BOU), the Ministry of Commerce and from the exporters themselves, it was apparent that both the range and the volume of non-traditional exports (NTEs) had increased significantly. Based on Customs Department figures for Kampala and Entebbe only, the impact evaluation estimated that NTEs had increased from less than $3 million in 1987 to $5.48 million in 1988, $8.60 million in 1989, and were projected to reach about $12 million in 1990. (Revisions in these figures can be found in Table 3, below, based on more accurate and complete information obtained from the Customs Department this year.)

However, the evaluation noted that while the ANEP Program had played an important role in supporting the GOU **process of**

policy reform, some of the specific reforms were not as beneficial as originally envisioned.

For example, exporters complained that the system of granting an import license of equivalent foreign exchange value to a firm which had made an export shipment was of little use to them. The vast majority of exporters would have preferred to sell their foreign exchange at the parallel market (kibanda) rate and to use the Uganda shillings to continue financing their marketing activities. (Indeed, this reform was announced in the Minister of Finance's Budget Speech of June, 1990, immediately prior to the arrival of the impact evaluation team. However, it was not implemented until early August, just as the impact evaluation team was departing.)

In addition, the evaluation noted that there had been serious implementation problems with the CIP aspect of the ANEP Program. These included cumbersome application and approval procedures both within USAID/Uganda and the GOU and arbitrary decisions regarding which commodities would be considered as eligible for financing under the ANEP program. Moreover, there had been an impasse in program implementation when USAID/Uganda and the Bank of Uganda (BOU) disagreed over what the exchange rate should be for the CIP component of the program.

Finally, the impact evaluation found that while the Export Policy Analysis and Development Unit (EPADU) was beginning to take a role in policy analysis and export promotion, its impact at the time of the evaluation had not been as great as the USAID Mission had projected. (The EPADU had only been established by the GOU in October, 1989 and it was not fully staffed until June, 1990, shortly before the arrival of the evaluation team.)

C. The Purpose of The Report

Because the ANEP Program was still ongoing during the U.S.A.I.D. impact evaluation, no definitive conclusions could be drawn about the final impact of the program. Therefore, USAID/Uganda wants to collect additional quantitative and qualitative information about the continuing impact of the ANEP Program. In addition, USAID/Uganda is planning to provide additional support to private sector exporters of non-traditional commodities (NTEs) through the ANEP Program. Hence, the Mission needs information that can help define the form of further assistance. Therefore, USAID/Uganda requested AID/W (AFR/TR/ANR) assistance in updating the impact analysis of the ANEP Program.

The **purpose** of this report is to analyze the impact of the three components of the ANEP Program in promoting growth in the range and volume of non-traditional exports during the past year, from August, 1990 through August, 1991.

The method followed for this report is as follows:

* FIRST: statistics were collected from the Customs Department in the Ministry of Finance, the Statistics Department of the MPED, and the Bank of Uganda (BOU). These statistics were supplemented by data available from the public and private sector exporters themselves, including anecdotal data.

* SECOND: intensive interviews were conducted among GOU policy makers regarding policy and regulatory reforms Sixteen GOU officials and two technical advisors were interviewed.

In addition, interviews were conducted with both the public sector and private sector exporters of non-traditional commodities. Ten senior officials in state-owned enterprises (SOEs) and more than thirty private exporters were interviewed.

While the exporters themselves were the primary source of information, ten farmers who produce non-traditional exports were also interviewed during field visits.

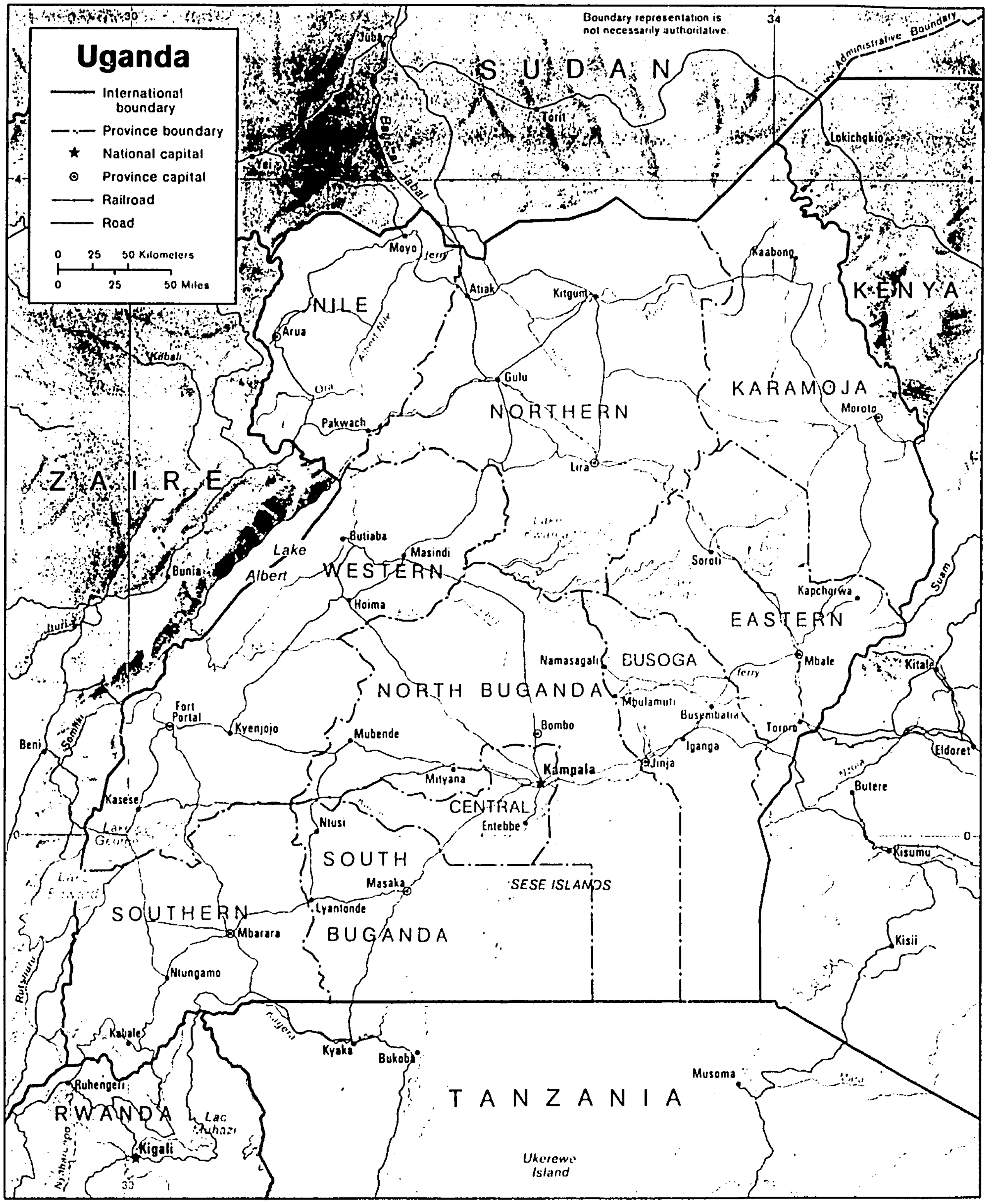
Finally, interviews were also conducted with twelve private sector businesses which provide the support services for non-traditional agricultural exports, including: buyers of produce, manufacturers of cartons for packaging produce, truck transport owners, produce storage owners, air cargo carriers and the banks that help to finance marketing activities.

* THIRD: technical advisors, prospective investors and miscellaneous private entrepreneurs were also interviewed in an attempt to assess the impact of the policy and regulatory reforms on the environment for private enterprise in Uganda.

Exporters and officials who had been interviewed in 1990 were interviewed again this year in order to monitor and evaluate the changes of the past year. Additional exporters were interviewed to expand the information base so as to cover all major non-traditional export marketing systems.

Direct participants in the ANEP Program, especially firms which had benefitted from the CIP component of the ANEP Program, were also interviewed.

Interviews were conducted in major commercial centers for non-traditional exports including Kampala, Jinja, Tororo (a town handling some exports to Kenya), Masaka (a center for exports to Tanzania), Kasese and Bwera (centers for exports to Zaire), and in farming areas in Mukono, Masaka, Mpigi, and Tororo Districts (see the map on the following page). Unfortunately, time constraints did not permit planned visits to Kabale (a market town handling exports to Rwanda) and Mbale District (a center for exports to Kenya).


Uganda
International boundary
Province boundary
National capital
Province capital
Railroad
Road
0 25 50 Kilometers
0 25 50 Miles
Boundary representation is not necessarily authoritative.
Administrative Boundary
SUDAN
KENYA
ZAIRE
TANZANIA
RWANDA
NILE
NORTHERN
KARAMOJA
WESTERN
EASTERN
BUSOGA
NORTH BUGANDA
CENTRAL
SOUTH BUGANDA
SOUTHERN
SESE ISLANDS
Lake Albert
Juba
Yei
Torit
Lokichokio
Kaabong
Moyo
Atiak
Kitgum
Arua
Gulu
Pakwach
Moroto
Lira
Butiaba
Masindi
Bunia
Hoima
Soroti
Kapchorwa
Mbale
Kitale
Namasagali
Mbulamuti
Busembatia
Tororo
Fort Portal
Kyenjojo
Mubende
Bombo
Iganga
Eldoret
Beni
Kampala
Jinja
Mityana
Butere
Kasese
Ntusi
Entebbe
Kisumu
Masaka
Lyantonde
Mbarara
Kisii
Ntungamo
Kabale
Kyaka
Bukoba
Musoma
Ruhengeri
Kigali
Ukerewe Island
30
34
4
0

The report analyzes the specific non-traditional agricultural exports which have emerged as the largest in dollar value during the past three years. In addition, the report examines other non-traditional agricultural commodities which are demonstrating **the potential** to help increase employment and income among farmers and private agribusinesses. Finally, the report concludes with some **recommendations** which USAID/Uganda may wish to consider during the design of a subsequent program to support non-traditional exports.

II. THE ANEP PROGRAM DURING 1990 - 1991

A. Macroeconomic and Sectoral Background

During the past year, international and domestic events have combined to create economic difficulties for Uganda which have adversely affected the impact of the ANEP Program on non-traditional exports. Among the factors which have had an adverse impact on the economic environment for non-traditional exports (NTEs) are the following:

FIRST, international petroleum product prices rose immediately after the Iraqi invasion of Kuwait in August, 1990. While prices eventually stabilized by mid-1991 at about the pre-war levels, the shock of the quick rise in prices reverberated throughout the economy.

The rise in petroleum prices caused the GOU to request additional donor assistance with its balance of payments (BOP) problems. Specifically, **USAID/Uganda provided the GOU with an additional $20 million in foreign exchange through the ANEP program** for petroleum imports during the past year.

SECOND, international coffee prices remained low. Moreover, because of continued relatively low domestic producer prices, Uganda's coffee production fell from 169,000 metric tons (MT) in 1989 to 126,000 MT in 1990. As a result, Uganda's foreign exchange (FX) earnings from coffee exports continued to decline, falling from $276 million in 1988, to $195 million in 1989 to only $128 million in 1990.

While foreign exchange earnings from coffee have dropped dramatically, other sources of FX earnings, especially non-traditional exports (NTEs) have increased tremendously. Foreign exchange earnings from NTEs have increased in real terms and as a share of total FX earnings for Uganda since 1988. (See the bar graph on the following page for an illustration.)

UGANDA'S EXPORTS

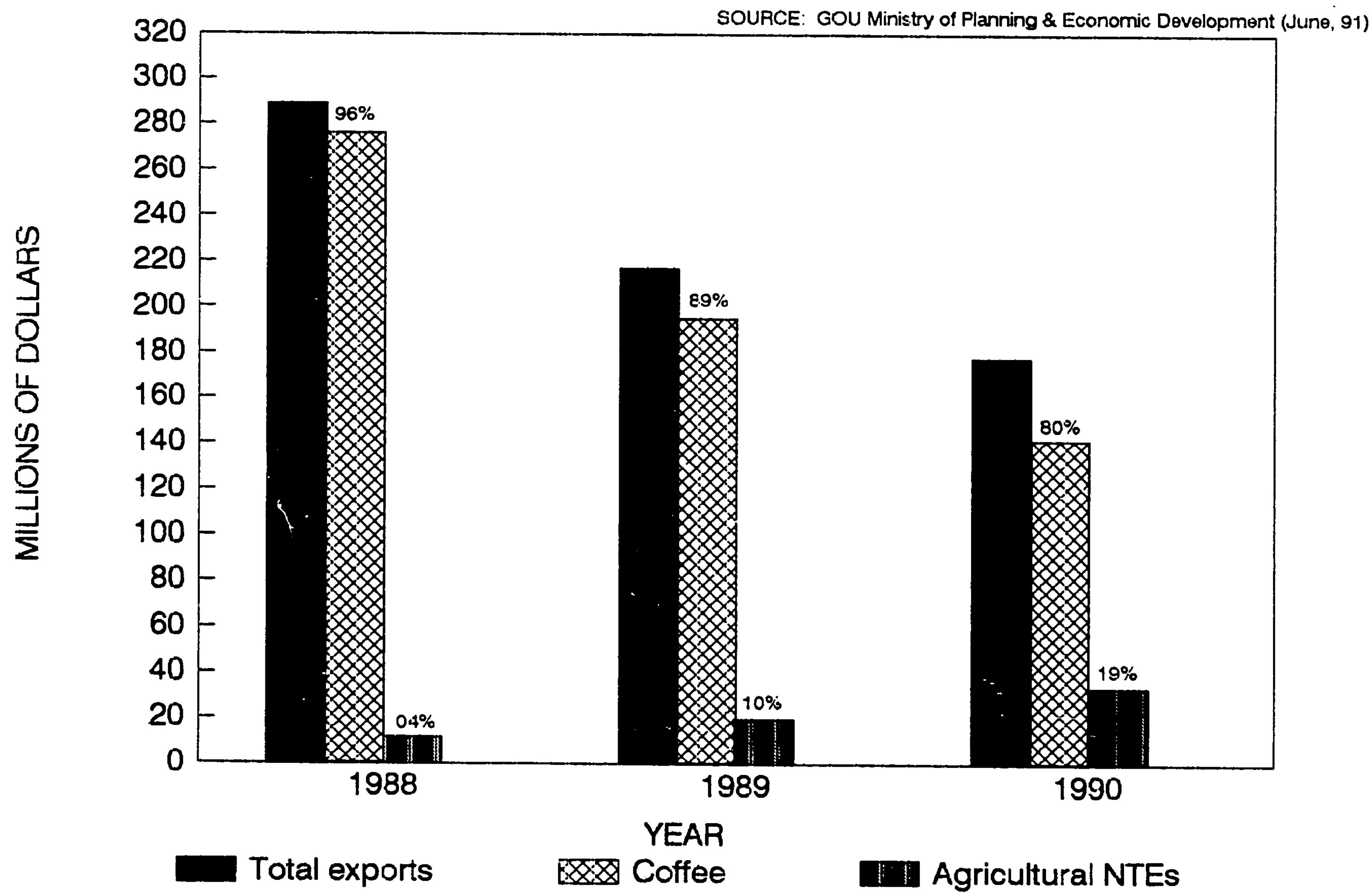


TABLE 1: UGANDA EXPORTS 1988 - 1990

	1988	1989	1990
TOTAL EXPORTS:	**$289 million**	**$217 million**	**$178 million**
Coffee:	$276 m (96%)	$195 m (89%)	$142 m (80%)
Agricultural NTEs:	$ 12 m (04%)	$ 20 m (10%)	$ 34 m (19%)
All Others	$ 1 m	$ 2 m (01%)	$ 2 m (01%)

NOTES:

Agricultural NTEs include cotton, coffee and tea, per the GOU definition of NTEs. More detail on Agricultural NTEs is found in TABLE 3 on page ?.

