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Assessment of USAID Support for Agribusiness:

Uganda Case Study

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U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

ASSESSMENT OF

USAID SUPPORT FOR AGRIBUSINESS:

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PREFACE

This assessment of USAID support for agribusiness in Uganda is one of seven case studies comprising a worldwide assessment of the effectiveness, impact, sustainability and efficiency of USAID-financed agribusiness programs. The assessment is being conducted by the Center for Development Information and Evaluation (CDIE), Bureau for Policy and Program Coordination (PPC) of the U.S. Agency for International Development (USAID). The other case studies include Bangladesh, Cameroon, Ecuador, Guatemala, Sri Lanka and Thailand. The findings and conclusions of the seven case studies contribute to a synthesis report drawing general conclusions and lessons learned that can be applied to the design and implementation of future USAID-supported agribusiness programs.

The manager of the agribusiness assessment, Krishna Kumar of CDIE, prepared the assessement concept paper and design, was the team leader for the Sri Lanka case study and is the principal author of the synthesis report.

The Uganda case study was prepared by a three-person team: John Eriksson (Director of CDIE), team leader; John Balis (USAID/ANE/DR), agribusiness specialist; and Roger Poulin (Evaluation Technical Services/Development Alternatives, Inc.), economist. Field work in Uganda was conducted over a 3-week period, from September 27 to October 15, 1993 (Eriksson to October 10). The team would like to express its appreciation to Mission Director Keith Sherper and his staff for the technical and logistical support it received during and subsequent to the field visit. In particular, we would like to acknowledge the help provided by Rosern Rwampororo and Gary Bayer of the Agriculture and Natural Resources Office; Norman Olsen, Program Officer; and Robin Phillips, Senior Economist, as well as helpful comments on an earlier draft by Rosern Rwampororo, Carol Carolus, AFR/ARTS, and Tom Harrington, MSI. Remaining deficiencies and opinions are solely the responsibility of the team.

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EXECUTIVE SUMMARY AND LESSONS LEARNED

One of the unique features of an agribusiness development strategy is its focus on the **demand** side of agricultural growth. A focus on demand for a relatively small, low-income agricultural country like Uganda necessarily implies external markets, i.e., exports. The performance of the Ugandan economy over the last six years, led by agribusiness in the form of non-traditional agricultural exports (NTAEs), has been impressive.

Based on the Uganda experience, the elements of a sound strategy to promote agribusiness include:

- liberalizing the policy environment;
- improving basic physical and institutional infrastructure;
- providing selective, time-limited technical and marketing assistance to agribusiness ventures at the pilot stage, utilizing high quality private sector expertise.[1]

The first two elements, policy environment and infrastructure, are fundamental. Without them, direct assistance to agribusinesses will not be productive. In Uganda, major policy reforms and infrastructure rehabilitation during the late eighties stimulated impressive NTAE growth rates, which grew from a tiny base in 1988 by over five-fold in 1989, almost three-fold in 1990, almost 40 per cent in 1991, and after a decline of 13 per cent in 1992 (caused in part by serious drought), appeared likely to double in 1993, when they accounted during the first half of the year for almost 30 per cent of total agricultural exports (see Table 2 in main text).[2]

Such relative and absolute growth has commanded the attention of both the public and private sectors. It is generating enthusiasm and a constituency for public policy and investment that could help sustain recent dynamism.

While it is difficult (and beyond the limits of this assessment) to attribute to USAID or any other donor with quantitative

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[1]For a detailed description of the major agribusiness components of the USAID/Uganda program and their evolution, see the first annex to this paper, <u>Annex I: Agribusiness Activities in the USAID/Uganda Development Assistance Program</u>, by John Balis.

[2]Some of the early spurt in NTAEs in 1988-90 may be "statistical" in nature. It has been suggested that with the liberalization of the foreign exchange regime, exports that had previously been clandestine and unrecorded became recorded and "official." This is likely to have been a one-time phenomenon, however, with the NTAE growth recorded in the nineties being real.

precision the performance of NTAE growth under an agribusiness strategy, it is clear from a review of USAID's experience in Uganda that the Mission's programs **and** presence have played a significant role in liberalizing the economic environment and in improving physical and institutional infrastructure. However, USAID **direct** assistance to pilot NTAE agribusinesses is fairly recent. Its impact on overall growth will take longer to materialize. While the projected exports of several of these pilot activities add up to a significant share of recent total exports, the team has little basis for accepting these projections with confidence.

A significant characteristic of the recent growth in NTAEs from the perspective of impact on **incomes and people** is the fact that the bulk of this growth has been in such **low-value** crops as maize and beans, which are grown by large numbers of smallholders in Uganda. While USAID support for policy reform and infrastructure improvement has undoubtedly contributed to this growth, **direct** agribusiness support has not yet played a role in stimulating the growth of low-value NTAEs.[3] There is evidence that smallholders are viewed by some exporters to be relatively efficient in the production of some **high-value** NTAEs (vanilla, silk, pyrethrum and some vegetables, such as snow peas), as compared with estate or large farm approaches relying on hired labor, but this will not be the case for every such crop (e.g., cut flowers, which are grown on relatively capital-intensive farms). Limited available evidence also suggests a relatively wide dispersion of additional incomes earned by smallholders **within** these new high-value NTAE activities.

Finally, while the USAID/Uganda program has shown sensitivity to **gender** concerns in several ways, including framing its economic growth Strategic Objective in terms of "Increased Rural Men's **and** Women's Income from Agricultural Exports,"[4] and seeking to ensure that women farmer groups, led by women leaders and assisted by women extension workers, participate in the new schemes, the limited available evidence suggests that the additional incomes or **benefits** received by participating women farmers are considerably **less** than those received by men (one-third, on average, in the case of a small sample of vanilla farmers).

The Uganda experience suggests the following lessons of more general applicability:

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[3] It should be noted that the USAID program has supported the development of improved maize varieties in Uganda, and that the new "IDEA" project ("Investing in the Development of Export Agriculture") is intended to address the constraints to expanded exports of maize and beans.

[4] See USAID/UGANDA FY1993 ASSESSMENT OF PROGRAM IMPACT

1. Even after almost two decades of conflict, mismanagement and consequent damage to physical and institutional infrastructure and productive capital, a five-year period of political stability accompanied by key macro-economic policy reforms and basic infrastructure rehabilitation are enough to restore significant export-oriented agricultural growth and to lay a foundation for agribusiness expansion.

2. Once the rehabilitation phase is over, macro-economic policies, agribusiness policies, and infrastructure -both physical and institutional- strengthening and maintenance become the main factors affecting agribusiness growth. The efficiencies of key **institutions**, ranging from research, to financial institutions, to cooperatives, and to public utilities can be critical limiting factors at this point.

   Decades of political interference and corruption in some of these institutions compound the problem in Uganda. The Ugandan experience is particularly sobering with respect to both cooperatives and financial institutions. Both sets of institutions have been relatively isolated by government policies and practices from the discipline of the market place, and from accountability to their members, customers and/or share-holders. Financial institutions must be reformed if agribusiness growth is to be sustained. The process is just beginning. The USAID Mission's support for restructuring the Uganda Cooperative Bank on a commercial basis represents a major initiative in this regard. However, the history of other cooperative organizations over the last few decades in Uganda is so dismal that, notwithstanding assistance from USAID and other donors, it is not clear that (perhaps with the exception of some of the coffee cooperatives) they will survive the current liberalized environment. Nor is it clear that they are needed in the Ugandan context, on either production or equity grounds.

3. Specific policies and regulations affecting agribusiness, including exports, and their **implementation** require just as much effort and capability, if not more, than putting sound macro-economic policies in place. Examples from Uganda that have not yet received the attention they deserve include implementation of regulations for exemption of duties on imported inputs to export-oriented production (e.g., duty drawbacks or similar schemes); streamlining customs operations; and reducing special charges associated with international air freight to competitive levels. This requires a mechanism to efficiently mobilize the highly specialized short-term technical assistance required to help address these policy and regulatory constraints.

4. There is an ongoing need for policy dialogue between the

donors supporting agribusiness and government, and between the private agribusiness sector and government. The Mission's support of GOU "Policy Forums" with the Ugandan private sector, and its assistance to strengthen the policy dialogue capacity of the Uganda Manufacturers Association, have been important initiatives in this regard. Constantly changing circumstances facing policy makers means that agribusiness interests will frequently be confronted with opposing, but often equally legitimate interests. Effective dialogue and strong policy analysis capability in government are necessary to assure a unified and coherent policy framework over the long-term.

5. Providing the above-mentioned elements are in place, or are moving sufficiently in the right direction, the rate of agribusiness growth can be accelerated through selective, time-limited direct assistance, mostly in the form of transfer of expert knowledge about the technologies and market information required to successfully compete in world NTAE markets.

6. While direct assistance should be targeted and selective, the Uganda experience suggests that at least in the case of **high-value** NTAEs, it is not possible to select in advance which commodities, enterprises or aspects of operations will require assistance or comprise the critical constraint. For example, in the case of vanilla, the U.S. buyer was critical, in the case of snow peas it was the technology and the knowledge of the European market, etc. Therefore, resident expatriate expertise with sufficient private sector experience to identify these critical constraints (as in the case of the advisors USAID/Uganda has supported) would appear to be a pre-requisite for direct assistance to be effective.

7. Similarly, the Ugandan experience indicates the desirability of significant involvement by the local private sector, including private sector associations, in the design and implementation of an agribusiness strategy, including:

   - as a source of information, knowledge and expertise;

   - as partners in program management.

8. A development strategy based on agribusiness growth and focussed on NTAEs, if it is to have a broad and sustained impact, is necessarily **long-term.** Uganda's impressive performance has been stimulated for the most part by the macro-economic policy reforms and physical infrastructure investments of the last six years. Additional growth will come more slowly. Needed additional policy and regulatory

reforms and infrastructural improvements will be more incremental in nature than in the past. Direct assistance to agribusiness will yield a positive rate of return only after a period of sustained growth following an often lengthy gestation period.

9. When USAID and donors support the establishment of specialized, independent government institutions to support agribusiness, as they did in Uganda in the case of the Export Policy Analysis and Development Unit (EPADU) and the Uganda Investment Authority (UIA), both under the Ministry of Finance and Economic Planning, but independent of normal civil service regulations, **sustainability** is likely to be a critical issue. Sustaining such institutions in low-income countries with severe budgetary constraints, such as those faced by Uganda, requires a long-term commitment by donors to meet all or most of their on-going costs, supported by sound strategic plans.

10. The limited evidence from Uganda suggests that **smallholders** are viewed by some exporters as relatively efficient producers of some high-value NTAEs as compared with estate farms employing hired labor. From the perspective of the empowerment associated with a smallholder approach as opposed to estate farms, this is a positive indication. However, the evidence also suggests that the employment growth potential of at least one NTAE, cut flowers, may be limited by the relatively high capital intensity involved.

11. A much larger number of Ugandan smallholders produce relatively **low-value** NTAEs, such as maize and beans, compared to the relatively few who produce high-value NTAEs. Thus, if an agribusiness strategy in a low-income country like Uganda is to have significant impact on smallholders, adequate attention must be paid to the lower-value NTAEs. This requires a clear strategy for identifying and overcoming the critical constraints to expanding the exports of these crops. The USAID/Uganda program has yet to develop such a strategy.

12. Women comprise the major share (about 70 per cent) of the agricultural labor force in Uganda and, by one estimate, account for 80 per cent of agricultural production.[5] They can make a major contribution to the success of an agribusiness strategy and should participate as full partners in its implementation and benefits. Gender considerations are receiving attention in the design and

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[5] See World Bank, Uganda: Growing Out of Poverty (Washington: 1993), p. 26.

implementation of directly assisted pilot agribusiness activities in the USAID/Uganda agribusiness program. However, the limited available evidence suggests that the women participating in these activities receive far less than men in the way of **benefits.** Analyses of the **constraints** that limit fuller participation by women constitutes one step that could be taken. Beyond agribusiness projects per se, enhanced participation of women requires attention throughout the USAID program, including in policy dialogue, democracy and governance, and in education for girls and women.[6]

13. Flexible donor implementation capability, to enable quick response to a changing environment, is particularly important at the pilot or experimental stage. This capability is made possible through a combination of the kinds of instruments and capability that USAID/Uganda has had at its disposal, namely:

- an array of assistance modalities, such as Project Assistance, Non-Project Assistance (NPA), and PL 480 Food Aid; and

- competent field staff who remain in country for at least two tours and maintain effective working relationships with their private sector and government counterparts.