All Others refers primarily to electric current, and other non-agricultural exports (e.g. manufactured goods).

SOURCE: GOU Ministry of Planning & Economic Development (June, 1991)

Despite the impressive gains in agricultural NTEs foreign exchange earnings, there has been a net reduction in Uganda's foreign exchange. This had a negative impact on the nation's ability to maintain the value of the Uganda shilling in the face of rising demand for scarce foreign exchange resources to finance the imports needed to sustain increases in production, marketing and investment. As a result, the Uganda shilling depreciated in value and it became more difficult to finance imports. Hence, donor sources of hard currency assumed great importance in the GOU's attempt to cover its foreign exchange gap, such as USAID/Uganda's ANEP Program dollars for fuel and commodity imports.

THIRD, war broke out in Rwanda and Kuwait during late 1990. The conflict in Rwanda has not yet been peacefully resolved and the border between Uganda and Rwanda is not safe for commerce. While the Iraqi invasion of Kuwait has been turned back, trade between Uganda and the region is only now beginning to resume.

The war in Rwanda has had a tremendous adverse impact on Ugandan non-traditional exports. The outbreak of the conflict effectively halted all direct trade between Uganda and Rwanda. Exporters who had been selling their non-traditional commodities to Rwanda had to find new markets for their agricultural produce and not all of the private traders were successful in making new marketing arrangements. The exporters who were especially affected were maize, bean and fish exporters.

The war in Kuwait had a noticeable impact on Ugandan non-traditional exports. The Iraqi invasion disrupted the flow of trade with Middle Eastern countries. Exporters of spices (e.g. ginger), sesame, hies and skins, tea and cotton were especially adversely affected by the war. While most exporters of tea and cotton found alternative markets for their commodity, other exporters were less successful in locating new markets and new buyers.

FOURTH, inflation rose to an estimated 38.7 percent rate during FY 1991 (July 1, 1990 - June 30, 1991).

The rise in domestic prices adversely affected the costs of doing business for non-traditional exporters. Marketing costs for non-traditional exports, especially transport and packaging costs, increased significantly creating some serious difficulties for many private agribusinesses. For example, domestic fuel costs increased by 67 percent during the past year.

FIFTH, in an attempt to hold down the rate of inflation, the Government put more strict limits on the money supply and credit. GOU statistics indicate that the supply of credit to the private sector increased by 41 percent or 29 billion Uganda Shillings (U Shs.) during FY 1991 over FY 1990 levels. Crop Finance absorbed almost 40 percent of the jump in private sector credit, a value of 11.6 billion U Shs.

However, interviews with private commercial bankers, exporters and GOU officials indicate that some of the funds designated for Crop Finance loans were actually used by borrowers for other purposes. In addition, larger firms which can meet the high collateral requirements (often 80-100 percent) of the commercial banks tend to secure loans whereas the medium-sized firms, especially those located outside Kampala, have difficulty securing adequate financing for export marketing operations. Indeed, interviews with buyers in market towns throughout Uganda indicates that **limited access to financial resources prevented genuine buyers and exporters of NTEs from achieving even higher levels of non-traditional exports.**

SIXTH, there was drought in some parts of the country during late 1990 and early 1991. Preliminary estimates indicate that the only crops which experienced a modest drought-related decline in production were millet, maize, cassava, and tobacco. Indeed, food crop production grew by an estimated 3.6 percent while total agricultural production grew by 2.8 percent. Declines in coffee production off-set impressive gains in other agricultural crops, including many agricultural NTEs.

Despite these pressures, Uganda's total Gross Domestic Product (GDP) grew by an estimated 4.7 percent in FY 1991, or about 2.2 percent in real terms for FY 1991. While growth was positive, it was below previous growth rates. Between FY 1988 and FY 1990, Uganda's average annual GDP growth rate had been 6.7 percent.

B. Policy and Regulatory Changes During 1990 - 1991

Non-traditional exports continued to demonstrate robust growth during the past year because of the positive effects of additional GOU policy and regulatory reforms and modest improvements in the agricultural marketing infrastructure, especially the roads.

Non-traditional exports have maintained high growth rates because the Government of Uganda (GOU) has maintained its strong commitment to promote private investment in the economy and to liberalize the country's marketing systems. USAID/Uganda has maintained firm support of the GOU policy reform program. Through the ANEP program, USAID/Uganda has provided general support to non-traditional exporters and specific assistance to a few firms which has led to increases in non-traditional exports.

Among the favorable policy and regulatory changes which the GOU has made and which have been supported by USAID/Uganda through the ANEP Program are the following.

FIRST, the GOU continued the process of reforming the **Foreign Exchange regime**. In late July, 1990, the GOU gave *de jure* recognition to the parallel (*kibanda*) foreign exchange market by creating procedures for **the establishment of private Forex Bureaus** for the buying and selling of foreign exchange.

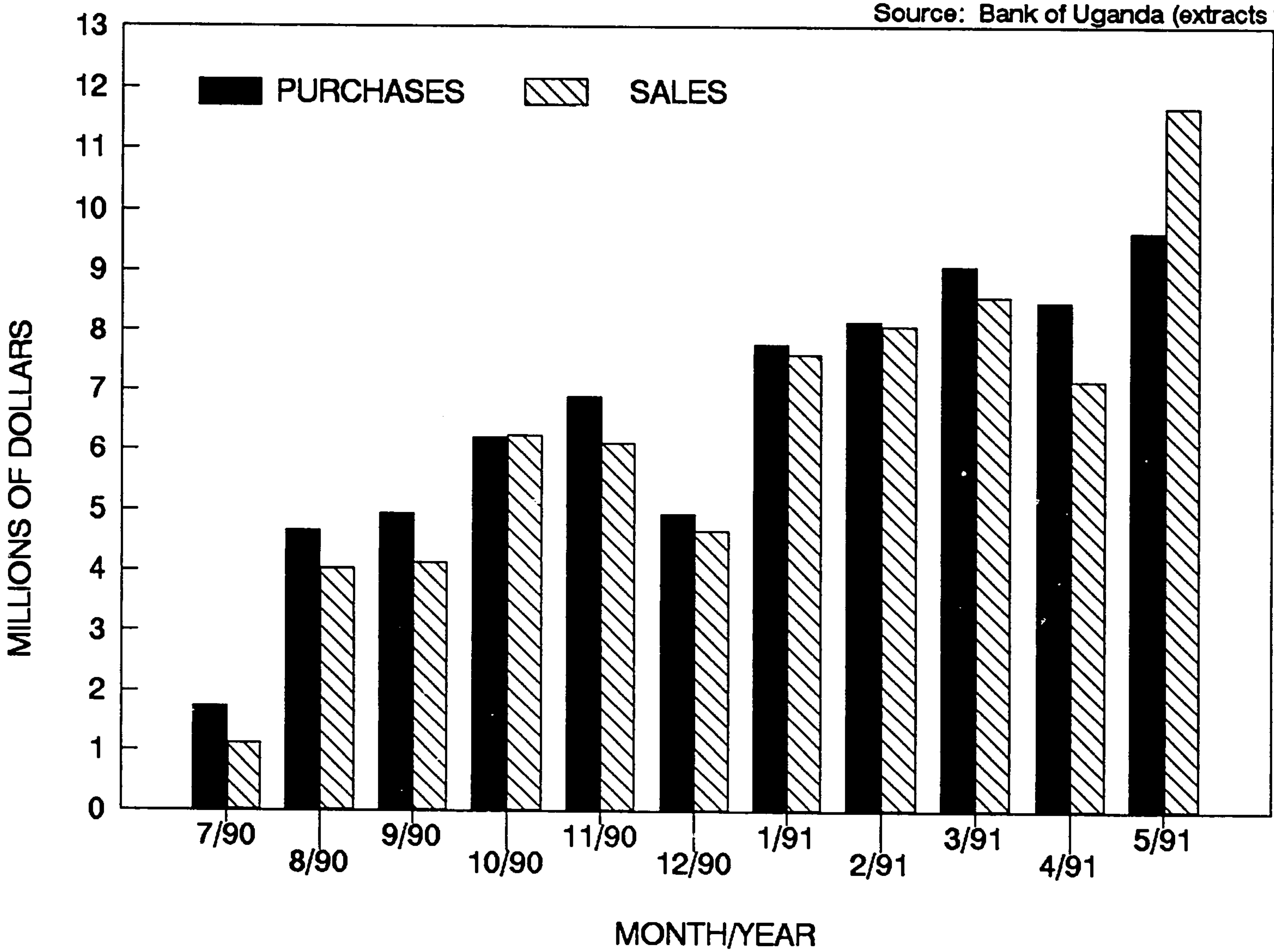
The impact of this policy reform has been tremendous. According to the BOU, 41 private Forex Bureaus have opened in Uganda since late July, 1990. (This includes private commercial banks' Forex Bureaus.) While almost all Forex Bureaus are in Kampala, two have recently opened in Jinja, one is located at Entebbe Airport, and several others are applying to get licensed.

Exporters of NTEs are no longer constrained by foreign exchange regulations on their export earnings. Agribusinesses exporting non-traditional commodities can sell their hard currency earnings at the Forex Bureaus and get the highest market price in terms of Uganda shillings. **This enables the exporters to maintain their liquidity**, which is especially important during the critical months of the buying and exporting season.

The volume of Forex Bureau transactions reflects the growth in NTEs during the past year. (See the bar graph on the following page for a graphic illustration of the rise in the volume of Forex Bureau transactions.)

VOLUME OF FOREIGN EXCHANGE BUREAU TRANSACTIONS

Source: Bank of Uganda (extracts from Forex Bureau receipt



Total Purchases: $72.61 million

Total Sales: $69.56 million

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TABLE 2: VOLUME OF FOREX BUREAU TRANSACTIONS
(July, 1990 - May, 1991)

MONTH	PURCHASES	SALES
July, 1990:	$ 1.76 m	$ 1.13 m
Aug., 1990:	$ 4.67 m	$ 4.05 m
Sept, 1990:	$ 4.94 m	$ 4.14 m
Oct., 1990:	$ 6.21 m	$ 6.25 m
Nov., 1990:	$ 6.90 m	$ 6.12 m
Dec., 1990:	$ 4.95 m	$ 4.68 m
Jan., 1991:	$ 7.78 m	$ 7.61 m
Feb., 1991:	$ 8.16 m	$ 8.09 m
Mar., 1991:	$ 9.08 m	$ 8.59 m
Apr., 1991:	$ 8.49 m	$ 7.18 m
May, 1991:	$ 9.65 m	$11.70 m
TOTAL:	**$72.61 million**	**$69.56 million**

SOURCE: Bank of Uganda (extracts from Forex Bureau receipts).

SECOND, the BOU has made several devaluations of the Uganda shilling official exchange rate, moving from 400 U Shs. per $1.00 to 800 U Shs. per $1.00. Reducing the gap between the official and Forex Bureau rate has helped **to make Ugandan exports more competitive** in world markets and has helped to send real market price signals to producers and buyers of NTEs.

THIRD, in January, 1991, the GOU enacted a **new Investment Code** designed to promote more domestic and foreign invest in Uganda. In addition, the GOU established the **Uganda Investment Authority** within the MPED to implement the Investment Code and to act as a one-stop center for investors.

The establishment of the Uganda Investment Authority (UIA) was strongly supported by USAID/Uganda. (While USAID/Uganda is playing a key role in supporting the UIA, that activity is not considered to be part of the ANEP Program and will not be analyzed here.) It is anticipated that the UIA will coordinate its efforts with those of EPADU to promote investments in the marketing systems for NTEs. This should have a beneficial effect on the future growth of NTEs.

An indication of the positive response these changes are generating within the Uganda economy, especially the financial sector, is that several investors recently applied to open three new private commercial banks in Kampala and one (Greenland Bank) is already operational. There are now 13 commercial banks licensed to do business in Uganda.

FOURTH, the GOU has continued the process of opening up all agricultural marketing systems to the private sector. During the past year, private firms were licensed to begin exporting **tea** and **coffee**. The only commodity which still has some restrictions on marketing is cotton, for which the Lint Marketing Board retains its export monopoly, although direct sales by cotton ginneries to local textile mills are now allowed.

Nevertheless, while GOU policy reforms have opened marketing for export to the private sector, infrastructural deficiencies (e.g. lack of buying and storage centers) and institutional rigidities (e.g. commercial bank lending practices) have limited the impact of the GOU policy and regulatory reforms. Consequently, two agricultural state-owned enterprises (SOEs), the Produce Marketing Board (PMB) and the Foods and Beverages Limited, still dominate much of the domestic and export marketing of some non-traditional agricultural commodities, especially beans and maize.

FIFTH, a new Export Certificate, introduced in March, 1991, has replaced the cumbersome and time-consuming process of applying for an export license. The Export Certificate is valid for six months and is not restricted to the export of specific commodities, quantities or values. In addition, the fee for the Export Certificate has been reduced to a negligible level. A private firm with an Export Certificate can export any amount of any commodity at any price.

The impact of this regulatory reform has also been very positive. Exporters report that instead of wasting two to three days in Kampala getting the Export License, they only need one day in Kampala to get the Export Certificate. All the paperwork is now handled by a single office within the Ministry of Commerce, Cooperatives and Marketing. This has greatly simplified and streamlined the export certification process and reduced the opportunities for rent-seeking behavior on the part of GOU personnel.

SIXTH, in April, 1991, the GOU introduced a **Border Permit** to complement the Export Certificate. The Border Permit has been instituted in order to facilitate legitimate exports by resident Ugandan traders of districts which border Kenya, Tanzania, Rwanda, Zaire and Sudan. The Border Permit is valid for six months and it carries a maximum limit of $5000 worth of exports. There is no cost for the Border Permit. If a firm or individual possesses a Border Permit, they do not need an Export Certificate; the Border Permit is all the documentation required to make an export. If during that six month period, an exporter makes a sale which exceeds $5000, a revised Border Permit is issued by the local authorities.

Interviews with exporters and local district border officials provides clear evidence that **the introduction of the Border Permit has had a positive impact on formalizing a significant amount of trade** that was still being carried on outside official channels. The Border Permit allows many small and medium-sized agribusinesses in remote, border areas to engage in the legitimate export of NTEs without having to incur the expense of coming to Kampala to apply for an Export Certificate.

While the creation of the Border Permit may help the GOU to track and monitor more of its exports with neighboring countries, (because Customs Officers check and record export transactions), small amounts of exports will still go unrecorded. District border Trade and Customs officials explain that any firm or individual that exports (transports) **less than $100** worth of merchandise does not need any paperwork from the GOU to conduct that small trade. Valuation of the individual exports is left to the discretion of the Customs officer. Hence, small, daily transactions will still go unrecorded in GOU export statistics.

Finally, <u>the GOU has maintained its commitment to rehabilitate and maintain the primary and secondary roads</u> in the country. With support from the donor community, including USAID/Uganda (i.e. some local currency from the ANEP Program), the road networks are improving. Among the other donors supporting the GOU road rehabilitation and maintenance are the EEC, the German Government, the World Bank IDA, the UK ODA, the African Development Bank and Development Fund, the United Nations Development Program (UNDP), and the Japanese Government.

C. Institutional Support for NTEs: The EPADU

Institutional support for private sector exporters of non-traditional commodities has come primarily through the Export Policy Analysis & Development Unit (EPADU) which USAID/Uganda helped establish and is funding. USAID/Uganda is funding short-term and long-term technical assistance to the EPADU and to specific export-oriented associations and firms. One new innovation in USAID/Uganda's institutional support of private exporters of non-traditional commodities is the Operational Constraints Analysis (OCA) program, jointly funded with the Africa Project Development Facility (APDF) and administered by the EPADU.

During the past twelve months there has been a noticeable increase in the EPADU's **research and technical assistance** activities. According to the EPADU staff, the unit has made a decision to focus its staff time and most of its funding on research related to policies that will provide incentives for export development while sponsoring specific seminars for various commodities or aspects of trade development.

The EPADU's research efforts have focussed on **analyzing** the policy and regulatory issues which directly and indirectly affect NTEs **and making recommendations** and making recommendations to the GOU regarding policy or regulatory changes needed to solve problems and make opportunities more widely available.

Recently, for example, the EPADU produced two lengthy Policy Papers which have gone to the GOU for policy discussion. Policy Paper 4, entitled "Export Strategy: Government Policy on Non-Traditional Exports: Analysis and Recommendations for Action," is a thorough analysis of the entire macroeconomic and sectoral policy and regulatory issues that affect non-traditional exports. It analyzes issues such as taxation and tariffs, credit and interest rate policy, trade issues, institutional support and infrastructure. The Policy Paper makes specific recommendations for policy changes. The paper is now under review by the Presidential Economic Commission (PEC).

The EPADU Policy Paper 5, entitled "Proposals for Trade Liberalization, Export Promotion and Diversification, and Investment Promotion," grows out of a visit made by the EPADU Director and a MPED economist to three Caribbean countries: Jamaica, the Dominican Republic and Costa Rica. The report analyzes the experiences of each country in trying to promote non-traditional exports and draws lessons learned for Uganda that form the basis for the report's recommendations. The policy paper has been reviewed by the PEC and, in principle, the GOU has agreed to many of the reform proposals, according to members of the EPADU staff. However, implementation of specific policy and regulatory reforms has not yet started.

There is a general consensus among both public officials and private entrepreneurs that EPADU is doing thorough and sound research and analysis. The EPADU is making a positive contribution to the reform process that has created a policy and regulatory environment which offers more **incentives** to private exporters than were available even a year ago. The streamlining of the export procedures and other regulatory reforms which the GOU has implemented were based on the analytical work and recommendations of the EPADU and supported strongly by the MPED, BOU and the Ministry of Commerce.

The EPADU's technical assistance in support of private firms engaged in non-traditional export marketing has increased tremendously during the past twelve months. The EPADU has conducted an Exporter Survey (August - September, 1990), prepared a draft "Exporters' Handbook" (March 1991), organized five seminars for private sector exporters of NTEs, and sponsored several exporters on promotional and familiarization tours of European markets.

The **Exporters' Survey** was conducted one year ago. Surveys were mailed to exporters of non-traditional commodities who are based throughout the country. Two hundred and ten exporters responded to the survey. The survey was designed to gather information regarding what commodities were being exported, where the markets for those products were, what effect the policy and regulatory environment was having on the performance of export marketing, and what additional problems exporters might be having with export marketing arrangements.

Unfortunately, the data gathered from the **Exporters' Survey** has not yet been analyzed nor disseminated to policy makers within the GOU for their consideration. EPADU staff have not had the time nor do they have the computer training needed to process the data, analyze it and disseminate it in a comprehensible and easy to utilize format. Apparently, there was some disagreement within EPADU regarding whether the unit should get technical assistance for the computer analysis of the survey from the U.K. or Uganda and ultimately there was no resolution of the issue. As a result, the EPADU staff themselves are trying to complete the analysis and publish the results. (A draft copy of the exporters' responses to the survey was made available for this report.) Unfortunately, until the computer data base and systems' problems are resolved, it may some time before the results are compiled and disseminated.

The EPADU wants to begin another **Exporters' Survey** this year so that they can build an information base that will track the impact of policy and regulatory changes on an annual basis. The EPADU hopes that these annual surveys will enable them to measure over time what the impact of the recent policy and regulatory changes have been on private export-oriented firms and what problems still adversely affect their ability to increase export marketing.

However, the **Exporters' Survey** for 1991 has not yet started. Because of the problems which the EPADU has had in terms of analyzing and publishing the data from the 1990 survey, the EPADU decided to contract with a local firm to conduct the survey, analyze the results and help publish a final report. The survey should have started in July, 1991, but the tender for contract bids has not yet been published and it is not clear how soon the survey will commence.

The EPADU has also compiled an **Exporters' Handbook.** The Handbook is intended "to provide a basic introduction to exporting techniques for the small and medium-sized exporter." While the Handbook does not presume to be the "final authority on exporting procedures, every effort has been made to ensure that the most important elements [of export marketing] have been covered." (From the Preface to the Handbook.)

The **Handbook** provides broad, general guidelines about how to select an export commodity market, how to sell the product, definitions of the key terms used in export marketing (e.g. CIF, FOB, FAS), suggestions regarding despatching exports and methods of export shipment, methods of financing exports and insurance for exports.

The **Handbook** is a very basic reference book and a good source of general information. However, exporters needing more specific information about any aspect of marketing would have to consult additional reference material. For example, the section on "Packing," is very brief. The Handbook only advises exporters that "packing for export is somewhat more complicated than packing for the domestic market." Therefore, exporters are cautioned that "adequate packing is essential and must be done according to the importers' specifications."

The **Handbook** is still in draft format. It is not certain when the Handbook will be ready for distribution to the exporters and what method of dissemination will be used. Perhaps, the Handbook will be distributed at the seminars which EPADU has been organizing for exports.

During 1990 and 1991, EPADU has put on five export-oriented **seminars** with another planned for September. These are:

* May, 1990: a general packaging seminar for all exporters;
* March, 1991: a general export-oriented seminar;
* April, 1991: a seminar for cocoa exporters;
* May, 1991: a seminar for fish exporters;
* July, 1991: a seminar for exporters of beans; and
* September, 1991: a seminar for textile exporters.

The **seminars** are designed to: increase awareness among exporters of the opportunities for trade, provide basic training in what is required to export, and disseminate other market information. Developing an awareness of the demands of the export markets and publicizing recent policy and/or regulatory changes is an important aspect of the seminars. The seminars also are a forum wherein the exporters can make their own views known about what kinds of problems they are having for those commodities and what they would like the Government to do to help resolve some of their problems.

While the seminars are targeted specifically for the private business community, invitations are extended to USAID/Uganda staff, GOU officials in relevant Ministries, staff from state-owned enterprises (SOEs), and Bank of Uganda and commercial bank staff. Indeed, attendance lists from all the seminars held to date indicate that all aspects of the export marketing system are well represented at these seminars, with private export marketing firms comprising the majority of seminar participants. The only oversight to date seems to have been that air cargo carriers have not been invited to all the export seminars, according to the Cargo Managers of Sabena Airlines and Dairo Airlines. One notable exception has been that a representative of Bond Air Services, a German air cargo carrier, was at the Fish Export and Quality Assurance seminar.

USAID/Uganda usually sends a senior Mission official to attend the opening of the seminar. USAID/Uganda finds the seminars to be a useful forum in which to hear exporters' views on subjects that affect their businesses while the seminars also provide USAID/Uganda with an opportunity to publicize its support for policy and regulatory reform, such as tax reform and reform of the Investment Code.

To date, virtually all the export-oriented seminars sponsored by the EPADU have been held in Kampala. The EPADU staff indicate that there are plans to convene export seminars outside Kampala in the future. However, the work involved in setting up such a seminar outside Kampala would require an inordinate amount of staff time away from the office. With telephone communications still problematic, especially outside Kampala, one or two EPADU staff would have to go to the locale and set everything up. There has not been enough staff nor time available as yet to do this.

The exporters interviewed for this report who are based outside Kampala complain that they have not had the same access to the seminars as their colleagues who reside or have an office in Kampala. Some traders come to Kampala regularly for business, especially if they ship their produce through Entebbe or Kampala. But for those exporters who live near the border trading towns, such as Kasese, Kabale, Masaka and Mbale, attendance at these seminars has proved virtually impossible. As a result, the seminars are reaching a limited, albeit significant, audience. For example, the EPADU 1990 **Exporters' Survey** indicates that only about 7 percent of the respondents had attended the general packaging seminar.

The only seminars which have been convened outside Kampala to date have been to publicize the new export promotion project facility which is being jointly funded by USAID/Uganda (under the Operational Constraints Analysis component of the ANEP Program) and the Africa Project Development Facility (APDF) of Nairobi, Kenya. Three seminars were recently held: the first was in Kampala, but the second was held in Mbarara and the third was convened in Tororo. Attendance at the seminars was impressive, with about forty participants at each one. The participants expressed their appreciation to the EPADU and USAID/Uganda for holding the meetings in towns other than Kampala. Applications for funding under the project are now coming into EPADU, which is helping with administration of the program.

Most private entrepreneurs who are involved in NTEs expressed general satisfaction with the quality of the EPADU seminars. However, very few firms interviewed for the EPADU Exporters' Survey or this impact evaluation could cite any specific information or techniques which they had applied to their business or which had helped them in their export activity. For example, nine respondents to the EPADU 1990 **Exporters' Survey** had attended the general packaging seminar sponsored by the EPADU; but five firms had made no changes in their business based on what they heard at the seminar while four made only some basic changes in their business, that being to standardize their weights and grading system. One firm even responded that, as a result of the seminar, it started using boxes for exports.

Interviews with exporters conducted for this report yielded similar results. Fish processing companies which had sent representatives to the seminar on fish exports could not cite a specific change that they had made in their operations based on the seminar. The firms only indicated that they believed the seminar was interesting and enjoyable. Horticultural exporters who had attended or sent a representative to the seminars for beans or packaging also gave favorable but very general comments on the content of the seminars. (No one who attended the cocoa seminar was interviewed during the research for this report.)

However, almost every exporter interviewed for this report had very specific suggestions regarding what kinds of assistance and information they would like to get from the EPADU or from USAID/Uganda. Exporters indicated that they had hoped the EPADU seminars would provide them with more direct "hands-on" information and assistance. Exporters especially wanted specific assistance in producing quality produce for export markets, getting accurate and current market information services, up-to-date prices, information and instructions on quality standards for grading produce and packaging it for export markets, in locating reliable buyers in Europe or Asia, and in securing financing for marketing operations.

Indeed, if the EPADU used the results of its own 1990 **Exporters' Survey**, they might be able to improve the content of the seminars to meet the specific information needs of the exporters who are already in business. Alternatively, the EPADU could conduct a brief survey of prospective seminar participants **before** the seminar is held to gather information about what topics the exporters want to have covered. Then, some three to six months **after** the seminar, the EPADU could do a brief analysis of the specific improvements the participants have made in their businesses based on what they learned at the seminar. This might provide more suggestions as to what kinds of information and assistance is needed, especially in terms of having a more immediate positive impact on the quality and volumes of NTEs.

One of the most effective activities which the EPADU has undertaken is to provide direct assistance to exporters of agricultural NTEs. Direct assistance to firms and individuals has included technical assistance to resolve specific production and marketing problems, such as was done for the Ntangauzi and Vegetable Growers Association (NVGA) of Mpigi District, as well as support for export promotional efforts in Europe itself.

Mrs. Ndekera, the owner of a small garment manufacturing business in Jinja, wanted to help women import small-scale vegetable oil processing equipment for use in their villages. Lacking a source of foreign exchange, Mrs. Ndekera established the Association for Women in Industrial and Agricultural Development (AWIAD) to help women market the handicrafts which they made. Mrs. Ndekera approached the EPADU for assistance and EPADU agreed to fund a promotional tour for two AWIAD staff at a Berlin Trade Fair in July, 1991. Mrs. Ndekera used her Berlin subsistence allowance to buy extra airline tickets for two women who make the handicrafts being marketed. As a result of the promotional tour, AWIAD received orders for 36.5 million U Shillings ($40,000) worth of handicrafts from German firms.

Indeed, exporting firms expressed great enthusiasm for promotional tours in Europe. Exporters like such tours because they bring the exporter into direct contact with the buyers in European markets so that the exporters can see for themselves what the demands of the market are, especially in terms of product quality and product packaging for agricultural NTEs. Every exporter interviewed for this report who had gone to Europe with EPADU sponsorship expressed great support for such activities in the future. Moreover, a few exporters suggested convening a seminar in Uganda to which European buyers would be invited to meet with the producers and exporters of specific agricultural NTEs. Such a seminar could be a forum for exchanging information regarding marketing problems and help build networks of information to resolve some of these marketing problems.

D. The ANEP Commodity Import Program

The CIP component of the ANEP program has had a beneficial impact on specific agribusinesses that have been the recipients of commodities under the program. The 1990 Impact Evaluation of the CIP component of the ANEP Program noted that most commodities in both the production and marketing of agricultural NTEs. For example, gunny bags which are used to bag fish, bananas and a variety of agricultural NTEs, were one of the most popular imported commodities financed under the ANEP Program through 1990. In addition, some fish nets and steel for manufacturing machetes had also been imported under the CIP component of the program.