14. Among the assistance modalities employed by many Missions are CIPs (Commodity Import Programs) and the programming of local currency generations from CIPs and other Non Project Assistance (NPA), and from PL480 Food Aid sales. The need for CIPs must be carefully assessed in the light of both the current and projected economic environment. In Uganda, the progressive reform of the foreign exchange regime rendered CIPs targeted to agribusiness unattractive to potential importers. Local currency generations from NPA and PL 480 sales have contributed to infrastructure essential for agribusiness growth (from PL 480 Title III) and have provided financing for selected agribusinesses (from PL 480 Title II) and new GOU institutions in support of agribusiness (e.g., the Uganda Investment Authority from Agricultural Non-Traditional Export Promotion Program-generated local currencies). To maximize their contributions, these instruments need to be systematically integrated into the overall agribusiness growth strategy, and the performance of the activities they support needs to

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[6] Increasing girls' continuation rates, or "persistence," in school is an explicit target of the third Strategic Objective of the USAID/Uganda program, "Improve the Quality and Efficiency of Basic Education." (FY 1993 API).

be adequately monitored.

15. Regular monitoring and evaluation of implementation and **impact**, including by gender, are essential in order to help host country institutions resolve technical and policy problems as they arise, thus assuring that targeted results are realized. While the USAID/Uganda Mission has been strong on implementation monitoring, it has been weak on monitoring and evaluation of impact or results. The fact that the Mission's first Strategic Objective is framed in terms of the **incomes** of rural **men and women** producers is to be commended, but the monitoring of performance against this objective requires a significant **investment** of attention and resources. The results reported in this evaluation and in the FY1993 Assessment of Program Impact represent the beginning, but only the beginning, of a monitoring effort along these lines. Over time, the development of an impact monitoring and evaluation capability in the host government itself should be encouraged and supported.

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LIST OF ACRONYMS

ANEPP	Agricultural Non-traditional Export Promotion Program
APDF	African Project Development Facility
BOU	Bank of Uganda
CAAS	Cooperative Agriculture and Agribusiness Support Project
CDIE	Center for Development Information and Evaluation
CIP	Commodity Import Program
DAPCB	Departed Asians Property Custodian Board
DU	District Union
EPADU	Export Policy Analysis and Development Unit
GOU	Government of Uganda
IDEA	Investment in Developing Export Agriculture Project
MFAD	Manpower for Agricultural Development Project
MFEP	Ministry of Finance and Economic Planning
MTI	Ministry of Trade and Industry
NPA	Non Project Assistance
NTAEs	Non-Traditional Agricultural Exports
ODA	Overseas Development Administration (U.K.)
RPE	Rehabilitating Productive Enterprises
UCA	Uganda Cooperative Alliance
UCCU	Uganda Central Cooperative Union
UEPC	Uganda Export Promotion Council
UIA	Uganda Investment Authority
UMA	Uganda Manufacturers Association
USAID	United States Agency for International Development
VOCA	Volunteers in Cooperative Assistance

BACKGROUND

The Macro-economic Setting

During the 1970s and early 1980s the Ugandan economy went through major restructuring and disastrous decline as a result of perverse economic policies and a devastating civil war. Prior to the Amin period, Uganda enjoyed relative prosperity based mainly on exports of coffee, tea, cotton and tobacco. By 1986, when political stability had returned to most parts of the country, the only major export was coffee. Uganda had lost its comparative advantages in most other crops and was essentially in the position of "starting all over again," not only in building up new export markets but also in trying to restore much of its infrastructural and institutional base. Since 1986, the economy has been in a relatively strong recovery phase with GDP growth averaging over five per cent a year. This, despite the sharp drop in world coffee prices that resulted in precipitous declines in Uganda's external terms of trade (from 100 in 1985/86 to 30 in 1991/92) and coffee exports (from $265 million in 1988 to $115 million in 1992). During this same period, non-coffee exports increased from $7 million to $47 million. Even with seven years of significant overall growth, however, per capita income remains low at about $180. Agriculture still dominates the economy, accounting in the early nineties for over 50 per cent of GDP (at current prices), over 95 per cent of exports and over 80 per cent of the labor force.

There have been three aspects to Uganda's economic recovery:

Economic rehabilitation. In order for recovery to be sustained, Uganda had to rebuild its economic infrastructure, especially roads but also most urban utilities, revive its economic and social institutions, and rehabilitate its productive enterprises in manufacturing as well as agriculture. This process could not begin in earnest until 1986, when political stability was finally established in most areas of the country except in the north. Between 1981 and 1988, most donor assistance went to support the rehabilitation effort. Since then, donors have been providing increasing amounts of non-project assistance (NPA) in support of the country's stabilization and structural adjustment programs. While the main transportation network is now in relatively good shape, rural feeder roads require continued investment and attention; power and telecommunications capacities remain seriously deficient.

Economic stabilization. A major consequence of the sharp economic decline of the seventies and eighties was a drop in government revenues to a level that covered only a fraction of expenditures. In order to meet its financial obligations, the government (GOU) borrowed heavily from the central bank, causing hyper-inflation, as well as from the domestic economy (banks and suppliers), resulting in a growing domestic debt that it was unable to repay. In mid-1987, the GOU initiated an IMF-supported stabilization program aimed at reducing inflation and creating the conditions for economic recovery. Inflation was not immediately halted (the annual rate dropped from 200 per cent in the mid-1980s to the 30-50 per cent range in the early 1990s), but prices and the exchange rate were decontrolled so that the economy could function based on market forces. Although the annual inflation rate fell close to zero in the fall of 1993, money supply was continuing to grow at a 30 per cent annual rate, indicating that the inflationary threat was not yet over.

The country and the government are still facing very large resource gaps that must be filled by highly concessional foreign aid if inflation and increasing indebtedness are to be avoided. Government revenues are only 7 per cent of GDP and one third of expenditures, and the situation is not likely to improve soon. Civil service salaries, which are only a fraction of what is needed to meet basic living expenses, must be increased. Complicating the picture is the fact that GOU employment rolls are bloated and need to be severely cut back. On the revenue side, the tax base, represented by the formal sector, cannot grow fast enough to fill the gap, even in the medium-term, and tax rates cannot be increased much without dampening the still fragile recovery. The country's balance of payments gap is equally serious. In 1992, imports totalled $530 million while exports totalled only $170 million. In addition, external debt service obligations amounted to about $150 million, about 80 per cent of exports. Even with rapid economic growth and conservative fiscal and monetary policies, Uganda will require very large levels of concessional balance of payments and budgetary support for the foreseeable future.

Economic liberalization. The GOU has undergone one of the most impressive economic liberalization programs in Sub-Saharan Africa. The exchange rate is now market based, there are no significant foreign exchange controls, nor does trade policy provide excessive protection from imports or otherwise create market distortions. All taxes on exports have been removed and goods used in the production of exports have been officially exempted from import duties and sales taxes, although this last change has yet to be fully implemented. These measures should help assure that Uganda's economic growth will be export-led and based on international competitiveness.

The GOU is also moving to liberalize its policies toward the private sector. In the past three years, the GOU has expedited investment licensing, eliminated or greatly simplified export and import licenses, simplified and improved the administration of customs procedures, and taken away the export monopolies of the Coffee Marketing and Lint (cotton) Marketing Boards. The GOU has also undertaken a major privatization program, including the on-going return of all expropriated Asian properties to their former owners. Implementation of these liberalization measures has been slow, however. The responsible agencies must now receive detailed guidance, and in some cases training, on how to implement the policy changes.

The USAID Agribusiness Program Rationale

The GOU and major donors are all agreed on what will be the motor for growth in Uganda: very rapid growth in agricultural exports (the GOU and World Bank are using a target of 15 percent sustained annual growth for their long-term macro-economic projections). For this to happen, Ugandan agricultural products must become competitive on world markets through increases in productivity, not only at the farm level but at every step of the processing and marketing chain. The Ugandan development strategy looks to the private sector to find the markets where Uganda can compete, obtain the technologies necessary to increase productivity, and, finally, create the productive capacity, both on and off the farm, through investment and entrepreneurship.[7] The strategy also emphasizes a complementary role for government to support the private sector with infrastructure investments; a sound policy, legal and regulatory framework; effective supporting institutions; and joint marketing and technology development initiatives.

The underlying rationale for USAID's agribusiness program in Uganda is that the agribusiness sector must play a leading role if the country's ambitious market-led economic growth strategy is to be successful.[8] With very few exceptions, agribusinesses in Uganda are starting from not only a very low production base but also a lost knowledge base that must be re-established in the face of greatly changed and more competitive world market conditions. The GOU also has a lot to learn about creating the right environment and providing the right kind of support for agribusiness seeking to successfully compete in today's world

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[1]See, for example, G. Helleiner, et al, Report of an Independent Working Group on the Ugandan Economy (Kampala: July, 1993, draft).

[8] Agribusiness is defined in this paper as all businesses involved in the production and distribution of equipment and inputs used in agricultural production, and all businesses involved in the processing and marketing of agricultural products, or in providing supporting services for those activities. Medium- and large-scale commercial farms actively involved in the post-harvest handling and marketing of their products are considered to be agribusinesses. Smallholders that supply producers or marketers on an "outgrower" basis, while they do not fall strictly within this definition, are also examined in this paper because of their close linkage to agribusiness and their potential to contribute to agricultural exports.

market place. In support of the GOU's growth objective, USAID sees its program as, first, helping to address constraints and create the right environment for private agribusiness growth; second, helping the GOU to define its role in support of private agribusiness and carry it out effectively; and, third, providing some of that support, while the GOU is not yet in a position to provide it.

PROGRAM DESCRIPTION AND PERFORMANCE

USAID support to agribusiness in Uganda has gone through several phases, partly in response to changing economic conditions and partly as a result of lessons learned from implementation experience. The following section summarizes the evolution of this portfolio; a more detailed description of the various activities is found in Annex I.

Phase I: The rehabilitation of agro-enterprises (1984-1988)

Post-Amin USAID support began in 1984 with the Rehabilitating Productive Enterprises (RPE) project. RPE started as a Commodity Import Program (CIP) aimed at providing foreign exchange and credit for equipment needed by agro-enterprises that had ceased operations or were operating well below capacity. The foreign exchange was to have been channelled through commercial banks to the agro-enterprises and technical assistance was to have been provided to the banks to improve their ability to analyze and manage agribusiness loans. Project inputs consisted of a \$19.5 million credit line to finance the imports; \$7.5 million to finance local costs; and \$2.9 million for technical assistance to the participating banks. About 200 enterprises were to have received loans, which was to have resulted in the creation of about 4,500 jobs.

Project implementation was delayed by two years because of continued civil unrest in many parts of the country. When the program finally got underway in 1986, there was a strong demand for the loans, mainly because the foreign exchange was priced at the highly overvalued official exchange rate. However, loan disbursements were extremely slow. The CIP procedures were cumbersome, the Bank of Uganda (BOU) loan approval procedures became a major bottleneck, and the commercial banks proved unable and unwilling to manage agribusiness loans effectively. Those who did receive loans often complained about imported equipment procurement delays. By 1988 the USAID Mission decided to concentrate on one objective through RPE: increasing the production and employment of Ugandan farming enterprises. Over the next three years about 200 enterprises received loans under the program, but the objective of strengthening the ability of commercial banks to make agricultural loans was effectively abandoned. These 200 loans created over a thousand jobs, but they proved to be short-lived. Most of the loan recipients, mainly medium-sized farms, were not commercially viable. Many of them continue to perform poorly, and the repayment rate on the loans is below 30 per cent. Also, once the large difference between the official and parallel exchange rates was eliminated, there was no demand for CIP funds to finance agricultural inputs. As a result, most of the RPE CIP funds remain undisbursed.[9]

Phase II: agro-enterprise rehabilitation, cooperative development, and the promotion of non-traditional agricultural exports (1988-1990)

In 1988, USAID broadened its agribusiness program to include the rehabilitation and development of cooperatives and the support of policy reforms to facilitate non-traditional agricultural exports (**NTAEs**). The program then consisted of three separate activities: RPE, described above; the Cooperative Agriculture and Agribusiness Support (CAAS) project, and the Agricultural Non-traditional Export Promotion Program (ANEPP).