> RECO INDUSTRIES LTD. (Kasese) received $206,508 worth of apple pectin and fruit processing equipment in July, 1991, under the ANEP Program. The fruit processing equipment came from Denmark and the apple pectin processing facility came from the Federal Republic of Germany. RECO plans to export fruit preserves and jellies to Kenya, Tanzania and Europe within the next two months.

Recently, however, the CIP component of the ANEP Program has shifted emphasis so that more capital goods are being financed for import. Several agribusiness firms have received approval for ANEP program CIP funding to import capital equipment which will be used for processing agricultural commodities for export. This is a positive development under the CIP component of the ANEP program. One of the critical constraints in Uganda for exporters of agricultural NTEs is a lack of the equipment necessary to perform marketing functions effectively. By financing the importation of capital equipment used by private agribusiness firms, the CIP component of the ANEP Program will enable Ugandan agribusiness firms <u>to add value</u> to the agricultural NTEs which they are producing and processing for export. This will help increase foreign exchange earnings for Uganda.

During the past year, the ANEP Program provided a supplemental allocation of $20 million for petroleum product imports. Undoubtedly, the support for fuel imports has had a positive and beneficial impact on the export of NTEs. While private sector exporters were generally unaware that USAID/Uganda had contributed such a significant amount of funds for fuel imports, public sector officials indicated that this support was critical in maintaining transport services in Uganda. Given the underlying importance of road, rail and air transportation to the land-locked exporters of Uganda, there can be no doubt that the additional ANEP Program funds helped sustain marketing of NTEs.

Some residual support is still coming from USAID/Uganda under the CIP component of the ANEP Program. However, no new CIP allocations have been made since December, 1990, when about $7.3 million in import requests received USAID/Uganda concurrence. The importation of commodities financed by previous disbursements is ongoing, albeit at a more reduced rate than a year ago.

USAID/Uganda and the BOU are currently discussing the final disbursement of $5 million in ANEP Program funds. USAID/Uganda is ready to disburse the last tranche of ANEP Program aid, but needs proof from the BOU that the final covenant of the Grant Agreement, regarding matching contributions, has been met. The BOU would like to have USAID/Uganda accept $5 million in foreign exchange allocations that the BOU has made to importers since the beginning of the program as fulfilling the intent of the covenant. USAID/Uganda has indicated its willingness to review such documentation from the BOU.

NGE-GE LIMITED, a fish-processing and export company, applied for CIP funding under the ANEP Program in February, 1990. After a wait of eighteen months, the application for funding was approved but only a portion of the money requested was awarded. A total of $2.32 million in foreign exchange was made available through the BOU to the Standard Chartered Bank (NGE-GE's commercial bank), to import a fish-processing plant. The original invoice indicated that the equipment would come from Ireland but because of delays in processing the application and disagreement between NGE-GE and the supplier of the equipment, NGE-GE made a new contract with a Swedish firm to supply the fish processing equipment. Construction of the facility to house the fish processing equipment is underway and installation is expected in 1992. NGE-GE is the LuGanda word for tilapia fish.

Despite the success of the CIP component of the ANEP program, there have been **administrative problems** associated with its implementation. For example, as the 1990 Impact Evaluation noted, because of a dispute between the BOU and the USAID/Uganda Mission over the foreign exchange rate which would apply to recipients of commodities under the CIP component, there was a temporary halt in the processing of all CIP applications during 1989. This impasse endured for almost a year. As a result, many private sector business involved in production and marketing of agricultural NTEs did not receive timely responses to their applications for foreign exchange funds under the ANEP Program.

Indeed, several firms interviewed for this report were disappointed that their application for funding under the program was not handled more efficiently. These firms complain that after making their application in late 1989 and early 1990, they waited many months without receiving any formal notice from either the USAID Mission or the BOU regarding either the receipt or the final disposition of their application for funding under the CIP component of the ANEP program. (It is the responsibility of the BOU to notify ANEP Program CIP applicants regarding any decision taken on requests for funding.)

A few agribusiness firms which had applied for ANEP Program CIP funding also complain about what seems to be a lack of transparency in the decision-making process for CIP funds. These agribusiness owners and operators complain that there is no clear indication from either the USAID Mission or the BOU why certain firms receive CIP funds and other firms did not. The CIP applicants who have not received approval for their funding requests are concerned that their competitors who have received approval will gain an advantage in marketing because of USAID assistance. One agribusiness operator made the following observation:

> VICTORIA FRESH FOOD INDUSTRIES LTD. applied in November, 1989, for a loan of $120,680 in foreign exchange under the CIP component of the ANEP Program. The firm planned to import two refrigerated trucks from the UK (value of $95,960) to transport frozen fish and some fishing nets from Malawi (a value of $24,720). VICTORIA's commercial bank for the transaction was Grindlays Bank. According to USAID/Uganda ANEP Program records, the application for funding was rejected. However, VICTORIA FOOD maintains that they never received formal notification that the application was rejected; they assumed it had been rejected when no reply was forthcoming from either the USAID Mission or the BOU after more than a year.

"One last point concerns the support which USAID is giving to the fishing industry. Uganda needs your support. But, it is not fair of USAID to help one fish processing business and then refuse to help the others.

"I know that USAID is helping NGE-GE to set up a fish processing plant. But, is it fair for USAID to help one company get the equipment it needs while not helping another company get similar equipment? Competition is good. We want competition. But, it must be fair competition and right now the competition will not be fair if USAID helps just one fish processor without helping all the others, too. We need your help. If USAID wants to help the fishing industry in Uganda to develop, fine, help us. But help all of us. Do not help just one company because that is not promoting fair competition."

III. AN ANALYSIS OF NON-TRADITIONAL EXPORTS, 1990 - 1991

A. The Statistics

When the 1990 Impact Evaluation of the ANEP program was done, statistics for volumes and values of NTEs were available from just two sources, the Customs Department and the BOU. The Customs Department only had export statistics from two posts, Entebbe and Kampala; no statistics were available from the other border posts. In addition, the BOU Foreign Exchange Control Department had statistics based on export shipments reported on the Export Licenses used by exporters, but not all export licenses had been utilized at that time. Hence, the statistics were not complete.

Since August, 1990, more information has become available from all the border points of Uganda and all the licenses utilized. Both the Customs Department and the BOU are confident that this information is fairly complete and fairly reliable.

According to the most current and complete statistics available from the Customs Department, agricultural non-traditional exports have almost doubled between 1989 and 1990.

Revisions to past years' statistics also indicate that agricultural NTEs are growing rapidly. In the past three years agricultural NTEs have more than tripled. Agricultural NTEs (excluding cotton, tea and tobacco) were valued at $5.77 million in 1988, they surged to $12.35 million in 1989, and almost doubled to the impressive level of $23.26 million during 1990. (Complete statistics are presented in TABLE 3 on the following page.)

Unfortunately, statistics for the period January 1 - July 31, 1991 are not yet available from the Customs Department, Statistics Department or the BOU. However, based on interviews with more than thirty exporters of agricultural non-traditional commodities, some indications of recent trends can be made.

During 1990, the agricultural NTEs earning the most foreign exchange were: **Hides & Skins; Sesame; Maize; Beans; Fish; and Timber**, all of which earned more than half a million dollars. Interviews with exporters indicate that all of these commodities, with the notable exception of timber, continue to be the most lucrative and highest volume agricultural NTEs during 1991. Indeed, these commodities have been the leading agricultural NTEs for the past three years. While horticultural products, especially banana and pineapples, have also been exports of high value, infrastructural constraints prevent these commodities from growing as rapidly as other NTEs.

TABLE 3: Agricultural Non-Traditional Exports
(Value in US Dollars)

COMMODITY	1988	1989	1990	TOTAL
Hides & Skins	4,083,421	6,098,360	6,170,120	16,351,901
Sesame	0	1,012,148	4,869,160	5,881,308
Beans	0	2,692,180	2,505,430	5,197,610
Maize	263,542	221,760	3,350,200	3,835,502
Fish	262,230	739,985	1,353,990	2,356,205
Timber	395,779	710,573	1,000,170	2,106,522
Bananas	273,974	252,201	298,870	825,045
Pineapples	252,673	207,895	137,760	598,328
Cocoa Beans	0	0	504,000	504,000
Ginger	108,108	152,652	86,740	347,500
Groundnuts	2,357	44,534	81,440	328,331
Other Cereals	61,875	57,161	102,110	221,146
Pepper	1,942	22,217	156,230	170,389
Salt	8,925	65,857	86,170	160,952
Leather	0	0	138,020	138,020
Mixed Fruits	34,878	36,613	43,430	114,921
Papain	15,940	12,800	16,000	44,740
Other Vegs	0	12,403	257,520	269,923
Handicrafts	0	1,765	7,432	9,197
Miscellaneous	0	0	766,000	766,000
TOTAL:	**5,775,594**	**12,351,104**	**21,164,812**	**39,291,510**
Cotton	2,968,000	4,020,000	5,816,000	12,804,000
Tea	3,079,000	3,194,000	3,566,000	9,839,000
Tobacco	58,000	569,000	3,026,020	3,653,020
GRAND TOTAL:	**11,870,594**	**20,134,104**	**33,572,000**	**65,577,510**

NOTES:
Hides and Skins includes cattle hides, goat and sheep skins.
Beans includes green beans and all other varieties.
Fish includes fresh, frozen, dried and smoked fish products.
Bananas includes matooke (plantain), sweet and bagoya bananas.
Other cereals are wheat, millet and sorghum.
Ginger includes fresh and dried ginger.
Groundnuts also includes modest amounts of cashew nuts.
Pepper includes red chili peppers.
Miscellaneous includes live animals, oils and fats.

SOURCES: Uganda Tea Authority, Lint Marketing Board, British-American Tobacco (U) Ltd., the Customs and Excise Department (Ministry of Finance), and the Statistics Department (MPED).

B. The Commodity Marketing Systems

1. Hides & Skins

Hides and skins (from cattle, goat, and sheep) have earned Uganda the greatest amount of foreign exchange of all the agricultural NTEs during the past year and there are no indications that this trend will change.

All hides and skins export marketing arrangements are in the hands of the private sector. Most exporters, such as RWENZORI HIDES & SKINS CO. of Jinja, maintain a network of buying agents throughout the country. This ensures the exporting firm that it has continual access to supplies year long. Hides and skins bought up-country are transported and stored in Arua, Mbale, Jinja and Kampala. Selection and sorting of the hides and skins purchased from herders and farmers is usually done by the buyer at the warehouse where they are stored before being exported.

Exports are usually made in containers going by truck through Malaba to Mombasa from where they are shipped to Europe. The biggest markets for hides and skins are in Europe (about 70 percent of exports) and the Middle East (about 25 percent), where they are processed into finished leather.

There is a lively, competitive market within Uganda for hides and skins. The current prices for hides and skins are as follows: Cattle hides are 600-700 U. Shs. per kg.; Goat hides and skins are 600-700 U. Shs. per kg.; and Sheep skins average about 400 U. Shs. per piece, according to RWENZORI HIDES & SKINS of Jinja.

All of the hides and skins which were exported in 1990, and those being exported in 1991, have been unprocessed. There is only one hides and skins processing facility in the country, the Uganda Leather and Tanning Industry Ltd. (ULATI) in Jinja, a state-owned enterprise scheduled for privatization. During 1990, ULATI made a small export shipment with a value of about $60,000 to Cuba as part of a barter trade agreement concluded by the GOU. Uganda imported sugar in exchange for the leather.

According to the General Manager at ULATI, domestic competition and a recent drought are driving up the price of raw hides and skins in Uganda, materials that ULATI needs to maintain production and exports. ULATI has not been aggressive in marketing its product, either domestically or internationally. As a result, the factory is only operating at about 5 percent capacity, producing processed leather for the local market.

The **biggest problem** that exporters have in making exports is with **the quality of the product** they are trying to export. Exporters complain that the hides and skins which they receive from their buyers are not dried properly by farmers or herders. The skins are usually dried on the ground which means that sand and dirt tend to get imbedded into the hide or skin. In addition, sometimes the hide or skin has knife marks or other cuts and bruises. Exporters and their agents are trying to work with farmers and herders to improve their drying techniques but it is difficult to persuade farmers to change their habits. The poor quality of many of the raw hides and skins makes it difficult to get a high price for them in world markets.

> A prolonged drought in western Uganda is driving up the price of both cattle and meat products. One cattle trader complained that herders are now charging from 150,000 to 200,000 U Shs. per head, excluding transport costs and other handling charges. At the same time, butchers complain that the exporters are offering only between 150 and 350 U Shs. per kg. for green hides. The Chairman of the Cattle Traders and Butchers Cooperative Society, Haji N. Mutumba, urged the Government to improve the capital base of ULATI to enable it to purchase all the country's green hides for processing rather than allow them to be exported in their raw form. *THE NEW VISION*, August 15, 1991,

Maintaining consistently high standards of quality control over their exports is the most difficult task which all exporters of non-traditional commodities have in Uganda. Very few non-traditional exports from Uganda have a reputation for consistently high quality in world markets. Improvements in quality have to made at every transaction point in the marketing chain if Uganda is going to realize higher foreign exchange earnings for its agricultural NTEs.

The ANEP Program has not had a direct effect on hides and skins exports, except through its support for policy reform in licensing and the liberalization of the foreign exchange markets. Exporters note that it is easy to get the new Export Certificate from the Ministry of Commerce, Cooperatives and Marketing in Kampala. In addition, by exchanging the foreign exchange earned from exports at the Forex Bureaus, exporters now receive the free market rate in Uganda shillings which helps to maintain buying and exporting activities.

2. Sesame

The most dynamic growth in NTEs has been in sesame. Between 1989 and 1990, export revenue from sesame exports increased by more than 300 percent, rising from about $1.01 million (1989) to about $4.87 million (1990). Eighty percent of the sesame is going to three destinations: the UK, other European countries and the Middle East (Dubai and Oman). The remainder is being exported to Asia (China and Japan), neighboring African nations and Canada.

Because sesame was in such high demand in 1990, there were many **speculators** who tried to buy up as much sesame as they could regardless of any marketing relationships or contracts that had already been established between other buyers and the farmers. This created a situation in which many farmers sold to the buyer with the best price at harvest time. While farmers may have realized a short-term gain from such sales, stable and sustainable marketing relationships are not being established. Indeed, the presence of speculators, many of whom are unscrupulous traders willing to lure farmers and buyers away from contractual relationships, is emerging as a serious constraint to the establishment of reliable marketing relationships and is discouraging private investors from making the investments needed to sustain marketing relationships.