Cooperatives had been established by the British during the colonial era and had become the major marketing institutions for Uganda's exports of coffee and cotton. Although cooperatives had suffered during the years of economic decline and had also become heavily politicized, the Mission believed this set of institutions could be revitalized to become a positive force in agribusiness growth.

CAAS continued the RPE focus on providing foreign exchange for agricultural inputs but, instead of the local currencies being used to set up a credit line, they were used to strengthen cooperative institutions. The project purpose was to increase agricultural productivity by a) increasing the availability of agricultural inputs, b) putting agricultural input supply within the cooperative system on a sound commercial basis, and c) stimulating agribusiness development for the production of agricultural equipment and inputs. Project inputs consisted of a \$15 million CIP and \$5 million for technical assistance, training and commodities. The CIP was to have financed imports of agricultural inputs by a specialized cooperative purchasing and services arm, the Uganda Central Cooperative Union (UCCU). These inputs were then to be sold to farmers through local cooperative

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[9] The main sources of information on RPE performance were the RPE Mid-term Evaluation, dated July 1988; two cables from the Mission to USAID/W in 1990 reporting on field trips that assessed the impact of the RPE loans (KAMPALA 00172 and 01640); and the two latest Semi-Annual Project Reports, dated October 1992 and March 1993. The information in these documents was supplemented by discussions with Mission staff responsible for managing the RPE project.

societies, and the local currencies generated were to be used to strengthen key cooperative institutions including the apex organization (the Uganda Cooperative Alliance - UCA), the UCCU, the thirty or so District Unions (DUs), and about 4,000 primary societies. Activities funded with the local currencies included budget support for UCA, policy studies, advisory services and training for the DUs, and grants to primary societies for equipment and storage.

The CAAS project evaluation of May 1990 found the design to be lacking in several respects. First, there was little effective demand for the agricultural inputs imported under the CIP. Given the structure of relative prices, farmers did not find increased use of the imported inputs profitable. In order for CAAS to generate the local currencies to fund other project components, the CIP had to be expanded to include construction materials, most of which were used in urban areas on facilities unrelated to agriculture. Second, with the exception a few coffee-based cooperatives, most of the DUs and primary societies had no economic base and had little chance of becoming commercially viable. Thus, the activities aimed at strengthening these organizations had little chance of success. Third, inefficiency and corruption continued to characterize cooperative management, particularly among many DUs.

The underlying premise of ANEPP, also initiated in 1988, was that the key to Uganda's achieving sustained growth lay through diversifying its exports. The <u>program goal</u> was to increase rural production and employment by 10 per cent, and the <u>project purpose</u> was to increase the value of NTAEs by 100 per cent. There were two components: a $12.5 million CIP linked to exchange rate and trade policy reforms, and a $1.5 million component for technical assistance, training and commodities to be used to create and support the Export Policy Analysis and Development Unit (EPADU) in the Ministry of Finance and Economic Planning (MFEP).

Most of the increase in NTAEs was to have resulted from the policy reforms. In 1988, the highly overvalued exchange rate and restrictive trade policies made it impossible to export NTAEs legally. The ANEPP-supported policy changes were aimed at facilitating such exports at the parallel exchange rate. The changes that were needed included: legalizing the parallel rate; gradually reducing the gap between the official and parallel rates; allowing exporters to utilize their foreign exchange earnings to purchase imports; reducing and simplifying trade controls; and eliminating the monopolies of the Agricultural Produce Marketing Board and Food and Beverages Ltd.[10]

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[10] During this same period, USAID also supported changes in policies affecting the availability of air cargo space and the cost of air cargo handling through conditions precedent under its PL 480 Title I program.

By 1990, all of the policy reforms associated with the CIP had been put into effect, EPADU was carrying out policy studies and advocating further policy changes needed to facilitate growth in NTAEs, and the ANEPP objective of doubling NTAEs had already been achieved. This is not to say that ANEPP had been an unqualified success. First, by providing foreign exchange at the official exchange rate, the CIP created windfall profits for the importers and ended up financing imports that would probably have been uneconomic at true market prices. Second, on the project side, the technical assistance provided to EPADU for policy analysis arrived late and the quality was uneven, and the export development activities in the form of short-term technical assistance and seminars, while they stimulated interest and broadened contacts between the private and public sectors and the Mission, were rather general and lacked focus.[11] Finally, although NTAEs were obviously growing rapidly, this was benefitted greatly by political stability and improving economic conditions. The policy reforms supported by ANEPP were part of this improved environment. USAID, through ANEPP, complemented the IMF and the World Bank which had already negotiated agreements on the key reforms. ANEPP's main contribution was the work done by EPADU which created an increased capacity in government to analyze policy issues and formulate policy changes.

Phase III: the replacement of CIPs with non-project assistance and PL 480; the increased emphasis on direct assistance to agribusinesses; and the focus on a limited number of specific non-traditional commodities (1990-1993)

In 1990, all three of the Mission's major agribusiness efforts were evaluated and redesigned. The first change was to terminate the CIPs. Once foreign exchange became freely available at the market rate of exchange, importers of intermediate and capital goods no longer needed the CIPs as a means of obtaining their foreign exchange. The USAID Mission shifted its balance of payments support to non-project assistance (NPA) and PL 480 Titles II and III. The NPA was provided under ANEPP ($20 million in 1990 and $13.5 million in 1992) to service external debt and finance petroleum imports. ANEPP-generated local currencies, in addition to funding operating costs of EPADU, were also employed during this period to help create and cover the operating costs of a new semi-autonomous institution under the MFEP, the Uganda Investment Authority (UIA). The significance of the UIA for agribusiness is discussed in a following section on **Impact of Government Institutions.** PL 480 Title II was used to finance edible oil imports, generating local currencies to fund cooperative development activities under CAAS. PL 480 Title III was used to finance tallow imports for the soap industry, and to

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[11] See the CDIE ANEPP Impact Evaluation, dated 1990, and Herlehy, 1991, for detailed assessments of ANEPP during its first three years.

generate local currencies in support of the overall USAID program. About $10 million of Title III-generated local currencies were used to finance activities related to agribusiness, including feeder roads and agricultural research.

The second major change was to provide direct assistance to specific agribusinesses for the production and export of specific commodities. Under CAAS, the decision was made to provide assistance to a limited number of District Unions and primary societies considered to have the potential to improve coffee marketing, increase the production of edible oil for domestic consumption, and increase NTAEs. This assistance consisted of technical and marketing advice (an agribusiness advisor was added to the technical assistance team), management training, and production and marketing loans totalling over $20 million funded with PL 480 Title II local currencies.

The export initiative began by focussing on sesame as a large volume, low-value crop suitable for the drier growing areas in northern Uganda, and on snowpeas as a promising high-value crop for the European markets. When sesame export prices dropped below Ugandan production costs, the project shifted to maize, but at this time it does not appear that cooperatives have any advantages over the private sector in maize production, marketing or exports.[12] The edible oil initiative has also met with limited success. The project is focussing on sunflower seed production and small scale oilseed processing, but at this time it appears that the possibilities are limited for the foreseeable future. As in the case of maize, it has not been demonstrated that cooperatives are particularly effective or necessary in the marketing and processing of oilseeds. The project's snowpea initiative in the higher altitudes of south-western Uganda has resulted in a promising but still market-untested pilot activity.[13] The promising raw silk production scheme in Iganga District (Innula Silk Estates, Ltd., described in a following section) also benefitted from a loan utilizing PL480 Title II-generated local currencies.

The local currencies generated by the PL 480 Title II program

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[12]A reported significant factor in these sesame shifts has been the departure from, and re-entry into, the world sesame market by Sudan, where agro-climatic conditions are more favorable to sesame production than in Uganda.

[13]Unfortunately, the recent tragic events in Rwanda do not augur well for the economic viability of exports of such high-value NTAEs as snow peas, French beans and pyrethrum grown in the favorable agronomic conditions of Southwestern Uganda. This is because the international airport at Kigali, Rwanda, is about half the distance from Kabale, Uganda, as the airport at Entebbe. This difference seems to be significant in terms of potential viability according to project managers interviewed by the team.

have been used entirely to fund CAAS activities, including grants to the UCA and other cooperative institutions and loans through the Cooperative Bank to farmers and agribusinesses. As discussed above, because of the intrinsic weaknesses of the cooperative institutions, the assistance they have received has been largely ineffective. The loan program appears to have benefitted farmers (most are repaying their loans), but no serious attempt has been made to monitor and document these benefits. Because the loan program has been managed entirely by USAID, there is no assurance that it will continue to function after the CAAS project terminates.

This same shift in emphasis took place under ANEPP. The export development component was expanded with $4.0 million additional technical assistance to include a long-term agribusiness advisor, commodity-specific short-term technical assistance for individual businesses, and direct grants to agribusinesses for feasibility studies, market development and financial packaging. ANEPP carried out six opportunity studies of major agricultural export sub-sectors, and has provided direct technical assistance to agribusinesses in the production and marketing of NTAEs, mainly high value crops for European (and in the case of vanilla, U.S.) markets. This has contributed to several small but promising successes (e.g., flowers, vanilla, silk, and crocodile skins).

During this period, ANEPP's policy and regulatory reform objectives were relatively de-emphasized. The NPA conditionalities consisted mostly of requiring the GOU not to backtrack on its earlier economic liberalization measures, and EPADU's policy analysis performance did not move beyond the successful strategy formulation work that had been done from 1989 through 1991. The October 1993 ANEPP evaluation (October 27 draft) found that EPADU was no longer a major factor in the analysis and formulation of export related policies, these roles having been assumed by the Uganda Investment Authority (UIA) and the Uganda Manufacturers' Association (UMA). Policy and regulatory issues that continue to require urgent attention include tax and customs administration, procedures for administering the duty drawback system for exporting firms, the introduction of export incentive schemes, and the need for better coordination between EPADU, UIA, and the Uganda Export Promotion Council (UEPC). Hopefully, a USAID-funded long-term policy advisor who recently joined EPADU can mobilize and coordinate the specialized short-term expertise required to tackle these issues effectively.

By 1990, RPE had become moribund. The USAID Mission shifted $1 million from the credit program into a feasibility study fund managed by the BOU. This fund has remained largely unspent, but $250,000 has been transferred to the UMA where it is being utilized for policy analysis and to support policy dialogue between the private and public sectors. Recently, RPE resources were used to meet two requests for modest assistance: technical assistance in commercial lending and operations to the privately-owned Nile Bank, and accounting and auditing assistance to the Departed Asians Property Custodian Board (DAPCB), which is responsible for returning expropriated Asian-owned properties to their former owners. It is still too early to determine whether these two activities have achieved their objectives.

Phase III was a major improvement over Phase II in two respects. First, the NPA financing of petroleum imports and debt servicing, and the PL 480 financing of edible oil and tallow imports, were a much more effective way of helping to fill Uganda's foreign exchange gap than the CIPs which were cumbersome to administer, financed imports for which there was little effective demand, and provided foreign exchange to importers at a highly overvalued exchange rate. Second, providing direct assistance to agribusinesses (including potentially viable DUs and primary societies) that was focussed on specific commodities greatly increased the chances that the assistance would be aimed at critical problems and therefore achieve measurable results.

It was also during this period that the USAID Mission first articulated its agribusiness strategy. The 1992 Country Program Strategic Plan (CPSP) (prepared in 1991) included as one of the Mission's Strategic Objectives -- ***increased rural incomes from agricultural exports*** (gender disaggregated) -- with an associated strategic target -- ***increased agricultural exports.*** It was at this time that the Mission decided to target export-led growth in Uganda by focussing specifically on NTAEs. The measures of target achievement were: 1) an increase in marketed production of exportables, 2) an increase in the number of export markets, and 3) and increase in the number of different products being exported at significant levels (over $2 million). The agribusiness program was then restructured to deal specifically with the major constraints to increasing NTAEs. This led to the following sub-targets, each addressed by one or more of the Mission's agribusiness projects:

- An improved policy and institutional framework
- Improved access to markets
- Improved access to technology
- Improved access to financing (equity and credit)
- Stronger trade (producer, agribusiness, exporter) associations

This strategy is reflected in phase IV, which is just getting underway.