The high demand for sesame encouraged farmers to plant more of the crop in late 1990. At that time the world market price was about $850 per MT for high quality sesame. Recently, however, the price has fallen to about $620 per MT. As a result, many traders who speculated that sesame prices would stay high and made contracts to purchase sesame from farmers at a high producer price have now lost money and stopped buying sesame.

> Trucks carrying soap went to Arua and Gula, where sesame is grown. About 2400 MT, worth $2 million, was purchased from farmers. The sesame was cleaned, fumigated, bagged sent by truck to Mombasa, where it was shipped to Jordan, Saudi Arabia, Iran and Lebanon (via Cyprus). In order to penetrate these markets and make buyers aware of the quality of this brand of Ugandan sesame, the exporter sold the sesame at a price **below the world market price.** As a result, buyers eagerly tried it and now the firm has orders for 5000 MT for 1991. The firm, MUKWANO INDUSTRIES (U) LTD, is contracting to buy more in 1991.

The impact of the fall in world market prices has not only hurt exporters, it has adversely affected farmers, too. According to traders in Kasese District (where much sesame is grown), sesame buyers from Kampala stopped coming in early 1991. Many farmers now have stores full of sesame for which they cannot find buyers and, consequently, they may not plant as much this coming season.

Sesame is a relatively low bulk (volume and weight), high value commodity that is usually transported overland to Mombasa from where it is shipped to its final destination. However, sesame requires proper grading, screening, and handling (packaging and fumigation) before being ready for the export market. Many speculators who quickly bought up sesame supplies early in the season still had to make arrangements with other firms to screen, grade, process and package before shipment. Some speculators shipped sesame which was below acceptable world market quality standards. Such shipments, originating from Uganda, damage Uganda's reputation as a source of quality sesame.

While both private and public sector firms engaged in sesame export marketing, private firms completely dominated the export trade. For example, the FOODS & BEVERAGES LTD. only exported about 59 MT of sesame worth about $37,000 in 1990 [about $627 per MT]. While the PRODUCE MARKETING BOARD (PMB) purchased sesame from farmers, because of a recent change in marketing policies PMB did not make any export shipments in 1990 or in 1991. Instead, PMB sold its sesame (about 26 MT worth $16,300) to a private trader who handled the export marketing arrangements.

The volatility of the sesame market is indicative of several traits of the marketing systems for other high value NTEs in Uganda. **Private marketing arrangements for many nontraditional exports are fragile and much private sector marketing has been conducted on an ad hoc basis.** Many entrepreneurs are watching world and domestic markets to see which commodity will be the most profitable one for the coming season, rather than following a marketing strategy that would involve investments in infrastructure and relationships that could sustain the marketing of high quality produce through times of moderate as well as high international demand.

Unless investments are made in the infrastructure and relationships of trust that need to exist between buyers and producers of high value crops, growth in sesame exports will not be sustainable in the face of fluctuating world market prices and substandard quality produce.

3. Beans

SOEs still play an important role in the marketing systems for a few NTEs, such as beans. For example, the PMB dominated bean marketing, including exports, until 1988. During 1989 and 1990, private traders increased their export of beans, largely in response to the policy and regulatory reforms which liberalized bean marketing. As a result of these incentives to private traders, bean exports grew to $2.69 million in 1989 but fell slightly to $2.50 million in 1990.

During 1990, eighty-eight percent of the bean exports were made to neighboring African countries, especially Rwanda, Zaire, Tanzania and Kenya. The rest were sold to the World Food Program for distribution in Sudan, Mozambique and parts of Uganda. Small amounts also went to the Middle East and EEC countries.

A significant portion of bean exports have gone to Rwanda. Indeed, much of the bean marketing through Masaka, Kasese and Kabale is oriented towards the Rwanda buyers. Private traders who sell their beans to Rwanda report that they often have to wait lengthy periods of time, some as long as six months, before being paid for the beans. Occasionally, payment have been made in US Dollars which the Ugandan exporters then redeemed at the Forex Bureaus. But usually exporters who sell to Rwanda have to take goods of equivalent value as payment, including corrugated iron sheets, cement, batteries, nails and other hardware and consumer goods. Some exporters have been dissatisfied with the quality of the Rwandan goods they receive and this has caused some traders to stop trading with Rwanda.

With the outbreak of the civil war in Rwanda in late 1990, bean exports to Rwanda stopped. Indeed, some exporters from Masaka who had already shipped beans to Rwanda and were awaiting payment were never paid because of the war. This created severe financial problems for many small traders.

While a few traders shifted their trade and exported more beans to Zaire, from where some of the beans were forwarded to Rwanda, many exporters were left without alternative marketing arrangements. As a result, many buyers welcomed the opportunity to sell their beans to the FOODS & BEVERAGES when they recently advertised for beans to meet their export contracts.

Indeed, although the private sector has increased its share of bean exports since 1989, state-owned enterprises are becoming more aggressive in making marketing arrangements for bean exports. For example, the FOODS & BEVERAGES LTD. exported only 16 percent (1615 MT worth about $395,000) of all Uganda's bean exports in 1990. However, through August 1, 1991, the FOODS & BEVERAGES has already increased its exports to more than 6500 MT of beans worth over $2.00 million. These exports have gone through commercial channels as well as to the donor community (i.e. the World Food Program).

Despite the liberalization of bean marketing, FOODS & BEVERAGES and the PMB are not losing their dominant role in the marketing of this important and lucrative NTE. FOODS & BEVERAGES and the PMB have an infrastructural advantage over the private exporters in that they have the facilities to handle large consignments while most private agribusiness firms do not. Both the PMB and the FOODS & BEVERAGES already have a network of buying and storage centers throughout Uganda. In addition, both companies have a fleet of trucks available to carry the beans into the central depots and processing centers for sorting, grading and packaging for export. For example PMB currently has about 1234 MT of processed beans in storage (with an estimated value of 72 million U Shs. or $74,000) and 1800 MT of fresh beans in storage (with a value of 283 million U Shs. or $292,000).

> FOODS & BEVERAGES LTD. recently completed a 5185 MT bean export contract with ConAgra valued at $1.8 million. The last consignment of 25 MT left Kampala on 1 August 1991. The Minister for Commerce, Cooperatives and Marketing, Honorable Richard Kaijuka, criticized the Management of FOODS & BEVERAGES for celebrating the completion of the shipment with a champagne toast. The Minister said such a small shipment did not deserve a toast, but when a shipment of 20,000 MT was made, then such a celebration might be in order. The Minister urged all Ugandans to grow more NTEs, such as maize, sesame and beans, which could be purchased by FOODS & BEVERAGES and the Produce Marketing Board. (*THE NEW VISION*, August 2, 1991.)

The management of FOODS & BEVERAGES argue that USAID/Uganda and the EPADU should be supporting the export marketing efforts of FOODS & BEVERAGES because they buy directly from hundreds of independent, private buying agents as well as farmers throughout the country.

The continued importance of SOEs, such as FOODS & BEVERAGES, in marketing agricultural NTEs, illustrates that policy reforms are necessary but not sufficient to ensure that the private sector can compete fairly and effectively against SOEs in export markets. Privatization of some of the assets and facilities of the SOEs is also necessary to ensure that private agribusinesses have access to the same infrastructure required to conduct marketing activities. In addition, providing the private sector with equitable access to market support services, particularly financial services, is essential to ensure that private agribusinesses have the resources to compete effectively with the SOEs.

4. <u>Maize</u>

Exports of maize in 1990 also demonstrated considerable growth. Maize exports were valued at $3.83 million in 1990 and there are indications that similar high values will be achieved in 1991.

Because of their infrastructural advantages, much of the export-oriented trade in maize is handled by the PMB and the

FOODS & BEVERAGES. Private traders constitute the vast majority of local and regional traders who purchase maize from farmers and arrange for transport to collection points. But most collection points are owned by the PMB and FOODS & BEVERAGES which then make the export arrangements.

In 1990, FOODS & BEVERAGES exported 6246 MT of maize worth about $613,350, or about 16 percent of all maize exports. PMB exported 24,700 MT with a value of about $2.7 million, or about 70 percent of all maize exports. Between them, these two SOES accounted for **eighty-six percent of Uganda's maize exports.**

Given the high demand for beans and maize, two crops which Ugandan farmers have experience in producing, many farmers are interested in putting more land under cultivation with these two crops. However, **farmers are unable to secure sufficient financing from the commercial banks to buy the inputs required to increase production for export.** One farmer in Masaka, who had enough collateral to offer the bank, was told that the bank had no money to loan until outstanding loans made to other customers were repaid. Another farmer in Masaka was told that he could borrow 20 million U Shs. to buy a tractor, but when he went to the bank to collect his loan, the officer told him that the bank could only loan him 10 million shillings now and that the balance would come later, at some unspecified date in the future.

Even if a farmer does not use a tractor, the costs of hiring labor to increase production for export is very expensive in Uganda. In Masaka, farmers report that it can cost as much as 30,000 U Shs. to hire two casual laborers to work for two weeks preparing just a quarter of an acre of land for planting maize. To prepare five acres would cost about 6 million U Shs. Access to this amount of financing is beyond the ability of most farmers except through the banks and the banks are maintaining tight control over loans, especially in the agricultural sector.

The inability of the commercial banks to mobilize sufficient funds to make loans to productive farmers is preventing more significant increases in NTEs from being achieved. Farmers insist that they want to produce for the market but they cannot get sufficient capital to do so. In addition, when they do increase their production, it is difficult to find buyers for the produce they have grown, especially if the farmers have not kept their commitments to sell to specific buyers during the previous year. Moreover, **exporters** who want to purchase maize and beans for export also complain that they **cannot secure sufficient marketing finance from the commercial banks to meet the large consignment contracts that foreign buyers offer.** As a result, many farmers are getting discouraged about being able to sustain increases in production of NTEs that will lead to higher incomes and better standards of living in rural areas.

5. Fish

Fish exports demonstrated remarkable growth from 1989 through 1990. Total fish exports (fresh, frozen, dried and smoked) were about $740,000 in 1989, but almost doubled to about $1,350,000 in 1990 as a result of the opening of one new private sector fish processing facility, GOMBA FISHING INDUSTRIES LTD., in early 1990 at Jinja. Another private firm, VICTORIA FRESH FOOD INDUSTRIES LTD., began processing fish for export in early 1991 while a third private agribusiness, NGE-GE LTD., is about to commence fish export operations. While all these fish processing facilities are located near the shores of Lake Victoria, another private firm, DANISH AFRICAN FOOD LTD., has nearly completed financial arrangements to open a processing facility in western Uganda on the shores of Lake Edward. As a result, prospects for continued strong growth in fish exports remain bright.

Fish exports are dominated completely by the private sector. The one state-owned fish processing firm, UGANDA FISHERIES ENTERPRISES LTD. (UFEL), has not yet made any significant export sales. UFEL had hoped to enter the smoked fish market in Europe by selling vacuum sealed smoked tilapia which has a comparable texture and taste to smoked salmon but costs half the price of smoked salmon. Unfortunately, based on responses to marketing samples sent to the UK, the recipe used by UFEL to preserve the tilapia leaves the smoked fish tasting too salty. Hence, there have been no orders from European buyers. And, after more than a year of testing new recipes, UFEL cannot devise a less salty preservation method. If UFEL were to be privatized, the firm would become eligible for USAID-funded assistance under the OCA component of the ANEP Program, which could result in a resolution to the recipe problem and a successful export venture.

Fish and fish products are being exported to other African countries (primarily smoked and dried fish to Zaire and Kenya), to Europe (primarily frozen fish to the UK, Italy, Greece, Spain, and France), the Middle East (where new markets for frozen fish are opening in Israel), Asia (primarily fish products such as the bladder or **maw**) and even Australia (frozen fish).

In addition, one exporter has identified a potential market for tanned fish skins. A group of women artisans, the Association of Women for Industrial and Agricultural Development, are also utilizing tanned Nile Perch skins in making leather handicrafts which are being exported successfully to Europe.

The potential for fish exports is limited only by the capacity of fishermen to exploit the many rivers and lakes in Uganda and the capacity of fish processing businesses to prepare the fish for export.

Smoked and dried (or salted) fish has been exported by Uganda to Zaire and Kenya for many years. The marketing arrangements vary among the buyers but the entire trade is in the hands of the private sector. Fish exports along the Zaire border come from as far away as Gomba, Jinja and landing sites on the Lake Kyoga.

During 1990, most fish exporters were satisfied to work out barter arrangements with their Zaire counterparts. In exchange for specific amounts of fish, Zairians would agree to provide a certain quantity of building materials or consumer goods.

Recently, however, Ugandan traders in Kasese District report that consumer goods and building materials are becoming more available in Uganda. This availability, coupled with the depreciating value of the Zairian currency, makes goods received from Zaire in exchange for Ugandan fish exports less desirable. Therefore, some fish exporters are demanding payment in dollars or gold while others still accept razors or batteries from their Zairian buyers.

Two fish processing plants have received assistance from the USAID/Uganda ANEP program, the GOMBA FISH INDUSTRIES LTD. (GFIL) and NGE-GE LTD. GFIL began processing fish for export in July, 1990, while the NGE-GE facility should be ready to begin operations by September, 1991.

While fish processing and exports have grown, it has not been easy to generate such growth. The fishing processing industries are totally dependent on independent fishermen for their supplies. In addition, there is some seasonal variation in fish catches which makes it difficult to plan on regular supplies.

> GOMBA FISH INDUSTRIES LIMITED (GFIL) is owned by Mr. Yusuf Karmali. Under the ANEP Program, GFIL received funds to import cardboard cartons valued at about $52,400, and jute bags valued at about $192,800. The jute bags were shared with the fishermen who supply the plant with fish while the cartons were used to package fish for export. Since July, 1990, GFIL has purchased about 2535 MT of fish from the fishermen who land at the GFIL jetty. GFIL reportedly has a 35 percent recovery rate, which means that about 800 MT of Nile Perch fillets would have been processed for export. GFIL exports its frozen fillets by sea through Mombasa. GFIL plans on exporting fish maw to Asia, tanned fish skins to Europe, and fish oil to Europe and North America. A feed processing facility, using fish by-products, is also operational at the GFIL facility.

Regarding the problems of dealing with fishermen, one fish processor and exporter notes that:

"Fishermen are the same all over the world. You can never trust them. The only thing that will make them deliver their fish to me is if I pay them the best price. There is no law out on the [Sese] islands on which they live; there are no Police out there. So, if we give them something on credit and they never come back again, it is just a loss and we have to write it off. There is nothing we can do about it. Therefore, it is important that we pay a competitive price to the fishermen.

"We have made mistakes. We have extended credit to about 6 fishermen for new motors who, after coming back just once with their new motors and making only one payment towards that motor, never returned. We lost money there. There is no way to recover that money either because there are so many buyers on this lake that the fishermen can just go to the other buyers and never return here again as long as they live."