Phase IV: Continued non-project assistance in support of policy reforms and an increased emphasis on direct assistance to agribusinesses, combined with targeted

financial sector and infrastructure development to address specific needs identified by the direct assistance programs

The major agribusiness activity for the future will be the recently obligated $25 million Investment in Developing Export Agriculture (IDEA) project. Direct assistance will be provided to individual businesses for the purpose of increasing exports of selected NTAEs. The end result, on which the project's success will be judged, will be increases in production, incomes and exports. The main focus of the institution building efforts will shift to private sector trade associations rather than GOU agencies, although the latter are recognized as critical to long-term export-led growth. It is intended that IDEA will build on the NTAE momentum that has been created by ANEPP and CAAS during Phase III.

In the process of providing direct assistance, the Mission developed an improved understanding of the most critical constraints facing agribusinesses. Two of these, the lack of marketing infrastructure and the lack of financing, will be addressed in phase IV under the three existing projects. ANEPP has recently been amended to include the financing of a pilot cold storage facility at Entebbe airport, an essential investment for breaking into the European market for high value fruits, vegetables and flowers. Other infrastructure investments are being considered under the next phase of ANEPP which is scheduled to be designed in 1994. Under CAAS, which will end in 1994, USAID will recapitalize the Cooperative Bank (using $7 million of PL 480 Title II-generated local currencies) and provide long-term technical assistance to help restructure it into a full-fledged commercial bank specializing in agricultural and agribusiness credit serving the private sector as well as cooperatives. Finally, USAID has been exploring, with a portion of the remaining RPE funds, the feasibility of financing a venture capital facility targeted on the agribusiness sector.[14]

The key components of USAID/Uganda support to agribusiness are summarized in the following table.[15]

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[14]About $10 million still in the RPE pipeline is to be deobligated in September 1994.

[15]At least some portion of the $10 million in PL 480-generated Title III local currencies allocated to agricultural research and feeder road construction should have been added to the table. In the absence of more detailed information on these activities and their locations, they were not included in the table.

TABLE 1

Components of USAID Support to Agribusiness in Uganda

Project/Program	CIP/NPA[a]	TA[b]	TOTAL
	(million dollars)		
Rehabilitating Productive Agriculture (RPE)	17.0	3.0	20.0[c]
Cooperative Agriculture and Agribusiness Support (CAAS)	15.2	4.8	20.0
PL 480 Title II (annual local currency generations)	20.0	---	20.0
Agricultural Non-traditional Export Promotion Program (ANEPP)	46.0	5.5	51.5
Investment in Developing Export Agriculture (IDEA)	---	25.0	25.0
TOTAL	98.2	37.8	136.5[c]

[a]Commodity Import Program Assistance or Non-Project Assistance

[b]Technical Assistance

[c]The remaining $10 million in the RPE pipeline is slated to be deobligated in September 1994. This would reduce the RPE total to $20 million, and the overall program total to $136.5 million.

ASSESSMENT OF IMPACT ON THE AGRIBUSINESS SECTOR

Impact on the Policy and Institutional Environment for Agribusiness

The Policy Framework

As previously noted, there have been important, positive policy changes during this period. From the standpoint of agribusiness, the key change has been the liberalization of foreign exchange markets. This made it legal to export agricultural products other than coffee at the market rate of exchange with no restrictions on the use of the foreign exchange earnings. These changes occurred in 1990 and had an immediate, dramatic effect on recorded exports. USAID activities, including policy studies, contributed to these changes, but as noted previously, most of the changes were supported by other, larger donors, especially the IMF and World Bank. USAID was just one factor.

Although the overall policy change effort has been successful, more is needed. The GOU does not yet have a clear and consistent policy with respect to export-led growth. This is most evident in the large number of agribusiness-specific problems that remain to be addressed, especially customs and tax administration, the absence of an effective export incentive scheme, and the ineffectiveness of the key government export development institution, the UEPC. It is with respect to this apparent lack of commitment that USAID could have the most impact. Meaningful policy change occurs only when the government understands why it is necessary and is committed to its implementation. Donors can identify the need for a particular policy change and through dialogue can strengthen the case for commitment, which of course must ultimately come from the recipient country.

The USAID Mission's attempt to create a policy analysis capability in EPADU is a potentially important contribution to this process. So is its support for policy forums that bring government and the private sector together to discuss development policies and priorities. The more dialogue takes place within government as well between different interest groups on the subject of export-led growth, the more likely it will be that the government will speak with one voice and follow through on sound commitments. Without dialogue, the commitment will be limited to a small number of political leaders and senior bureaucrats and the donors. This is too narrow a political base to assure that, when conflicting interests are involved, export-led economic growth objectives will prevail over welfare, urban unemployment, ethnic and other politically sensitive considerations.

Government Institutions

A number of key GOU services are needed in support of agribusiness growth, including export promotion and development, policy analysis and advocacy, technology development and dissemination, market information, risk reduction assistance for technology and market development, standards and quality control, bank supervision, and investment regulation and promotion.[16] These are all lacking to a greater or lesser degree in Uganda.

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[16] See Helleiner et al, Report of an Independent Working Group on the Ugandan Economy, for a good summary of the institutional support needed by the private sector, including agribusiness, in Uganda. (Kampala: July, 1993, draft).

USAID has focussed on four areas: policy analysis related to exports; export development; investment regulation and promotion; and technology development -- the first three under ANEPP, and the fourth under the recently completed MFAD (Manpower for Agricultural Development) Project, which was not explicitly aimed at agribusiness needs but trained high level agricultural manpower, including researchers, and developed high yielding crop varieties that could lead to new, profitable cash crops. In general, USAID's institution building efforts in Uganda highlight the difficulties of achieving institutional sustainability under conditions of chronic financial constraints and lack of adequately trained host government personnel.

The major institution building effort has been the Export Policy Analysis and Development Unit (EPADU) in the Ministry of Finance and Economic Planning (MFEP). Two key sustainability issues were evident from the outset. First was the issue of where EPADU should be located. The logical choice would have been the Ministry of Cooperatives and Marketing, now the Ministry of Trade and Industry (MTI), linked to, or as a part of MTI's Uganda Export Promotion Council (UPEC). Given the relative weakness of the MTI, and particularly of UPEC, EPADU was instead placed in the MFEP, where there was a strong interest in export-led growth. The second issue was how the EPADU staff was to be paid. With the GOU unable to pay appropriate salaries, EPADU had to be created as a semi-independent unit outside of the civil service. The issue now is how to institutionalize this capacity.

There are two difficulties. The first is the lack of qualified Ugandans. The experience of the last five years under ANEPP is that expatriate technical assistance is still needed for both policy analysis and export promotion. ANEPP does not have a plan for moving from long-term technical assistance to short-term technical assistance in specialized subjects. The possibility of building a complementary policy analysis capability at Makerere University is being explored, but there is no similar effort for export development. The second difficulty is the institutional structure and location for export policy analysis and development. The GOU has now decided that policy analysis will remain in MFEP, apparently as a unit of the Planning Division. The challenges here will be how to maintain a high priority for NTAEs and how to create a mechanism for expeditiously mobilizing specialized short-term experts on specific export policy and regulatory issues, as recommended by the October 1993 ANEPP evaluation team. Responsibility for export development will be shifted to MTI, where the UEPC is to become an autonomous agency funded by the GOU (initially by donors) but with a private sector board. The issue of how these two activities, policy analysis and export development, will be funded over the long term remains unresolved.

USAID's second major government institution building activity has been the creation of the Uganda Investment Authority (UIA). The GOU, in consultation with USAID and other donors, instituted a new investment code in 1991 and created the UIA as a semi-independent investment regulatory and promotion agency under MFEP. USAID and the British Overseas Development Administration (ODA) provided technical assistance to help define UIA's mission and organizational structure. Once the UIA was established, USAID and ODA each provided long-term advisors who are acting as deputy directors. USAID is also funding UIA's entire operating costs with ANEPP-generated local currency. It should be noted that the ANEPP design did not specifically provide for this support. The local currency was available and UIA needed it. While UIA, with the help of what appear to be two first-rate expatriate advisors, seems to be well-managed, and the USAID Mission appears to keep in touch with UIA developments, oversight and assessment of the performance of this important institution would be on a much firmer basis if the Mission were to develop a strategic plan, objectives and performance targets for UIA.

UIA is an important element in the overall environment for agribusiness. The Authority's mandate gives equal priority to regulation and promotion and consequently the staff are expected to be facilitators, not enforcers, in applying the investment regulations. As an investment facilitation and promotion agency, UIA has a key role in creating a positive environment for foreign as well as domestic investors. Since alliances with foreign businesses are likely to be the primary means of gaining access to technology, markets and financing for many Ugandan agribusinesses, UIA can be expected to become increasingly important in supporting agribusiness growth. The key sustainability issues are the same as for EPADU, the shortage of qualified staff and the GOU's inability to fund operations at the salary levels currently being paid. For the immediate future, there is the possibility of World Bank funding, and for the longer term, the GOU is considering earmarking part of a one per cent tax on imports for UIA.

Two conclusions can be drawn from these experiences. First, there are limits in the short term to what any donor can do to create effective, sustainable, locally staffed institutions. It is likely that both EPADU and UIA will continue to depend on foreign financing and technical expertise for the foreseeable future. This in turn means that, without donor assistance, much of the GOU support required by private agribusiness will not be forthcoming, or will not be as effective at it should be. The second conclusion is that USAID assistance to GOU institutions supporting agribusiness has been somewhat ad hoc, "target-of-opportunity," in nature. The Mission had focused on building policy analysis and export development capacity and ended up supporting investment promotion as experience demonstrated the need for more direct intervention.

Financial Institutions

USAID identified the weakness of the financial sector as a major constraint to agribusiness growth as far back as 1984 when it started the RPE project. RPE was to have strengthened the capacity of commercial banks to analyze and manage agribusiness loans. This effort was later terminated when it became clear that the technical assistance provided was not being effectively utilized, largely due to the perception of the large commercial banks that agribusiness loans would involve too much risk and would be too expensive to manage. However, RPE has recently been providing technical assistance (two long-term advisors) in commercial loan management and bank operations to the Nile Bank, a small Ugandan-owned commercial bank that has a strong interest in making agribusiness loans.

In 1990, USAID-generated resources started funding loans to farmers and some agribusinesses under CAAS and the PL 480 Title II monetization program. The funds were channelled through the Cooperative Bank, but the program was actually managed by the CAAS core committee. The main purpose of these loans was not to strengthen financial institutions but to address the financial constraints of selected farmers and agribusinesses and to demonstrate the viability of certain crops and agro-enterprise (e.g., oilseeds and sesame). There were no efforts to institutionalize the program or to prepare the Cooperative Bank to eventually take it over.

However, the Mission is now about to undertake a major effort to recapitalize the Cooperative Bank and convert it to a full-fledged commercial bank meeting the needs of farmers and agribusinesses. PL 480 Title II-generated local currencies equivalent to $7 million, which have already been deposited in the Bank, will be converted into equity (owned by the cooperative members), and USAID will use the funds that are remaining in the CAAS project to finance two long-term advisors who will oversee the Bank's restructuring and set up sound commercial lending procedures. The GOU's contribution will be to assume the Bank's large non-performing loan portfolio.

Three pre-conditions are necessary for this initiative to succeed: 1) the owners of the Cooperative Bank, i.e., the cooperatives, must see this as their initiative and understand what it means; 2) the senior management of the Bank must be fully committed to the change and able to carry it out; and 3) the staff of the Bank must have or acquire the expertise to manage a commercial loan portfolio. A strong commitment to profitability based on attracting deposits and maximizing net income within acceptable risks will be the key to success. While some senior management of the Bank seem committed to these changes, it was not apparent to the evaluation team that the other pre-conditions were in place. Thus, USAID has embarked on a high risk initiative.