In addition to the problems involved in trying to establish good relations with the seemingly fickle fishermen, the exporters complain that the **quality** of the fish brought to their landing docks by these fishermen is often low. This is because the fishermen come from as far as 70 miles out on Lake Victoria to the shore with their fish. Making the trip during the day, under the sun, the fish can lose some of their freshness.

Therefore, what every fish processing plant would like to have is a boat with ice chests and cold storage capacity so that they could go out into the lake and take the catch from fishermen as it is pulled from the nets in the water. This would help to maintain the freshness and quality of the fish.

> VICTORIA FRESH FOOD INDUSTRIES LTD. has exported about $400,000 worth of frozen fish to Greece, Spain, France, the UK, Israel and Australia, since opening in January, 1990. An additional order worth $125,000 is sitting in cold storage because the refrigerator truck from Mombasa is late in picking up the fish for export. Until the order is collected, VICTORIA cannot purchase and process any more fish because its 40 MT cold stores are full. A small order of frozen Nile Perch is ready for shipment to Zaire where it will bring about $12,000.

Indeed, despite the rapid growth in fish exports, more **accelerated growth is being constrained because of a general lack of sufficient infrastructure.** For example, most fish processing firms made initial modest investments in cold storage facilities, trucks, fish nets, out-board motors and processing equipment.

But these firms have now discovered that they do not have the capacity to process all the fish that Uganda's fishermen can supply them. As a result, Uganda's fishermen are taking their catches to the Kenya side of Lake Victoria and selling it to Kenyan export processing firms. Without additional investment in more cold storage capacity and more refrigerated trucks, Uganda's fish processors fear that their growth, and growth in Uganda's foreign exchange earnings from processed fish exports, will be severely restricted.

6. Timber

Despite a GOU ban on the licensing of timber exports since March, 1990, timber exports have continued to rise. The GOU banned timber exports based on the advice of the World Bank. The Forestry Department, with assistance from the World Bank, is planning to do a forestry resources assessment before the GOU will allow any new timber export licenses or certificates to be issued. However, firms that hold licenses granted before March, 1990 can still make their exports according to the quantity specified on the license.

During 1990, timber exports worth about $1 million were made, representing a 45 percent increase over 1989 levels of $710,500. Ninety percent of the timber is being exported to neighboring countries, especially Kenya, by rail and by road. The balance is being exported to the Middle East and the Europe.

> The Forestry Department has proposed to limit pit-sawing to private and public land outside the gazetted forest reserves in order to conserve the country's timber resources. The proposal has been put into effect but not yet formally announced by Government. Gazetted forests cover 1.5 million hectares while private forests cover 2.5 million hectares of Uganda. *THE NEW VISION*, August 20, 1991.

Timber exports are handled entirely by the private sector since the monopoly over exports held by Uganda Hardwares, a state-owned enterprise, ended in June, 1989. Timber exports continue to be made because the GOU is allowing exporters who had licenses for which the entire shipment has not been made, to continuing buying and exporting until the contract order is fulfilled. However, some observers are questioning the validity of such timber exports still being made 16 months after the GOU put a ban in effect. While new exporters have not been able to enter the timber export business, existing firms seem to be cutting and exporting without much hindrance.

7. Bananas and Other Horticultural Exports

Banana exports include **matooke** (green bananas), "apple" bananas (small sweet yellow ones) and **bagoya** bananas (long sweet yellow ones). While bananas remain one of the top seven exports, in terms of revenue generated, their export seems to have reached a plateau. The foreign exchange earned by banana exports in 1990, almost $300,000, was only slightly (10 percent) higher than the value of banana exports in 1988.

Most bananas (82 percent) are exported to neighboring countries such as Zaire, Rwanda and Kenya. The balance are exported primarily to the UK.

Banana exports to neighboring countries are not difficult to make because most border districts grow bananas and **matooke** and can make small exports. In addition, the banana/**matooke** trade seems to be so profitable that traders can afford to send empty trucks from Kampala to rural areas to pick up the fruit in producing areas, and then return to Kampala with a full load. Truckers also carry loads across the border for a handsome profit.

Empty trucks driving from Kampala to Kasese, Mbarara and Masaka to pick up **matooke** highlights one of the key constraints to sustainable growth in Uganda for NTEs and general GDP growth. That is, there is insufficient disposable income in rural areas to justify carrying a truck full of consumer goods such as textiles or cooking oil on a weekly basis to farming regions. Until rural incomes rise and the demand for consumer goods accelerates, general GDP growth will proceed at a slow albeit steady pace.

Banana exports to Europe and other overseas markets are more difficult to make for a variety of reasons. Indeed, in examining the problems faced by all horticultural exporters, including pineapples and other fruits and vegetables, several themes emerge regarding the constraints still plaguing the exporters of these high value commodities.

First, **there is not a very deep appreciation among exporters of the rigorous standards and high quality expected of horticultural produce that is to be sold in the European market.** Some exporters, especially those who have been successful over a few years, have an appreciation and understanding of these demands of the market. Many of these exporters have been to Europe and seen first-hand what the quality should be for that market. However many exporters, even experienced business owners who venture into horticultural produce, do not have a keen appreciation of the strict standards of quality that must be met.

Second, **many farmers** who produce these non-traditional commodities **are not receiving sufficient training in the best method to plant, weed, tend, and harvest agricultural NTEs.** Moreover, prices paid to farmers often do not reflect the difference in the quality of the produce being grown on their farms. As a result, farmers do not develop an appreciation of the importance of producing a high quality fruit or vegetable and sorting and grading what they produce according to quality standards.

Third, once harvested, there is **insufficient cold storage at all levels in the marketing system.** There is almost no cold storage at the farm level, few exporters have cold storage trucks to take produce from the farm to warehouses for sorting and grading or to carry produce to the airport, and the airport itself still lacks adequate cold storage space. Without refrigerated stores, the crisp freshness of fruits and vegetables cannot be maintained for very much time in the tropical climate of Uganda. If horticultural produce is not shipped soon after harvest, the price received in the European market declines proportionately.

Fourth, there is **insufficient air cargo space to sustain large increases in horticultural production.** Currently, Sabena Airlines can only make about 14 MT capacity of air cargo space available per week. About 60 percent of that space is already committed to four exporters who have demonstrated the ability to deliver specific quantities of produce on a regular weekly basis. Dairo Air also has the capacity to carry about 10-20 MT per week but they do not fly on a regular commercial schedule and consequently exporters find it difficult to coordinate their shipments with Dairo. Bond Air Cargo Services, a German firm, has recently opened in Entebbe and it could handle about 10 MT per week during the coming horticultural season. In addition, Egypt Air, Zambia Air and Air Tanzania are beginning to handle small shipments from Entebbe Airport to Cairo, Lusaka and Dar es Salaam, respectively, from where the cargo is carried directly to European markets. Exporters hope this modest improvement in air cargo capacity will help them increase their shipments during the 1991-92 season.

> All Uganda Airlines Corporation (UAC) flights to Europe were suspended during 1990 because of lack of equipment. During FY 1991, the Boeing 707 aircraft used by UAC was sold. In November, 1990, a Boeing 707 freighter was acquired for air cargo services to the Mid-East and Europe. However, flights were cancelled or re-routed with such regularity that exporters leaned they could not rely on the UAC. By January, 1991, flights ceased again.

Fifth, **the rise in air cargo rates**, caused by the rise in the cost of fuel and inflationary pressures, has made it unprofitable for anything except the highest quality fruits and vegetables to be air shipped to Europe. As a result, the value of some NTEs, such as pineapple exports, has actually declined during 1990 and continues to decline in 1991, according to the anecdotal evidence collected during the interviews for this report. Indeed, the value of pineapple exports fell from $252,000 in 1988 to $207,000 in 1989 and then dropped sharply to only $137,000 in 1990.

Sixth, **Ugandan exports are not being paid premium prices because the exporters find it difficult to get attractive packaging materials and even when they do, many use them incorrectly.** Earlier in 1991, SABENA Airlines told several exporters that the airline would not accept some of their shipments as air cargo because the fruits and vegetables were improperly packed. SABENA feared being held liable for damage to the goods while in transit because of improper packing.

Exporters sometimes try to jam twelve pounds of horticulture produce into a ten pound box and this causes stress which breaks the box. Yet the exporters characteristically blame the manufacturer of the box (MULBOX LIMITED). Alternatively, in order to try to save money and increase profits, exporters buy and use a three-ply box for heavy produce, such as pineapples, when a five-ply box would be much more appropriate. Only after SABENA Airlines threatened to stop carrying any produce improperly packed did exporters began to pay more attention to proper packing methods.

> MULBOX LTD., the box manufacturing company in Jinja, maintains that their boxes are of equal quality and strength to those coming from Kenya or Europe. Recently, MULBOX upgraded its plant and materials to produce a variety of boxes in three and five-ply strength using white as well as brown paper with a colorful variety of inks. The Madhvani Group, which owns MULBOX, has made this investment because it hopes to meet the packaging needs of exporters of agricultural NTEs. In addition, a wax machine is on order from India so that MULBOX will be able to manufacture better quality boxes for frozen fish.

MULBOX LIMITED is the only Ugandan firm which manufactures boxes that horticultural exporters use for packing produce for export. But MULBOX has had difficulty competing with imported boxes because of the unfavorable tax structure. MULBOX pays tax twice on its product: once when the raw materials used to manufacture boxes are imported, and again when the finished box is sold. (MULBOX imports all of the material it uses to manufacture boxes: glue, paper, tape, staples, colored dye, inks, etc.) While the GOU has recently (July 1, 1991) reduced import duties by 20 percent, the tax structure still discriminates against local manufacturers which must import their raw materials. Modifications in the tax structure could make Uganda's box industry and other manufacturers more competitive and better able to meet the demands of agribusiness firms marketing agricultural NTEs.

Seventh, **there are insufficient checks and balances in the export system to protect Ugandan exporters when their shipment finally arrives in Europe.** Ugandan exporters are concerned that European buyers may be taking advantage of the inability of most Ugandan exporters to check the status of their shipments once they arrive at market. Indeed, some exporters have established London operations specifically to monitor their shipments and handle marketing transactions themselves. The EPADU may soon initiate a pilot program to provide an inspectorate service in selected European markets for Ugandan exporters who experience difficulties with buyers of their agricultural NTEs.

8. Spices

While spices are not yet ranked among the leading earners of foreign exchange, they are demonstrating the potential to grow into a strong NTE. Among the spices being exported are salt, pepper, papain, ginger, garlic and vanilla.

While there are sound reasons to be optimistic about the potential for spice exports from Uganda, but there are also potential hazards that might prevent the sustainable growth and development of spice exports. Uganda has an excellent environment for the production of spices for export and farmers are eager to diversify their sources of income by growing these crops. However, unless the marketing arrangements for these commodities are handled properly, sustainable increases in spice exports will not take place. The possible hazards that Uganda exporters face are best illustrated by case studies of ginger, vanilla and chili pepper exporters.

The spice trade tends to be one of the most conservative trades in international commodity markets. There are few brokers and supplies are concentrated in a few countries. Therefore, in order to penetrate that market, Ugandan exporters must be able to produce and sell a spice of high quality at a price below prevailing world market prices. Selling at below world market prices initially is critical to **gaining access to the market so that Ugandan produce can re-establish an international reputation for quality.** Once Ugandan produce gains a sound reputation for high quality, exporters will be able to raise their price to levels commensurate with competitive spice products.

Setting an appropriate price and marketing a high quality product are essential to the successful marketing of any NTEs, but this is not understood by all Ugandan exporters. To ensure high quality of the product being exported, **exporters may find it necessary to work closely with farmers at during all stages of the production and harvesting process and maintain tight control over sorting, grading and processing operations.** Without adequate technical advice during production and harvest, farmers will not produce a high quality product. Without adequate controls over sorting and grading and processing activities, exporters will not market a consistently high quality product.

Finally, exporters who have invested in working with a group of farmers to produce a quality product to penetrate international markets require **institutional support from the government to ensure that their investments and marketing relationships are not undermined by unscrupulous speculators looking for a quick profit.** The government must ensure that contracts are enforced and that the legal and judicial system is transparent and will support the efforts of investors in NTE development.

GINGER

Ginger exports from Uganda were valued at about $153,000 in 1989. But in 1990, ginger exports fell by 30 percent to $86,700. One of the reasons why ginger exports declined in 1990 was that an important market in the Middle East was essentially closed in August, with the outbreak of the Gulf War. Exports of ginger to the Middle East have not yet resumed as of August, 1991. Nevertheless, during in 1990, 37 percent of Uganda's ginger exports still went to the Middle East.

One of the largest ginger exporters, the Ntangauzi and Vegetable Growers Association (NVGA), was adversely affected by the closure of the Middle Eastern market for their crop. But NVGA searched and found alternative ginger buyers in Europe. Nevertheless, NVGA experienced severe production and marketing problems in 1990 that led them to cease export operations by January, 1991. These problems illustrate the difficulties involved in the non-traditional commodity export business.

The Ntangauzi **[Ginger]** and Vegetable Growers Association (NVGA) of Mpigi District, organized in 1985 by farmers and businessmen, began exporting fresh and dried ginger samples to Europe and the Middle East began in 1989. Exports during 1989-90 were modest, but the quality of the fresh and dried ginger was sufficient to secure additional orders for the 1990-91 season. As a result, NVGA set up an out-growers scheme wherein more than 500 farmers were growing ginger for export. NVGA also made plans to process (dry) most of the ginger themselves for export, in order to add value to their crop and realize higher foreign exchange earnings.

To establish this large and ambitious project, NVGA borrowed 70 million U Shs. from a commercial bank in 1989 in order to modify a coffee-drying factory so that it became a ginger-drying facility. NVGA made the factory modifications and investments without the assistance of ginger processing technical experts. The purchase of several diesel-powered dryers to process the ginger for export was one of the most costly investments.

To finance its large-scale buying operations for 1990-91, NVGA secured an additional loan of 30 million U Shs. from another commercial bank in mid-1990. NVGA was now carrying 100 million U Shs. in debt at the prevailing interest rate of 40 percent. **The costs of servicing these loans made it critical that NVGA market a quality product at a high price during the 1990-91 season.**

With its office located in Kampala, however, the management of the NVGA was not in close, direct contact with the ginger farmers on a daily basis. Consequently, **not all the farmers received adequate technical assistance in producing and harvesting ginger.** In addition, when marketing operations began, coordinating the movement of buyers and their trucks between the farms and the sorting and grading facility at the ginger-drying factory became very difficult. As a result, after being harvested, the ginger was not moved expeditiously to the factory for drying. Finally, with the sharp rise in diesel fuel prices after the outbreak of the Gulf War (August, 1990), it became very expensive to process the ginger using the diesel dryers. <u>All these factors converged to drive up NVGA's marketing costs.</u>

Unfortunately, the diesel dryers did not prove to be a cost-effective investment. As the costs of diesel fuel escalated, it became more costly to operate the drying facility. Moreover, while the diesel dryers lowered the moisture content of the fresh ginger from 95 percent to 12 percent, this is 2 percent above the optimal moisture content for dried ginger.

In late 1990, a flight carrying NAVGA ginger to Holland was delayed and by the time the ginger reached the market, the buyer complained that the quality of the spice had deteriorated; there was too much moisture in it. As a result the buyer only paid NAVGA $15,000 for the shipment instead of $40,000 as was agreed prior to shipment. NAVGA sustained a $25,000 (200,000 U Shs.) loss on that shipment, or a loss of 200,000 U Shs. <u>This wiped out 67 percent of their operating capital loan.</u>

As a result, NAVGA had to cut back and eventually cease its buying operations. Immediately, the farmers growing ginger started to complain about the lack of buyers. NVGA tried to renegotiate its loans with the commercial banks to maintain buying operations, but was unsuccessful.

The NVGA management had requested technical assistance from the USAID Mission and the EPADU. In late 1990, **a USAID-funded technical advisor made several recommendations for improving the management and operations of NVGA** so as to improve the efficiency of the drying facility and improve production, harvesting, sorting and grading for export. Some of these suggestions have been implemented, such as moving the management office from Kampala back to Mpigi and reducing the number of farmers involved in the export scheme. But other recommendations, such as changing to a bio-mass rotary dryer for the ginger, cannot be implemented unless the NVGA gets additional funding. The management of NVGA is currently discussing loan re-negotiation with the commercial banks and hopes to involve the EPADU and USAID in a project to revitalize the association's export efforts.

The ginger export venture was overambitious. Management could not provide sufficient assistance to its farmers because there were **too many farmers**. NVGA could not maintain strict control over the quality of the spice from production through harvest and processing to the point of delivery in Europe. In addition, **too much money was borrowed**; not enough local capital was invested by the farmers themselves. And the **investments in processing equipment were made without adequate research** into alternative, less costly processing techniques.

This contrasts sharply with the experience of a vanilla exporter who has successfully mobilized a few farmers to produce high quality vanilla for the export market.

VANILLA

Vanilla is grown in Uganda's Mukono District and other areas around the shores of Lake Victoria. Mr. Aga Sekalala, Jr., an entrepreneur with a 500 acres farm near Kampala, has vanilla growing on his land. Mr. Sekalala, Jr. made contact with export marketing experts from the Africa Project Development Facility (APDF) in Nairobi, during 1989, and they advised him about the potential for vanilla exports.

Uganda had once exported a quality vanilla bean during the 1960s, under a joint venture by McCormick's (U.S.) and Mitchell-Cotts (U.K.). But **exports were disrupted** and the quality of the vanilla being exported deteriorated when the Amin Government expropriatedthe Mitchell-Cotts farm and vanilla processing facility in 1973.

Hence, Mr. Sekalala, Jr. had to find a spice trader willing to try Ugandan vanilla and, once a buyer was found, make the arrangements necessary to ensure a quality bean was produced, dried and delivered on time at a price that the buyer would find attractive.

Mr. Sekalala purchase vanilla from a few farmers and sent samples to several international spice buyers who might be interested in an alternative source of supplies to Madagascar. (Note: Madagascar dominates the world trade in vanilla and produces the highest quality bean, known as *BOURBON VANILLA*, which commands a world market price of about $72.00 per kg., or 67,880 U Shs.)

After receiving and testing the vanilla samples they received, McCormicks (U.S.) responded that they would be interested in buying the vanilla if reliable quality could be maintained for all subsequent shipments. Mr. Sekalala, Jr. received technical and marketing assistance from the USAID Mission and AID/W (AFR/MDI) to visit the McCormick's factory in Baltimore, Maryland. McCormicks' interest in the Ugandan vanilla encouraged Mr. Sekalala, Jr. to make an additional investment of $20,000 to buy, process and export a commercial shipment during the 1990 season. **Mr. Sekalala, Jr. began to work with a few farmers to grow, tend and harvest and process a high quality vanilla bean; and in December, 1990, a commercial shipment of about 960 kgs. was made.**

<u>In order to penetrate the international market for vanilla, Mr. Sekalala agreed to sell his vanilla to McCormicks at cost.</u> This was about 45 percent below the world market price for Madagascar vanilla, but it ensured that McCormicks gave his product attention and provided Uganda with **an opportunity to establish a market niche in a highly competitive and conservative commodity market.**

With assurances from McCormicks that they would continue to purchase his vanilla, Mr. Sekalala, Jr. approached the USAID Mission and the APDF to provide additional technical assistance to farmers growing vanilla. USAID/Uganda agreed with the APDF to fund a **technical advisor to survey vanilla producing areas and train local farmers to work as extension agents** among their fellow vanilla farmers.

A horticultural expert arrived in February, 1991 and began working directly with vanilla farmers to improve their farming practices. The vanilla expert selected and trained several progressive farmers, both men and women, who are now doing extension work with their neighbors who also cultivate vanilla. Vanilla demonstration units have been established and the extension agents are working with men and women farmers to improve vanilla cultivation practices. **An illustrated extension services manual has been written to help the extension agents**

teach better farming methods and the manual is being translated into the local language (LuGanda).

The vanilla project has the chance to be very successful because of Mr. Sekalala, Jr.'s willingness to take risks, to invest his own funds in the project and to manage carefully all critical points in the production and marketing process. There are several other reasons why this project holds great promise for success.

First, <u>local people are being trained as extension agents</u> to work in their own districts with their neighbors. This ensures that there is a sustainable relationships being built between the extension agents and the farmers.

Second, <u>farmers</u> want to learn more about how to grow a quality crop because they <u>are being paid an incentive price</u> by Mr. Sekalala, Jr. Farmers are receiving between 3500 and 4000 U Shs. per kg., which is almost 10 times what farmers are paid for coffee beans.

Third, <u>production and marketing information</u> about vanilla, as well as other agricultural commodities, <u>is being disseminated through a radio program, known as "Calling Farmers,"</u> which is sponsored by Mr. Sekalala, Jr. every Friday evening on Radio Uganda.

The project is proceeding carefully, in a well organized fashion. The project is not trying to reach too many farmers all at once. And an international buyer has been secured. Mr. Sekalala, Jr. has entered the market with his produce at a price well below what the prevailing world market price is for high quality vanilla. But Mr. Sekalala, Jr. realizes that he will need to do this **until his brand of Ugandan vanilla becomes well known with an established reputation for high quality.**

The only <u>danger</u> to the ultimate sustainable success of the vanilla project is coming <u>from a local cooperative society and a few unscrupulous speculators.</u> Both the cooperative and these speculators heard that vanilla commands a high price in the world spice market and so they are bidding up the producer price in an attempt to corner the trade in Ugandan vanilla and reap all the imagined profits.

Both the cooperative and the speculators are entering a market without seeming to pay sufficient attention to the important issues related to producing a quality product over time and selling it at a competitive price until the product secures a sound international reputation and the price can be raised accordingly. Moreover, **the cooperative's management is exhibiting total ignorance about the costs involved in collecting, grading and sorting, and processing the vanilla for** export. For example, it takes between 4 and 5 kgs. of raw vanilla beans to make one kg. of processed vanilla for export. Therefore, to compare the producer price being paid by Mr. Sekalala, Jr. for one kg. of raw vanilla beans to the world market price of one kg. of the best processed vanilla beans in the world, and to conclude that Mr. Sekalala, Jr. is somehow exploiting the farmers is wrong. Mr. Sekalala, Jr. has secured the farmers a market for their crop, he is providing them the best price possible at this time in the development of Uganda's exports of vanilla, and he is investing in sustaining and building that marketing relationship.

> Vanilla growers in Mukono District have formed a cooperative association known as the Mukono Vanilla Spices and Horticultural Growers Cooperative Group with the aim of boosting vanilla production and securing a better price for the crop. Mr. Tamale Musoke, the newly elected Chairman of the group, disclosed that while the world market price for vanilla was between 70,000 and 80,000 U Shs. per one kg. of processed vanilla, individual buyers have been paying only 3,500 U Shs. per one kg. "As a unified group we are now able to negotiate with exporters for a reasonable price ; we can export it ourselves and thus get rid of the middleman. *THE NEW VISION*, August 10, 1991.

If speculators and the farmers' cooperative succeed in undermining Mr. Sekalala, Jr.'s investment in building a sustainable marketing arrangement with vanilla farmers, he will be unable to deliver sufficient quantities of a quality product on time to the international buyer. This will adversely affect Uganda's fragile international reputation in the vanilla spice trade and could discourage Mr. Sekalala, Jr. from making additional investments in vanilla production and processing. Ultimately, the farmers will suffer if Mr. Sekalala, Jr.'s investment is not secured from speculators looking for a quick profit or cooperatives eager to capitalize on the marketing and production relationships which Mr. Sekalala, Jr. has established. Indeed, speculators and a cooperative have already done severe damage to the investment made by an international firm in the production and marketing of chili peppers.

CHILI PEPPER (Pili-Pili)

SHELL UGANDA LIMITED identified high value horticultural crop marketing opportunities in 1990 and began making arrangements to assist farmers with the production of dried chilies for export. SHELL sponsored some television and radio programs on local stations telling farmers how to grow, harvest and dry their crops for export. SHELL decided to support these information programs in order to overcome the general lack of technical expertise among the farmers regarding the production and harvesting of high value horticultural crops such as chili peppers.

The first export shipment was scheduled for January, 1991 but it never took place because a severe drought devastated the crop. Ultimately, in April and July, 1991, SHELL made two export shipments with a total volume of about 11 MT.

However, SHELL had enormous problems in completing its export shipments. The problems which SHELL has encountered are the same for all investors trying to establish sustainable production and marketing arrangements for non-traditional agricultural commodities.

Initially, SHELL made a production and marketing contract with the **Tukolire Wamu Farmers' Cooperative**, a cooperative society in the chili pepper growing region of north-west Uganda. (Tukolire Wamu means "Let us work together" in the local language.) SHELL went through the Cooperative to sign up chili growers and SHELL provided the Cooperative with tractors and tractor plowing services, ploughs, and improved chili pepper **[pili-pili]** seed. In addition, SHELL provided the Cooperative with financing for the chili pepper production and marketing activities.

The Cooperative agreed to put about 5000 acres under chili pepper cultivation. SHELL estimated that about 180-250 kg. of chili peppers could be grown per acre, with two harvests per year. Hence, SHELL estimated that total production and marketing of at least 1000 MT and possibly 1250 MT of chili peppers per season was possible. SHELL planned on using its depots to test and grade the chili peppers delivered by the Cooperative.

The first problem came in the January-February, 1991 drought when the entire crop was lost. In addition, SHELL recognized that the initial planting was over-ambitious; far too much land was put under chili cultivation and all the chili peppers were planted in the direct sunlight. There was almost no shade anywhere and there were no alternative sources of water for irrigation.

SHELL had entered into supply contracts with a European buyer. SHELL had agreed to supply 500 MT to a buyer in the UK and an additional 500 MT as part of a joint venture with a Belgian firm, S.A. Sopex N.V. of Antwerp. **SHELL made the contracts in order to guarantee a secure market for its produce.** When the drought decimated the crop, SHELL went to those buyers, explained the problem, and the buyers agreed to postpone the first shipment and still purchase the next available shipment for the same amount of money. Based on that agreement, SHELL went back to the farmers and helped them re-plant their fields with chili peppers.

The <u>second problem</u> which SHELL encountered related to mis-use of the financing which they had provided to the Cooperative. **The management of the Cooperative did not use SHELL's funds for the purposes which had been agreed upon.** Instead of using the money to finance their chili pepper production and buying activities, the management of the Cooperative took the money and used it for something else. Thus, when it came time to buy the chilies from the farmers, the management of the Cooperative purchased the chilies from the farmers **on credit**. They pledged to pay the farmers at a future date, saying that once SHELL paid them, they could pay the farmers. But SHELL had already provided the money to the Cooperative!

The <u>third problem</u> which SHELL encountered was that <u>the Cooperative was not paying the farmers the price which SHELL had guaranteed them.</u> SHELL had guaranteed a price of 600 U Shs. per kg. to the farmers, but the Cooperative's buyers were only promising to pay farmers about 300 U Shs. per kg.

Meanwhile, SHELL's buyers in Europe had gone ahead and sold the chilies forward, through a futures contract market for spices. The European buyers promised to deliver 200 MT of the chili peppers; 70 MT were firmly committed and there was an option for their client to take an additional 130 MT if they were satisfied with the quality of the chili peppers.

However, because the Cooperative buyers were paying less than what SHELL had promised to pay and because the Cooperative was not paying cash, <u>the farmers were refusing to deliver all their chilies to the Cooperative.</u> As a result, the Cooperative could not fulfill the contract it had with SHELL, and SHELL could not meet its contract with the buyers in Europe.

Once SHELL discovered what the Cooperative had done, SHELL sent its own agents out to the farmers to buy directly from the farmers. SHELL paid cash and they paid the price which they had promised the farmers, 600 U Shs. per kg.

However, this led to a <u>fourth problem</u>, a dispute with the Cooperatives. **The management of the Cooperative threatened to sue any farmer member of the Cooperative who sold directly to SHELL,** even though the Coop itself had no funds to purchase the crop and they were promising to pay the farmers less than what SHELL had agreed to pay. The Cooperatives have most of the farmers in their regions under contract to produce and sell their produce through their respective Coops. Thus, the Coop can legally threaten the farmers with litigation if they do not market their produce through the Coop. **The Coops have political support, too, which is difficult for a company like SHELL to**

overcome. For example, the district administration in virtually every district urge farmers to sell their produce through the Cooperatives (or the PMB and the Foods & Beverages) and to avoid dealing with private entrepreneurs or private companies like SHELL.

"The farmers are not the problem. They are willing to grow any crop that we tell them to grow. They are especially eager to grow the non-traditional export commodity crops because they recognize that they can earn a lot of money from those crops. The problem is with the independent buyers and the management of the Cooperatives. There is very little communications infrastructure, not enough truck transport, not enough good feeder roads in rural areas where the farmers live. Without adequate communications, the farmer is totally dependent on the Cooperative or the itinerant trader. They have a monopoly position over the farmers. And our experience with the Coop has proven that the buyers are not being honest with the farmers. This will harm Uganda's drive to increase non-traditional agricultural production for export." Roland Baan, Managing Director SHELL.