The Mission has also explored, with a portion of remaining RPE funds, the feasibility of supporting a venture capital fund to provide equity financing to Ugandan agribusiness. The target would be ventures that promise to provide a high rate of return to investors and also cover the fund's management costs. It is unlikely that ventures with less than $1 million of initial investment would qualify. It is expected that very few agribusiness ventures would meet these requirements, but for the two or three per year that might qualify, this influx of capital could be what makes them financially viable.

The Impact on Private Sector Organizations

In addition to strengthening key public sector institutions, USAID has been seeking to create and strengthen organizations in the private sector. Given the many constraints and sustainability issues facing public sector institutions, it has become clear that the private agribusiness sector will have to provide its own supporting services.

The main recipient of USAID support had been the Uganda Manufacturers Association. In recent years, this organization has been very active in spearheading initiatives to improve government policies toward the private sector and has contributed to the setting of broad development policies and priorities. The UMA has received several USAID grants for the purpose of carrying out policy studies and organizing joint government-private sector workshops and forums. USAID has also provided funding for the UMA to assist private businesses, mostly in the agribusiness sector, with feasibility studies, and is also funding two young MBAs on the UMA staff. The end result has been the increased ability of the private sector to identify and address constraints to growth and an increased ability to organize for the purposes of advocating for policy change and for providing supporting services to individual businesses.

USAID has also been working with trade associations, particularly those concerned with agricultural exports (the Horticulture Exporters Association and the Grain Exporters Association), by funding trips to export markets and ad hoc support for technology and market development. The response from the membership of these associations has been enthusiastic, but there have not yet been any major concrete results in terms of increased production or exports. These businesses are still in the learning phase, but the possibilities that have been identified has caused USAID to make a major commitment to these associations under the IDEA project. Almost all of its activities will be implemented through private sector institutions.

Impact on Cooperative Agribusinesses

A central element of USAID's agribusiness program has been to develop cooperatives as agribusinesses, initially to supply inputs to farmers, then to market agricultural products, and, after the 1990 re-design, to develop and manage commodity-specific production and marketing ventures. The effort started in 1988 and is scheduled to end in 1994.

The first objective was to make the Uganda Central Cooperative Union (UCCU) commercially viable as an importer of agricultural inputs and equipment by giving it primary implementation responsibility for the CIP and providing technical assistance in supply management and later in general business management. This effort did not succeed because the UCCU suffered from extremely weak management, the organization was severely undercapitalized, and, most importantly, there was little effective demand in Uganda for imported agricultural inputs. The end result was that only small quantities of agricultural inputs were distributed, and the UCCU was not strengthened as an institution, incurred steady losses and is now in receivership. Agricultural input supply and agricultural marketing are now seen by the Mission as primarily private sector undertakings.

The second objective was to strengthen the Uganda Cooperative Alliance (UCA) as the apex organization and provider of supporting services to the 37 District Unions (DUs) and 5,000 primary societies. The UCA's main functions were to have been: 1) general training and advisory services; 2) consulting and training in business management, especially financial management; and 3) "statutory" services consisting mostly of audits of the DUs and primary societies. These activities were all carried out to some degree but there has been almost no sustainable impact. Not only is the UCA not self-supporting, the future agribusiness role of the DUs and primary societies has never been established. At present, very few of them are in a position to benefit from the services that the UCA might have provided. The UCA, therefore, is not financially viable in its present form and with one year of USAID support left, there are no plans for a transition to an organization that is smaller, better defined, based on identified needs, and financially sustainable.[17]

The third objective was to strengthen the DUs and primary societies as agribusinesses and providers of services to their members. During the early years, when the project tried to reach as many cooperatives and DUs as possible, these activities had

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[17] The main sources of information on CAAS and the condition of cooperatives in Uganda were the 1990 CAAS Project Evaluation, the CAAS annual reports and discussions with the A.I.D. CAAS project officer and the CAAS Chief of Party.

almost no discernable impact. Later, the focus shifted to selected DUs and specific commodities, but, based on discussions with CAAS project staff, there is still no evidence that USAID-funded activities are making much of a difference. The major effort was on the production and milling of oilseeds. In general, farmers have not found oilseed production financially attractive relative to other cash crops, and CAAS has been unable to identify an appropriate technology for milling. There would appear to be no particular reason why cooperatives rather than private agribusinesses should be major participants in the edible oil industry.

It appears, therefore, that USAID assistance did not succeed in developing cooperatives either as commercially viable agribusinesses or as financially sustainable providers of services to farmers. A basic problem is that a compelling rationale for cooperatives in Uganda, including how they can compete with, or complement, private sector agribusinesses, has yet to emerge.

Impact on Private Sector Agribusinesses

USAID's impact on agribusinesses has been of two types: 1) production increases in a large number of firms resulting from an improved policy and institutional environment, and 2) production increases in a small number of firms resulting from direct assistance to individual businesses. The former is very difficult to measure. As noted above, USAID has had an impact on the agribusiness environment mainly through the ANEPP policy reform conditionalities and the policy dialogue conducted by the EPADU staff and advisors, and by USAID Mission staff. The policy reforms, which were also supported by the IMF, World Bank and other donors, helped create the conditions for across-the-board increases in economic activity, especially NTAEs. From this standpoint, a large number of agribusinesses benefitted from USAID-supported activities.

The production impact of USAID's direct assistance to agribusinesses has been more focused, but also more limited. Under RPE, USAID financed equipment and agricultural input imports. The main beneficiaries were medium-scale commercial farms producing beef, dairy products and foodstuffs for the domestic market. Initially, production and employment increased, but the impact was short-lived. Most of the equipment is no longer being used by the original recipients and most of the loans are not being repaid. This program can be considered to have had almost no lasting impact on agribusiness.

The second type of direct assistance was aimed at agribusinesses producing or marketing NTAEs or oilseeds (the latter are a major import substitution crop). The first direct assistance activities were export seminars under ANEPP. These seminars were well-attended and generated interest in exports, but the information tended to be too general to be of immediate use to the attendees. They were followed in 1992 by more direct one-on-one assistance under ANEPP and CAAS. Finally, the PL 480 Title II monetization program provided loans to cooperatives and a few agribusinesses to finance crop production, crop marketing, and fixed investments.

Although some direct assistance was provided to producers of low-value NTAEs (corn, sesame), most of the assistance has been aimed at the high-value NTAEs. High-value NTAEs consist of fruits, vegetables, spices, and miscellaneous agricultural products such as flowers, silk, pyrethrum, and crocodile skins. Zimbabwe and Kenya have been the region's dominant exporters of most of these products. Uganda is just starting to enter this market by producing mainly those commodities at the lower end of the high-value range, that are not highly perishable and do not have exacting quality standards, such as chilies, ginger, pulses and cooking bananas. These products tend to be low profit items with limited growth potential.

The number of agribusinesses moving into the more sophisticated high-value NTAEs is small, the range of products is narrow, and production levels, for the most part, are extremely low. The most established products are vanilla and flowers, vanilla because Uganda is able to produce a high value product at a competitive price and has a ready market in the U.S., and flowers because the production system is largely self-contained and the technology proved to be easily transferrable from Kenya. Raw silk, crocodile skins and pyrethrum can also be produced competitively under Ugandan conditions (low level of infrastructure development but the right climatic conditions). The least growth has been in fruits and vegetables for the European market, although the picture is mixed, depending on the particular commodity.[18] This market has the most demanding requirements in terms of quality standards and reliable supply. It is for these products that the transfer of production and marketing know-how will be the most difficult and the development of the necessary infrastructure and supporting services will be slowest.

Because the production of high-value NTAEs is just getting

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[18] The overall decline in fruit exports during the nineties more than offset an increase in vegetable exports (especially of potatoes and shelled vegetables to the U.K., Kenya and Sudan). Within the fruit category, sharp increases -from a very small base- in exports of avocados, guavas and mangoes were more than offset by larger declines of exports of bananas, oranges and pineapples. From a recent analysis prepared by Julie Stepanek for EPADU, Draft Report on the Analysis of Customs Data for the Period January 1990 - June 1993 (Kampala: December 15, 1993), p.7.

started, the impact of USAID's direct assistance to agribusinesses is measured more often in terms of getting the process started, rather than actual production increases. USAID's impact is best explained with examples from specific enterprises:[19]

UVAN Limited, vanilla growers

Uganda had exported small quantities of vanilla in the 1960s, but exports stopped in 1971 when Idi Amin expelled all foreigners. In 1990, a Ugandan businessman, after carrying out a feasibility study, requested USAID assistance in funding a vanilla pilot project. He needed assistance to identify an international buyer, rehabilitate a vanilla drying facility, and train farmers in how to grow and harvest high quality beans. With $86,000 of USAID funding and $20,000 from the African Project Development Facility, he established contact with McCormick in Baltimore, Md., which agreed to purchase his vanilla and also provided the technical advice he needed on quality control and vanilla curing equipment. UVAN Ltd. was formed in 1990 and, in January 1991, exported one ton of cured vanilla beans to McCormick. By 1993, 3,000 growers, all located in Mukono District, just east of Kampala, produced about 18 tons with a farmgate value of $72,000. Currently, only 20 percent of the plants are fully mature. When they all reach their full production potential, UVAN will produce 240 tons per year with a farmgate value of $960,000 and an export value of about $3 million. USAID is providing continuing assistance to the firm through a technical advisor who visits several times a year, mainly to teach growers appropriate cultivation, pollination, and harvesting practices. The success of UVAN has apparently stimulated other similar vanilla operations in the area. Exports of vanilla from the combined output of several exporters in 1993 are expected to exceed U.S.$500,000, representing an increase of over 200 per cent over 1992.[20]

Innula Silk Estates, Ltd.

This firm was started in 1990 by three Ugandan businessmen, following a search for alternative export possibilities. The owners made contact with a Japanese firm that would provide the silkworm eggs and purchase the raw silk. USAID provided about $175,000 financing through the PL 480 Title II-funded loan program, and also financed a trip to other silk producing countries. The firm has an estate on which it grows mulberry trees, but 75 percent of its production comes from 150

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[19] Much of the information presented in the following paragraphs was obtained from the recently completed ANEPP evaluation.

[20] Stepanek, EPADU, loc.cit. p.8.

outgrowers. The company finances the outgrowers' initial investment (about $1,000), and shows them how to raise the silkworms. The firm has shipped one ton of raw silk and has two more tons ready for shipment, with an export value of $8,500 per ton. The firms's main constraint is the lack of working capital to finance the outgrowers. At full production Innula will have 1,000 growers producing 50 tons of silk per year, with an export value of about $500,000. A second silk producer has already started production. Experts estimate that Uganda's silk exports could reach $10 million per year.

Fruitpack, Ltd.

This is a small business which is now exporting mostly low-value "Asian" vegetables such as chilies, cooking bananas, gourds, and beans, and wants to move into the high-value European vegetable market. The owner has availed himself of market development assistance under ANEPP and CAAS, including a marketing trip to Europe. The firm is about to start test marketing snowpeas in Europe with support from the CAAS long-term advisor. At the present time, he hopes to enter the European market with small shipments of 300 to 500 kilograms, but feels that he cannot become commercially viable unless he can export several tons per week. His key constraints are financing, seeds, technical expertise in production systems and quality control, and packaging. The owner has also been active in forming the Horticultural Exporters Association. The association has 80 members, of which ten are actually exporting.

Nile Roses, Ltd.

This business was formed in 1992. It found its own markets and obtained the necessary expertise from Kenya. USAID provided a small amount of funding ($90,000 out of a total investment of over $1 million) with much of the remaining financing coming from development banks. The firm has 90 employees and ships three to four tons of flowers per week to Europe. Its 1993 exports are expected to total about $800,000. The company needs to double its production to become profitable.

Ziwa Horticultural Exporters, Ltd.

This firm produces roses, leather leaf and asparagus. Plans have been made to export asparagus to the U.K. and leather leaf to the Netherlands, where roses are already being exported. Production and exports have not yet reached profitable levels. About 80 per cent of the staff of Ziwa are women, as well as the managing director. Ziwa has received technical assistance under ANEPP that includes advice on crop production and trials and various aspects of marketing and management. Both the Ziwa and Nile horticultural firms are located in Mukono District.

Uganda Crocs, Ltd.

This firm was formed in 1991. The Ugandan owner found his own market and technology through a Zimbabwe contact and partner. USAID helped with financing at a critical juncture. The first export of crocodile skins to Europe is expected in early 1994. The firm reportedly has 26 full-time employees and projects exports of over $500,000 annually.

RECO, Ltd.

One of the few agro-processing firms in Uganda, this business has about 100 employees and produces concentrates, juices, jams, and papaya enzyme extraction. Twenty per cent of its production is exported. In 1989, USAID financed some equipment and a marketing trip to the U.S. More recently, ANEPP funded technical assistance in food technology and marketing through VOCA. The firm estimates that it added twelve new jobs as a result of USAID assistance. In addition, by producing 1,000 kg of pineapple, orange and mixed fruit jam per week, RECO has created a market for fruit growers in the surrounding area.

As is clear from these examples, the impact of USAID direct business assistance on the overall level of agribusiness activity has thus far been very limited. The agribusiness sector in Uganda is just beginning the process of catching up with Kenya and Zimbabwe. Ugandan agribusinesses are pursuing new markets, technologies, and sources of financing, and are willing to accept lower prices to break into new markets. For most products, they know the road they must follow; Kenya has already taken it. Some of them already have the market contacts and know the market requirements but, because of lack of technical knowledge and inadequate infrastructure, are still far from being able to deliver the products. The task for USAID and the GOU is to follow their lead, providing the missing ingredient (market information, a new technology, a feasibility study, or assistance in obtaining financing) as necessary. The pace of growth, and therefore the production impact of USAID's direct assistance, will be determined by how well all of the constraints -- production capacity, market access, financing, infrastructure, and support services -- are dealt with in a coordinated and mutually sustainable manner.

Although the requirements for expansion of high-value NTAEs are extremely demanding, sustained success over time could result in their accounting for a substantial fraction of Uganda's foreign exchange earnings. For example, if the export projections of four of the above-mentioned firms above are realized, the total (about $ 15 million) would exceed ten per cent of the 1992 value of total Ugandan agricultural exports. Assuming these projections have a sound basis, a matter which the team was not able to assess, and that they could in turn be successfully **replicated** by other firms, high-value NTAEs would have made a real impact on Ugandan economic growth.

It should be noted that USAID's direct assistance activities for the **low**-value NTAEs (e.g., maize, beans, and sesame) is not as well defined as for the high-value crops. The production of maize and beans in particular is widespread, employing large numbers of smallholders in most parts of the country. Exports of maize and beans alone have been amounting to two or three times the value of total high-value NTAEs in recent years (see Table 2 below). The USAID Mission includes these products in its IDEA project objectives and plans to provide assistance through the National Agricultural Research Organization (NARO) for multiplication and distribution of improved seed. But there is no clear strategy for identifying and overcoming other critical constraints faced by these commodities. The agribusinesses that export these products buy from farmers and sell to wholesalers or grain mills in the neighboring countries. USAID could have an impact by helping these agribusinesses disseminate productivity-increasing new technologies (especially seeds and improved disease and pest control) to the producers and by helping to improve marketing channels, including better secondary roads and fewer cross-border trade restrictions. Neither ANEPP nor CAAS has had much impact on the low-value NTAEs in the three years that they have been providing direct assistance to agribusinesses. The exporters are well established and know the markets. What they need is relevant services to ensure improved seed supplies, agricultural extension, and improved market access.

ASSESSMENT OF ECONOMIC AND SOCIAL IMPACT

Impact on Non-Traditional Agricultural Exports (NTAEs)

USAID was to have had an impact on NTAEs mainly through the ANEPP policy reform component, then through the ANEPP and CAAS export development activities. Table 2 (below) shows a quantum jump in low-value NTAEs in 1989, and a further tripling in 1990. While these exports declined somewhat in 1992 owing to drought, data for the first six months of 1993 suggest another quantum jump. High-value NTAEs doubled from 1989 to 1990 and have been growing consistently by at least 30-50 per cent per year since then, with the first half of 1993 suggesting the possibility of a doubling for the year.[21] It is clear that the liberalization of the

[21] These trends and other data reported in Table 2 are broadly consistent with those reported in a recent EPADU analysis prepared by Julie Stepanek (op.cit.). One significant discrepancy is the reported level of coffee

foreign exchange and trade regimes in 1989 and 1990 had a major impact on NTAEs, and to the extent that the ANEPP policy reform component contributed to the improved policy environment, it had an impact on the level of NTAEs. As noted previously, however, USAID can claim credit only as one of the donors supporting the overall structural adjustment program during that period.[22]

Unlike the policy reforms, the ANEPP and CAAS export development activities have not yet had a significant impact on NTAEs. These two activities have not targeted the low-value products where most of the growth has occurred. Their impact on high-value NTAEs (vanilla, flowers, silk, and selected vegetables) was not measurable until 1992, and still remains at a very low level relative to total non-coffee exports. Given the risks and uncertainties involved with high-value NTAEs, USAID's approach has thus far consisted mainly of pilot efforts to determine the feasibility of producing new products and entering new markets, and to help new agro-enterprises establish themselves as exporters. The appropriate time frame for assessing program impact will be over the next ten years.

Experience with CAAS and ANEPP has led the USAID Mission to undertake the IDEA project, which targets both low-value and high-value NTAEs. As may be inferred from the table, low-value NTAEs reached 25 per cent of total agricultural exports during the first half of 1993. The task ahead, however, will not be easy. The focus of the low-value NTAE interventions under IDEA is on increasing maize and bean exports to neighboring countries. These markets are highly competitive and have limited long-term potential because purchasing power in these countries is limited, even in Kenya, where both potential and purchasing power are higher than elsewhere in the region. The high-value products may have a greater long-term potential but, again, the markets are very competitive and Uganda is starting from a very low base. But the base **is** growing. As implied by Table 2, high-value NTAEs accounted for 3.5 per cent of total agricultural exports during the first half of 1993. If the first six months of 1993 are indicative of annual performance, both high-value **and** low-value NTAEs could well have doubled in 1993 over 1992. Nonetheless, relatively high annual growth rates of these exports must be

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exports during the first six months of 1993, with the sources on which Table 2 is based reporting U.S.$58 million, and EPADU/Stepanek reporting somewhat over $16 million. The discrepancy arises from the fact that the latter figure is based only on Customs data, while the former figure draws on other sources, including the Coffee Marketing Board, Ltd., and is believed therefore to be more accurate. (Email from USAID/Uganda Economist Robin Phillips, March 1, 1994.)

[22] The possibility that some of the "growth" of NTAEs during 1988-90 reflects formerly unrecorded, "clandestine" exports being recorded, or "official," has been previously mentioned (fn.2, p.3).

sustained for at least the next five years if USAID's investments are to be justified.[23]

[23] See the Economic Analysis section of the IDEA Project Paper as well as the section on "Benefit-Cost Analysis" in the text, below, for analyses that lead to this conclusion.

Table 2

Agricultural Exports
($ million)

	1988	1989	1990	1991	1992	1993 Jan-June
Coffee	265.0	263.0	140.0	121.0	95.0	58.0
Other traditional:						
Cotton	3.0	4.0	6.0	12.0	8.0	1.5
Tea	3.0	3.0	4.0	7.0	8.0	5.1
Tobacco	-	1.0	3.0	5.0	4.0	4.3
Sub-total	6.0	8.0	13.0	24.0	20.0	11.0
Low-value non-traditional:						
Fish	0.3	0.7	1.4	5.3	6.5	3.8
Hides and skins	0.4	1.8	6.1	4.4	4.0	2.8
Sesame	-	0.8	5.2	10.5	6.4	2.3
Corn	-	0.2	3.3	4.2	3.9	9.5
Beans	-	2.7	4.7	4.3	2.8	5.8
Sub-total	0.7	7.2	20.7	28.7	23.6	24.1
High-value non-traditional:						
Fruits	0.6	0.5	0.8	0.4	na	na
Vegetables	-	-	0.2	0.7	na	na
Spices	0.1	0.2	0.1	0.5	na	na
Other foodstuffs	-	0.1	0.6	0.8	na	na
Other agricultural prod.	-	-	-	-	na	na
Sub-total	0.7	0.8	1.7	2.4	3.5**	3.4**
Total Non-traditional	1.4	8.0	22.4	31.1	27.1	27.5
Total Agricultural Exports	272.4	279.0	175.4	176.1	142.5	96.5

Sources: Data from Customs and other sources assembled by EPADU, Ministry of Finance and Economic Planning, and by the USAID Mission and consultants.

*The 1988 values for the "Low-Value Non-Traditional Agricultural Exports" category and the "Corn and Beans" sub-category were nil or insignificant.

**Based on rough estimates by the USAID Mission and consultants. Exports by product in the high-value non-traditional category were not yet available for 1992 and 1993.

Impact on Smallholders and Agribusiness Workers

There is very limited **direct** evidence of the impact on Ugandan farmers and workers as a result of their participation in agribusiness activities receiving USAID direct agribusiness support. The first attempt to provide such information, recently completed Mission-funded surveys of households of USAID-assisted outgrower producers in silk and vanilla-growing areas, suggests that smallholders do benefit from NTAE activities although limitations of sample size and survey methodology, particularly for the small sample surveys, do not permit definitive conclusions.[24] The following points comprise the salient findings:

<u>Silk Raising Areas in Iganga and Bushenyi Districts</u> (East Central and Southwestern Uganda, respectively)

- Reporting on the USAID-assisted Inuula Silk Estates enterprise east of Kampala:

  > "The silk project has so far created employment for 476 farm families (in the two areas), with an average of eight members per household. Raising silk worms at about minimum $500/acre net annual returns compared to about $200/acre for maize, a vast improvement in the quality of life [for] participating farm families."[25]

- In both districts there was an apparent increase in household expenditures on education, health, clothing and other household durables.

- There was no evidence to suggest that silk production had supplanted food crop production. For a small sample of households in Bushenyi District, a survey concluded that food crop growing was not supplanted, owing to the practice of intercropping, especially with beans.[26]

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[24] Recon International Ltd. in association with Rank Consultant (U) Ltd., <u>The Main Report of the Final Report for a Pilot Survey to Obtain Baseline Data for Monitoring and Evaluation of Changes in Men's and Women's Incomes, Decision-making and Control of Resources, Volumes I-III</u> (Kampala: November, 1993). Unless otherwise noted, data for vanilla producers are cited in Volume I, pp. 54-55, and for silk producers, pp. 58-59. This source is cited hereafter in text as "Recon Survey."

[25] <u>Loc. cit.</u>, p. 66.

[26] <u>Op. cit.</u>, p. 65-66.

Vanilla Growing Area in Mukono District (Central Uganda, just east of Kampala)[27]

- Since 1990, the number of households involved in vanilla production in Mukono, which accounts for 80 per cent of the national crop, has increased from 710 to 1812, with 3000 individual growers, including 782 women.

- At current production levels in 1993, 97 growers will earn incomes averaging $604 while 2903 growers will earn an average of $17 (this variation reflects, at least in part, the fact that different growers have plants at different stages of maturity with varying implications for revenue). However, even $17 represents about a ten per cent increase over national per capita income.

- Income from vanilla production for ten male farmers in a small sample reported by the Recon Survey, averaged about U.S.$290 per farmer in 1993 (range of $20 - $1130), and $90 for seven female farmers (range of $12 - $350).[28]

- As in the case of silk, vanilla growers reported that they used the increased income for family medical and education expenses, with men also mentioning housing improvements and modest consumer durables (e.g, bicycles, radios); and women mentioning clothing as well as education and medical expenses. Increased incomes reportedly permitted the regular addition of meat and fish to diets and the attendance of **"all"** children at school.

Of particular interest in these findings is the reported use of increased incomes for non-food items, which is indicative that welfare has been enhanced. The suggestion that raising these new crops does not compete with raising food crops is also of interest, but this question cannot be settled definitively in the absence of a more systematic study of household time allocation. In any event, without data over time for a larger representative sample of farm families, it is not possible to assess benefits in relation to **costs**, or to make comparisons with benefits from alternative activities or with what is happening to non-

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[27]The information reported below is drawn from the USAID/UGANDA FY1993 ASSESSMENT OF PROGRAM IMPACT, pp. III-5, as well as the Recon Survey.