Subsequently, SHELL discovered that the Managing Director of the Tukolire Wamu Farmers' Cooperative was able to get two large loans from the commercial banks based on the contracts which the Cooperative had with SHELL and a sesame exporter with whom the Cooperative was also working. The Cooperative took out a loan of 50 million U Shs. with Grindlays Bank and a loan worth several million U Shs. from the Uganda Commercial Bank (UCB). Soon, thereafter, **the Managing Director of the Cooperative disappeared with that money.**

As a result of these problems, **SHELL is now facing a claim from its UK client for $200,000 for failure to deliver the contracted amount of chili peppers.** SHELL made one small shipment in April, 1991, which was based on the meager deliveries which the Coop made to SHELL. SHELL"s second export shipment was comprised solely of what SHELL's own agents could buy from the chili pepper farmers. SHELL expects to be able to purchase additional chili peppers this season from the farmers using their own agents again. <u>Because of the problems with the Cooperative, SHELL is establishing its own network of buyers to deal directly with the farmers.</u>

This case study illustrates several problems which a private investor faces when investing in a production and marketing scheme for NTEs. One important issue that arises from this case study and that of the vanilla exporter is: **How can the investor or the Government ensure that when a private firm makes an investment, they will be the direct beneficiary of that**

investment? It is especially difficult if the farmers or the Coop with which a marketing contract or arrangement is made feels free to break the contract and the private firm has no recourse except the courts which may be unreliable.

At this time, SHELL is in contact now with the Ministry of Commerce, Cooperatives and Marketing in order to get some assistance in dealing with the Cooperatives, especially the delinquent Tukolire Wamu Farmers' Cooperative. SHELL has dealt with the new Minister of Commerce in his former capacity as Minister of Energy, so SHELL's management is hopeful that the Ministry will be able to help resolve the contractual problems.

<u>In addition, SHELL has initiated legal action against the Cooperative.</u> The tractors which were provided on credit to the Coop are being repossessed. SHELL also accepted some deeds on property owned by the Cooperative as collateral for the crop financing. Now SHELL is auctioning off thatproperty in order to recover the funds that were embezzled by the Manager and stolen by the other buying agents.

In order for investments in NTEs to succeed, **there must be a strong legal system that will enable firms to enforce their contracts and to go after unscrupulous speculators** who undermine the legitimate and sustainable marketing systems that private firms, like SHELL, are trying to establish. The result of SHELL's litigation will shed some light on the ability of the Uganda courts to help private investors enforce contracts.

IV. CONCLUSIONS AND RECOMMENDATIONS

Effective agricultural marketing systems are comprised of three essential components:

(a) **<u>Policies and Regulations</u>** that are simple and non-discriminatory, and that offer <u>incentives</u> to market participants to improve their productivity and efficiency. This includes policies related to the foreign exchange regime, trade, investments, licensing, taxes, subsidies, and the like.

(b) **<u>Institutions and Infrastructure</u>** and the **<u>Services</u>** associated with them. This includes banks with a variety of financial services, roads and trucking fleets, seaports and airports with adequate cargo handling and storage facilities (especially cold storage), processing facilities, market news information services, methods to inspect, grade and certify commodities, courts and a legal system to enforce property rights and contracts and the like.

(c) **<u>Market Participants</u>** who have sufficient knowledge, skills, capital and capability to perform their activities efficiently, from the farm-gate to the point of sale to the consumer.

The ANEP Program was designed to work primarily with the first component of a marketing system, that is, in the area of policy and regulatory reform, although the institutional component, through the EPADU, is both conducting policy analysis and providing services to exporters, and the CIP component is helping to address some of the infrastructural constraints at the agribusiness firm level.

Many of the policy reforms needed to encourage agricultural marketing activities have been implemented, some supported by the ANEP Program. However, **exporters identified additional policies and services** that should be considered for implementation, including:

(a) reduction of the <u>tax rate</u> on importation of inputs used in production and marketing of non-traditional export commodities;
(b) <u>subsidization</u> of <u>air cargo</u> <u>rates</u> to make Ugandan exports more competitive in international markets;
(c) <u>investment incentives</u> for new businesses working in non-traditional export activities from the farm-gate to the point of export; and,
(d) more creative **crop production and marketing financing arrangements**, including reduced interest rates and reduced collateral requirements.

The Bank of Uganda (BOU) has responded to the severe shortage of formal sector marketing credit by initiating an innovative Export Re-Finance Facility scheme.

Under the terms of this scheme, the BOU will make loans available to exporters of non-traditional commodities through the commercial banks. The BOU has 200 million U Shs. available to lend to exporters. Exporters must apply for access to the facility through their commercial bank which will then endorse the application and send it to the Export Finance Division of the BOU for approval. Funds will be lent from the BOU to the commercial banks at 5 percent interest (per annum) and from the commercial banks to the exporter at 8 and 1/2 percent interest (per annum).

Loans are available for marketing (180 days) or up to five years for medium-term NTE projects. Loans will be denominated in US Dollars and must be repaid in dollars or in U Shs. at the exchange rate prevailing at the time the loan comes due. Because exporters get paid in Us Dollars (or other hard currency), they should be able to repay the loans in that currency. This scheme reduces the foreign exchange risks that banks might otherwise carry while also reducing the interest rate that marketing firms would otherwise have to pay.

The BOU hopes that if this scheme is successful, the donors will provide additional funding to it during the next marketing season.

However, based on conversations with commercial bankers in Kampala, it seems that the primary beneficiaries of this scheme are going to be the large parastatal PMB and the Foods & Beverages as well as a few larger commercial exporting firms.

One commercial banker indicated that based on the ten applications for the scheme received through August, 1991, the bank would probably only endorse five applications, with two endorsements being for the PMB and the Foods & Beverages.

Hence, while the GOU is trying to promote a greater role for the private sector in NTEs, the institutional and infrastructural system of support is not responding in kind to ensure that the private sector has the means to increase its role in export marketing activities.

The commercial banks are very reluctant to participate in the scheme and this may be one reason why they are only looking at well established business loan applications for the scheme.

First, the commercial banks believe that the 3 and 1/2 percent spread between the cost of borrowing from the BOU (5%) and the cost of their loans to exporters (8 1/2%) is not enough to cover the administrative costs associated with the scheme.

Second, the commercial banks wanted to have high collateral requirements for borrowers while the BOU is encouraging the banks to lower their collateral requirements from 100 to about 50 percent. The BOU finally agreed to let the commercial banks set the collateral requirements under 80 percent.

Third, the commercial banks did not want to bear any portion of the risks associated with the loans; they wanted the BOU to guarantee 100 percent of the loans. The BOU has agreed to assume 80 percent of the loan guarantee. Thus, the commercial banks, many of which are having trouble collecting on past seasons' delinquent loans, are being cautious about participating in this new and innovative scheme.

The links in the marketing chain between the producers, buying agents and exporters of non-traditional agricultural commodities are fragile. They are resting on a rather weak infrastructural base. There are few institutions providing the level of appropriate services needed to sustain a significant increase in non-traditional exports. This is especially true of financial services.

While it is beyond the capacity of one donor, such as USAID, to work with the entire private commercial financial system to strengthen it and make it more responsive to the private sector, especially exporters of NTEs, donor coordination in support of GOG policy and regulatory efforts, including support for schemes such as the BOU Export Re-Finance Facility, could help deliver the financial resources needed by private agribusiness involved in NTEs.

The USAID Mission has developed an innovative and sound approach to the promotion of NTEs in Uganda. The new Operational Constraints Analysis portion of the ANEP Program promises to provide the firm-specific and commodity-specific form of technical assistance and marketing support that can mean the difference between project success and failure. By involving a private institution, the APDF, which has had success in working with African investors and entrepreneurs, the USAID Mission and the EPADU are making more appropriate advisory resources available to innovative Ugandan agribusiness men and women.

It might still be appropriate for the USAID Mission to consider making financial resources available through the BOU Export Re-Financing Scheme for medium term investment in any follow-on ANEP Porgram activity. There are still critical capital constraints at firm level that are inhibiting the ability of specific agribusinesses to generate sustainable export growth. As was noted above, the shortage of refrigerated trucks, refrigerated stores, and attractive and strong packaging materials, are adversely affecting efforts by the private sector to increase exports of agricultural non-traditional commodities.

Continued USAID support for exporter training is also deserved. The success of export promotion tours and visits by both the producers and exporters of specific commodities to date provides convincing evidence of the importance of market familiarization tours.

One possible innovation in this approach might be to convene an export marketing seminar in Kampala to which European buyers from specific markets would be invited. This would enable the Europeans to meet face-to-face with their exporting partners and possibly develop new contacts for Ugandans interested in making additional exports. It would give the Ugandans an opportunity to discuss their marketing problems with their buyers and get their assistance in overcoming their problems. Such a forum could also lead to more joint ventures and investment in NTEs for Uganda.

The EPADU may want to consider seriously what its target audience for promotional export technical assistance activities should be and to focus its efforts on that audience. At this time, the EPADU is working with a variety of firms which range in size from a small firm of less than five people with few out-growers to more medium-sized firms which employ ten and more people and involve up to a hundred or more out-growers. The firms are involved in a variety of commodities and seminars have been held for many already.

Yet, the EPADU has not made a concerted effort to question various firms as to what specific kinds of information and technical services would serve them best and then try to provide that information or service through the seminars or through other means.

The EPADU may want to focus on a few activities, such as the annual exporters' survey and a few seminars which are designed to meet the specific needs of medium-sized firms, in order to have a greater impact with a more focussed approach of support for NTE development.

One potential problem which the GOU will have to resolve at some point in the future, and for which the USAID may be able to provide technical assistance and advice, concerns the appropriate functions of the Ministry of Commerce, Cooperatives and Marketing Export Promotion Council and the Ministry of Planning & Economic Development EPADU. While the Export Promotion Council (EPC) currently is not a very strong institution, the UNDP will be initiating two institutional strengthening projects in FY 1992 at the EPC which could duplicate the efforts of the USAID at the EPADU. In addition, a clear role for the Uganda Investment Authority (UIA) will have to be delineated with responsibilities that will complement and reinforce the efforts of the EPADU and EPC and not duplicate them. The USAID Mission is working with the UIA in this regard.

In conclusion, the ANEP program has successfully supported the growth in NTES for Uganda for the past three years. The combination of support for policy and regulatory reform in the foreign exchange regime, support for the EPADU, and commodity specific support for key export-oriented firms, has resulted in very high growth rates for NTEs. A follow-on program, with a similar blend of resources, is still needed and would contribute to sustainable development of agricultural NTEs.

INTERVIEWS

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Bwera (Kasese District)

38. Mr. Aga Sekalala, Jr.
Managing Director
UGANDA VANILLA LTD.
Kampala

39. Mr. Sam Kasirye
Contract Farmer and Vanilla Buying Agent
UGANDA VANILLA LTD.
Kikuta (Mukono District)

40. Mr. Joseph Oler
Farmer and Vanilla Extension Worker
Nakisunga (Mukono District)

41. Mrs. Susan Mugabi
Farmer and Vanilla Extension Worker
Nakisunga (Mukono District)

42. Mr. Eddie Kabula
Farmer and Vanilla Extension Worker
Nakisungu (Mukono District)

43. Mrs. Banakola
Farmer and Vanilla Extension Worker
Mbazi (Mukono District)

44. Mr. & Mrs. Yokere Kosanga
Vanilla Farmers
Mbazi (Mukono District)

45. Mr. & Mrs. Katabazi
Vanilla Farmers
Kikeera (Mukono District)

46. Mr. Abdu Senyondo
Assistant Manager
HAJI DDUNGU ENTERPRISES
Masaka (Masaka District)

47. Mr. Haji Kalibala
General Manager
SEBATA FARM & MAIZE MEAL COMPANY LIMITED
Masaka (Masaka District)

48. Mr. Al-Haji Darawusi Mukasa
General Manager
NEW HOME FASHIONS
Masaka (Masaka District)

49. Mr. Al-Haji Mohamed Kasasa
General Manager
KASASA ENTERPRISES LIMITED
Masaka (Masaka District)

50. Mr. Francis Lukyamuzi
General Manager
LUKYAMUZI TEXTILES
Masaka (Masaka District)

51. Mr. Joseph Mukasa
General Manager
KIGANDO ENTERPRISES COMPANY
Masaka (Masaka District)

52. Mr. Pradyot Somaiya
Financial Controller
MULBOX LIMITED
Jinja

53. Mr. Tuyearts
Temporary Station Manager
SABENA BELGIAN WORLD AIRLINES
Entebbe

54. Mr. Mathias
Cargo Manager
SABENA BELGIAN WORLD AIRLINES
Entebbe

55. Mr. John Kyaligonza
Manager
DAIRO AIR SERVICES
Kampala

56. Mr. Geoffrey Luwanga
Farm Project Coordinator
DAIRO AIR SERVICES
Kampala

57. Mr. John E. Sekaggya
General Manager
NILE BANK LTD.
Kampala

58. Dr. Suleiman I. Kiggundu
Managing Director
GREENLAND BANK LTD.
GREENLAND FOREX BUREAU
Kampala

59. Mr. Harun Sebaggala
Manager of Foreign Exchange Department
GREENLAND BANK LTD.
Kampala

60. Mr. Thomas I. Katto
Chairman
INTERNATIONAL CREDIT BANK
INTERNATIONAL FOREX BUREAU
Kampala

61. Mr. Emmanuel Katto
Director
PHENIX PHARMACEUTICALS (U) LTD.
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1. Mr. Y. K. Abainenamar
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2. Mr. Francis Muhangi
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UNION EXPORT SERVICES (UNEX)
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3. Mr. Cassi M. Bukawa
Managing Director
ELGONIA INDUSTRY LTD.
Tororo

4. Honorable Mr. Victor Kobel
Managing Director
NAGONGERA MILLERS AND FARMERS
Tororo

5. Mr. Mike (Minaz) Karmali
Certified Accountant
BAI ENTERPRISES LTD.
Kampala

6. Mr. Charles M. Mbire
Managing Director
POP-IN INDUSTRIES (U) LIMITED
Kampala

7. Mr. James Mulwana
Managing Director
SHIP TOOTHBRUSH FACTORY LTD.
Chairman
UGANDA MANUFACTURERS ASSOCIATION
Kampala

8. Mr. Gordon Wavamunno
Chairman and Managing Director
SPEAR MOTORS LTD.
Kampala

9. Dr. Nassan Tandekwire
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UGANDA INSTITUTE OF MANAGEMENT
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10. Dr. A. Babitunga
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11. Mr. Stephen Caiger
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12. Mr. Knud A. Rasmussen
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PRODUCE MARKETING BOARD
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13. Mr. John A. Stahl
DANISH AFRICAN FOOD LTD.
Katwe (Kasese District)
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14. Mr. Hans (Rudy) Blauen
DANISH AFRICAN FOOD LTD.
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15. Mr. Patrick Henfrey
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16. Mr. Kaitano Chungu
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