[28]According to the Recon Survey, Table SS16A (just after p. 54), these figures refer to 1993, but since the first draft of the report was completed on September 1, 1993, the figures must refer to an annual period ending in mid-1993.

participating farmers in the same area.[29] Nonetheless, these survey efforts constitute an important first step that needs to be improved upon in future efforts.

The USAID Mission, in connection with preparing the 1993 Assessment of Program Impact (API), undertook an **indirect** approach to measuring impact on farmer incomes by estimating the "gross margins" earned by farmers from exports of the three non-coffee traditional crops (tea, cotton and tobacco) and the three major low-value non-traditional export crops (corn, beans and sesame). Using 1990 as a base, and deflating nominal values by a Uganda Urban Consumer Price Index (CPI), the Mission constructed a "real gross margin per personday index" to show the change in gross margins received per person-day spent growing these crops for export in 1991 and 1992 as compared with 1990. The value of this index was calculated as 156 for 1991 and 133 for 1992. Notwithstanding the drought-related production decline from 1991 to 1992, and the sharp inflation over the same period, the Mission concludes that the implied fifteen per cent **annual** growth of gross margins per personday over the **two**-year period (1990-92) "compares favorably with the 2.8 per cent growth rate of population, as well as with both the 3.3 per cent average annual growth rate of GDP and the 2.1 per cent average annual growth rate of agriculture during the period," and therefore that "clearly, production for export is welfare-enhancing."[30]

These figures are suggestive, but they cover a very brief interval. Also, as noted by the Uganda FY 1993 API (p. III-4), gross margins represent all export commodity producers and do not measure per capita rural **incomes**.

Distribution Patterns of Agricultural Holdings

The recent publication of the 1990-1991 Uganda National Census of Agriculture and Livestock permits a more comprehensive examination of data on the distributional patterns of agricultural holdings in Uganda. The most important conclusion to be derived from these data is that the farmers of Uganda are overwhelmingly **smallholders**. According to the Census, almost 50 per cent of holdings amount to less than one hectare, or less than 2-1/2 acres each. About 75 per cent are less than two hectares (has.) each, and over 90 per cent are less than five

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[29]The Recon Survey (Table SS16A, after p. 54, Volume I) gives data for the vanilla farmer small sample for 1990-92 in addition to 1993, but the sample size varies from year to year. Also, since the data were collected in 1993, "recall error" could be significant for the earlier years.

[30]From last page of supplemental analysis, "Indicators for Strategic Objective No. 1," prepared by USAID/Uganda for 1993 Assessment of Program Impact (API).

has. each. Area is, of course, not distributed in the same proportions. The 50 per cent of holders with less than one ha. each only account for only 11 per cent of the total area in agricultural holdings, the 75 per cent of holders with less than two has. each account for 27 per cent of total area, and the 90 per cent of holders with less than five has. each account for about 50 per cent of total area. However, the 3.5 per cent of holders with **ten** has. and above account for slightly over 30 per cent of the total area in agricultural holdings.

In the absence of data classified in the same size categories from other countries, it is not possible to conclude definitively that holdings are distributed relatively more or less equally in Uganda. There probably are a number of countries, particularly in Latin America, where distribution is more unequal; where, for example, there are similar proportions of holders (around 90 per cent) with less than five has. each, but who account for considerably **less** than 50 per cent of total area.

An analysis, based on the 1990-91 Agriculture and Livestock Census data, was also undertaken of agricultural holding patterns by size and by **district** in Uganda. However, owing to the wide range of factors affecting the use and productivity of land holdings, it is difficult to derive definitive implications for the impact of agribusiness activities on smallholders by district. The findings and limitations of the analysis are discussed further in Annex II.

A finding of the previously cited Mission-funded survey of vanilla and silk producers suggests that smallholders will **remain economically viable** producers of at least **some** high-value NTAEs. Both the Innula silk and UVAN vanilla enterprises:

> ". . . discovered that the yields and quality of smallholders production exceed that which they have been able to achieve from their estate production using hired labor. In response to this Innula have gone so far as to contract [their] production of silk on their estates to smallholders who opt for this in between mulberry harvests on their own holdings."[31]

UVAN Ltd. has left all production to smallholders, with the exception of a two-hectare plot used for research and demonstration purposes.[32]

Impact on Agribusiness Wage Workers

[31] Recon International Ltd., op. cit., p. 64.

[32] Reported by Rosern Rwampororo, Agricultural Economist, USAID/Uganda.

Another group of agribusiness beneficiaries are the hired workers employed by enterprises involved in the manufacture and distribution of agricultural inputs, the processing and marketing of agricultural products and the growing of crops in commercial operations that require wage labor and relatively intensive supervisory management. This category is relatively insignificant in Uganda now, but will grow over time in importance. The previous section on **Impact on Private Sector Agribusinesses** briefly described several such USAID-assisted operations involved in cut-flower production, fruit processing and crocodile raising. Baseline data on the wages currently received by these employees should be collected now in order to provide a benchmark to assess future impact.

Table A-3 in Annex II presents data on nominal and real agricultural wages in Uganda. While the data are undoubtedly subject to limitations regarding representativeness and accuracy, they suggest generally rising real wages in agriculture during the late eighties and early nineties.[33] It seems reasonable to assume that wages received by agribusiness workers in general would increase by **at least** the same rate as the wages of "agricultural" workers.

Employment growth is of equal or greater interest than wage growth as an impact of agribusiness growth. Employment data are available from some of the export-oriented firms established in the last three years that have benefitted from the direct assistance component of ANEPP. Ziwa Horticultural Exporters, Ltd., is estimated to have created 180 jobs; Nile Roses, 90 jobs (of which 72 per cent, but no senior positions, are held by women); Victoria Flowers, 100 jobs; and Crane Roses, formed in 1992, is expected to create 250 jobs (full-time jobs in each of the four firms).[34]

The potential for employment **growth** in such firms will be governed by (1) the rate of growth of demand and production, and (2) the relative capital-intensity of production. A rough indicator of capital-intensity, the ratio of the value of capital investment to employment, yields a capital cost of about U.S.$11,000 per employee for both Nile Roses and Ziwa

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[33] See World Bank, Uganda: Growing Out of Poverty (Washington: 1993), p. 50, paras 4.25 and 4.26 for a discussion of data limitations and interpretation.

[34] Data taken from Evaluation Report of the Uganda Non-Traditional Agricultural Export Program (ANEPP), (Kampala: October 27, 1993, draft), p. 19.

Horticultural Exporters.[35] Given the demanding export quality requirements for horticultural products like roses, such costs may well not be out of line. It is also possible that there is room for further employment growth in these new firms, as demand expands, before having to add to total capital investment. Nonetheless, given the shortage of capital in a low-income country like Uganda, it is clear that most employment growth will likely occur in activities with capital requirements considerably less than $10,000, or even $5,000, per worker.

Conclusions on Smallholder and Worker Impact

The data on smallholder farmer and worker impact are only fragmentary and provisional at this point. However, it is clear from the information analyzed in this and previous sections that it will be some time before growth in high-value NTAEs and related agribusiness enterprise involves a substantial share of the Ugandan labor force. Greater numbers (both on-farm and off-farm in marketing-related activities) would be benefitted by even modest growth in the lower-value NTAEs, such as corn, beans and sesame, and even the non-coffee traditional crops (tea, cotton and tobacco). Thus, from the perspective of smallholder and worker impact, agribusiness strategy in a low-income country like Uganda must pay adequate attention to **both** the low and high-value non-traditional export crops.

Gender Impact

The Agriculture and Livestock Census and other data yield some insights into the potential impact of agribusiness on farm holdings of women.[36] Census data reported in Annex II show that women accounted for about 16 per cent of all holders in Ugandan agriculture at the time of the Census, but that there was a fairly wide variation among districts, from a maximum of about 30 per cent in Masaka in the southwest to a minimum of 7 per cent in Bundibugyo in the west. Holdings classified as being held by women were on average about 70 per cent of the size of the average holding of men for Uganda as a whole, but by district this comparison varied from Tororo in the southeast, where the

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[35] Capital investment figures were provided by the USAID Mission in Kampala. Capital investment outlays for Nile Roses were estimated at U.S.$1 million; and for Ziwa Horticultural, at U.S.$2 million. Since the employment level in Ziwa, at 180, was just double that of Nile at 90, the capital investment cost per worker turns out to be the same for each firm, which suggests similar technologies in each case.

[36] The "Recon Survey" (<u>op. cit.</u>, p. 11) notes that "the majority of women in Uganda do not 'own' land. Many of them, however, participate actively in agriculture and have individual fields or gardens over which they have primary responsibility."

average female holding **exceeded** the average male holding by 12-1/2 per cent, to Apac in the central-north, where the average holding by women was about 43 per cent of the average size for men. Apac was followed by Kabale in the southwest, with an average size for women's holdings being 45 per cent of the average for men (and about 17 per cent of all holdings belonging to women). Table A-2 in Annex II provides such data for 26 districts that cover most of Uganda except the far north.

These statistics tell only part of the story regarding the gender-differentiated farmer impact of agribusiness activities. Studies cited by the 1993 World Bank Report indicate that women typically cultivate a higher share of holdings than official statistics would suggest, and that they exercise some control over the income from the fields they cultivate, although the **degree** of control varies by region of the country.[37] The Mission-supported "Recon Survey" confirmed these findings in special surveys of 48 households in Mukono District and 33 households in Mbarara District. Over 80 per cent of women respondents in both districts indicated that they make their own choices on the types of crops to grow in their own fields. In Mukono, 65 per cent of women respondents indicated that they controlled more than half of the proceeds from their own fields; in Mbarara, the corresponding proportion was 50 per cent.[38]

The USAID Mission has been quite sensitive to gender considerations at the farmer level. It supported a deliberate and successful effort to recruit female extension workers to work with women vanilla producers in UVAN Limited, the ANEPP-supported project in Mukono district.[39] Women farmer plots, with women leaders, have been established for the snowpea trials in Kabale district. One of these leaders reported to the evaluation team that women farmers working in her fields would in fact exercise control over the income they hoped to earn from the export of snowpeas grown on their fields. This leader also indicated that she would use any net income earned from snowpea exports for her children's education expenses. On a visit to the silk-producing area in Iganga district, the team met a group of women farmers from a neighboring village who were investigating the possibility

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[37] See Chapter 3, "The Gender Dimension," of World Bank, op. cit.

[38] The samples were drawn from the frame of the 1991 Integrated Household Survey undertaken by the MFEP. Recon International Ltd., op. cit., Volume I, pp.9,43 and 51.

[39] The USAID/UGANDA FY1993 ASSESSMENT OF PROGRAM IMPACT reports that: "For the past two years women have been specifically encouraged to plant and tend their own vanilla through a network of 23 paid women coordinators/extension workers, 4 village agents and 4 government workers." (p. III-5)

of shifting from cotton-growing to silk because they were unhappy with the returns from cotton. These examples suggest control by women over decisions concerning which cash crops they grow and how to spend the proceeds.

The previously cited "Recon Survey" suggests that the consistent pattern of response differences found between women producers in Mukono District (just east of Kampala) and in Mbarara District (a greater distance southwest of Kampala) may in part be explained by the **sensitization** to women's needs and opportunities by **both** women **and** men as a result of the USAID/ANEPP-supported female extension workers who work with women vanilla producers in Mukono.[40] These differences in responses include the following:

- Women producers in Mukono have a higher cultivated area relative to men than is the case for Mbarara;
- they rely on more sources of information about growing methods; and
- they exercise more control over how much to sell of what they produce, and over how to spend the proceeds.[41]

While these observations could reflect the impact of the women extension workers in Mukono, they could also be related to regional differences in types of crops grown, in employment opportunities available to men, relative distances from Kampala, and other factors. In any event, these observations of relative control over production and income go against a well-documented tradition in Uganda for women to be relegated to subsistence crops and to have little or no control over the income generated from cash crops.[42] Moreover, the evidence reported above indicates that while women may have control over the income from crops grown on **their** fields, they do not receive any cash income for the labor they devote to their **husbands'** fields. For example, it is reported that 80 per cent of the women who grow vanilla on their own plots, also tend husbands' and/or fathers' plants, but rarely are paid for their labor.[43]

The 1993 World Bank country report on Uganda finds a great "asymmetry in rights and obligations of men and women" in Uganda, with "implications not only for economic equity, but also, and much more importantly, for economic efficiency and foregone

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[40] Op. cit., see pp. 38, 44 and 49.

[41] Loc. cit., pp. 38, 44, 49, and 51.

[42] Ibid., p. 34.

[43] Reported in FY 1993 ASSESSMENT OF PROGRAM IMPACT, op.cit., p. III-5.

economic output and income."[44] This asymmetry is also reflected in customs and practices which severely restrict and discriminate against women in inheritance and in obtaining credit. All these issues have a bearing on women's ability to benefit from agribusiness programs.

Thus, a **multi-faceted** strategy is required to significantly enhance the participation of women in Ugandan agribusiness. Beyond such initiatives as women extension agents and women's farmer groups, a wide range of other efforts are essential, including policy dialogue, expanded education for women and girls, including non-formal education on women's rights, and investment in such infrastructure as feeder roads and improved water supplies (so as to free women's time). The USAID program need not provide support in all these areas, but should seek to ensure that they are being addressed through policy dialogue with the Government and with other donors. A first step would be to ascertain whether additional support for analyses of the **constraints** that limit fuller participation by women is in order.[45]

A positive sign is that issues regarding women's rights and women in development have been receiving fairly high level attention in the GOU, including representation and active participation of women in political structures and fora (e.g., 12 women in the Uganda Parliament), appointment of women to key ministerial posts, and the creation of a Ministry for Women in Development which has, with DANIDA support, mobilized the views of Ugandan women about needed legal reforms to protect women's rights through the new constitution.[46]

IMPACT SUSTAINABILITY

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[44]Ibid., p. 25.

[45]In addition to the time required for carrying water, producing domestic food crops and caring for children, time spent on the care of extended family members afflicted by such diseases as **AIDS** and malaria may also limit in some regions women's ability to engage in production for NTAEs. While AIDS in particular is a public health problem that many observers would say has reached "pandemic" proportions in Uganda, no one with whom the team talked identified it as a specific limiting factor on rural labor availability or productivity for growing non-traditional crops. Some USAID Mission staff saw AIDS as a more serious problem in urban and peri-urban than in rural areas. On the other hand, high rates of orphaned and abandoned children, partly resulting from AIDS having claimed parents or guardians, are found in some rural districts as well. See World Bank, op.cit., p. 17.

[46]See World Bank, op. cit., pp. 31 and 39.

The USAID agribusiness program in Uganda has had a development impact at two levels: on the environment for agribusiness growth and on agricultural exports and agriculture-based value added.

Impact on the Environment for Agribusiness Growth

Sustained agribusiness growth requires appropriate policy and institutional frameworks. USAID has had an impact on both. The main sustainability issues with respect to the policy framework are the GOU's commitment to export-based and private sector-led growth, and its ability to formulate the appropriate policies in response to changing political and economic conditions. At present, the GOU seems to be fully committed to private sector-led growth. The macro-economic framework is among the best in Africa and the shortcomings in the regulatory environment are due more to the ineffectiveness of the institutions formulating and implementing the policies than to the GOU's policy goals and priorities. This raises questions about the adequacy of the policy-making process. Implementing a set of policies designed to maximize private sector-led growth is a complex and ongoing process requiring technical expertise, a strong analytical capacity and an ongoing constructive dialogue with the private sector. Since the GOU is just beginning to establish these capacities, the positive policy framework is not likely to be sustained without continued donor support (technical and financial) and policy dialogue.

With respect to the institutional framework, USAID has had an impact on government institutions, cooperatives and the banking sector. The discussion of these institutions in a previous section highlighted the sustainability issues. The GOU institutions that have benefitted from USAID support, i.e., EPADU and UIA, face major financial problems due to the GOU's overall budget deficit, and EPADU has staffing as well as organizational problems. The policy analysis function is appropriately located in MFEP and could continue to be effective as long as it has strong leadership and access to high caliber analytical expertise. Neither of these conditions are assured at this time. The export development function is even more problematic. The decision has been made to locate it in MTI (the Ministry of Trade and Industry) where it belongs in principle, but that ministry has neither the leadership nor the staff to carry out an effective program. The World Bank may be providing export development assistance to MTI, but when this will occur or what form it will take has not yet been determined.

As previously discussed, USAID was not able to have much impact on the cooperative sector owing to its multiple problems. The only active cooperatives are involved in coffee marketing. These cooperatives have received assistance from Sweden and could become commercially viable. Outside of the coffee sector, virtually all agribusiness activity (input supply, agricultural marketing and processing) is likely to take place in the private sector. A great deal of USAID's support to the cooperative sector in Uganda is therefore not likely to have a **sustainable** impact.

The same is true of USAID support thus far in the banking sector, although the effort here has been much smaller, and is not yet complete. Most Ugandan commercial banks have neither the interest nor the expertise to make medium-term loans to agro-enterprises. The World Bank is taking the lead in reforming the financial sector. Once this has been completed, the most that can be done by USAID or other donors will be to strengthen the ability of individual commercial banks to analyze agricultural loan applications and manage agricultural loan portfolios. Although commercial banks cannot be expected to become a major source of medium-term capital for agricultural investment, they could become more effective in providing short-term production and marketing loans if policies and systems could be put in place to reduce risks to, or manage them at, acceptable levels. USAID's upcoming direct support under CAAS to the Cooperative Bank could provide important lessons in this regard.

Impact on Agricultural Exports and Agriculture-based Value-Added

As previously discussed, USAID's economic impact thus far has been relatively modest. Looking to the future, however, any increases in value-added are likely to be sustainable because they will be market-based. Uganda's ventures into new export markets are all taking place in markets which in Uganda are open, with no GOU subsidies and no preferred access into the importing countries. The key sustainability issue is therefore Uganda's competitiveness. For export growth to be sustained, Uganda's infrastructure and institutional base must continue to grow and improve. Otherwise, productivity and quality will remain low, overall costs will remain high, exports will grow very slowly, and per capita incomes in agriculture and agribusiness will remain close to present levels. Uganda's agribusiness agenda is clear. All of the constraints to growth must be addressed in a coordinated manner, otherwise agribusiness growth will be limited by the binding constraint that is being least effectively addressed.

BENEFIT-COST ANALYSIS

Between 1984 and 1993, USAID-funded activities in support of agribusiness totalled about $70 million. Their impact has been at three levels: an improved environment for agribusiness; export diversification and growth; and increased value added in agriculture and agribusiness. Of course, only the last provides a benefit stream, but the first two are necessary for the third to occur. The impact at each level can be summarized as follows:

Contributing to an improved environment for agribusiness growth:

The program has had an impact on the agribusiness environment in three areas: the policy framework, the institutional framework, and the economic infrastructure. The impact on policy consisted of the ANEPP and PL 480 Title III policy conditions dealing mostly with the exchange rate and foreign exchange controls, the increased policy analysis capability in MFEP, and the improved dialogue between the GOU and the private sector. The policy changes supported by ANEPP were an essential precondition for growth in non-traditional exports, and the increased policy analysis capacity and improved policy dialogue are critical to **continued** improvements in the policy framework. In addition to creating this policy analysis capability, USAID helped establish the Uganda Investment Authority (UIA). The Mission's recent preparations for strengthening the Cooperative Bank and creating a venture capital fund could significantly improve the financial support for agribusiness. Encouragement of trade associations, to be intensified through the IDEA project, is a further important step. In the area of infrastructure, USAID has financed feeder roads and a cold storage facility at Entebbe Airport, now under construction.

Contributing to export growth and diversification:

Between 1988 and 1992, with the collapse of the world coffee market, Uganda's coffee exports dropped from $265 million to $95 million, while all other agricultural exports grew from $7 million to about $47 million (see Table 1, above). Most of this increase was due to increased political stability, infrastructure rehabilitation, and the GOU's economic stabilization and liberalization policies. USAID's main contribution was to support the policy changes, first through the ANEPP and PL 480 Title III conditionalities, and then through EPADU studies and workshops which helped keep export-related issues in the forefront of GOU policy deliberations.

The impact on value added in agriculture and agribusiness:

At the aggregate level, USAID's support for the policy changes and infrastructure improvement that made increased NTAEs possible had an indirect impact on value-added. Cotton, tea, tobacco, hides and skins, fish, maize and beans accounted for most of this growth. At the firm and farm level, USAID's direct assistance activities have not yet had significant impact on overall value added (probably less than $1 million through the end of 1992), but have brought some agribusinesses and farmers closer to being able to produce non-traditional crops profitably for export markets. Thus far, USAID-financed direct assistance has had the most impact on vanilla, flower and raw silk exports.

Whether these impacts are sufficient to justify USAID's costs revolves around two issues. The first is the extent of USAID's contribution to the $23 million increase in NTAEs that took place in 1990 and 1991 (see Table 2). If ANEPP had contributed significantly to the policy reforms that made this increase possible, then the discounted benefit stream from that impact alone would have been enough to justify the entire USAID agribusiness program including RPE, CAAS and PL 480 Title II. However, since most of the changes that led to the increase in exports took place in 1989 and 1990 and can be only partly be attributed to only one USAID activity, ANEPP, it is necessary to go on to the second issue: has the combined package of support provided by USAID made a significant contribution to the full range of pre-conditions that are necessary for sustained agribusiness growth? If so, will that future growth be enough to justify the cost? Creating these pre-conditions has had a cost, $95 million, which the team estimates to have already been disbursed from the various USAID-supported agribusiness components (see Table 1, above); and a value, the discounted present value of the future increases in value added that would not otherwise have occurred in the absence of USAID support.

The extent of USAID's contribution to creating the necessary preconditions to growth is not yet clear. The known contributions are the policy analysis capacity in MFEP, a functioning UIA, improved feeder roads, the cold storage facility at Entebbe, and technology and market knowledge imparted to a few exporting agribusinesses that appear close to becoming commercially viable. Important initiatives that are underway but not yet completed are the recapitalization and restructuring of the Cooperative Bank and the ongoing knowledge transfer to agribusinesses that started under ANEPP and CAAS and will continue under IDEA. These ongoing activities will add about $40 million to the costs, but there is no question that they are necessary for the initial $95 million to have its intended impact.

The critical variable is the size of the **future** benefit stream. Excluding the initial growth that occurred in 1989-90, which is rather early to attribute much of the growth to specific USAID-supported interventions, the impact of the combined activities on value added must reach $25 million per year before 2000 for the USAID agribusiness program to generate an economic rate of return (ERR) of ten per cent (compare Tables 3 and 4, below).

These considerations are incorporated in the following tables which show three alternative approaches to **benefit-cost analysis** of the USAID/Uganda agribusiness program. All the alternatives cover a twenty year period. Any growth beyond this time frame would be difficult to attribute to a program that is scheduled to end in 1998. No attempt is made to differentiate between specific commodities or between specific USAID interventions. The second column of the tables, "Cost," shows an estimated annual pattern for the $95 million already disbursed from the USAID agribusiness program over the period 1987, when RPE and CAAS effectively started, and 1993, and assumes that the $40 million programmed for the next five years will be disbursed according to the pattern shown in Tables 3 and 4 until 1998 when the IDEA project is scheduled to end.[47]

Tables 3 and 4, or Alternatives "A" and "B", assume **some** degree of attribution of NTAE growth beginning as early as 1991 to USAID support, thus attempting to take into account the impact of ANEPP support for macro-policy reforms. This is reflected in the third column of the tables, where growth in exports first appears in 1991. Alternative A assumes that 25 per cent of NTAE growth over the period 1991-2006 is attributable to USAID support, while Alternative B assumes that 50 per cent is attributable. NTAE growth is projected to slow down in stages at the same rates in both alternatives from 1994-2006.[48]

NTAEs do not in themselves constitute "benefits" to the USAID investment, however. Benefits are more properly viewed as the **value added** resulting from the investment. The fourth column of the tables, "increased value added," is assumed to be 25 per cent of the third column, the total FOB value of the increased NTAEs. This reflects two assumptions that are arbitrary, but believed to be conservative. First, it is assumed that 50 per cent of the FOB value of the exports is accounted for by returns to land and labor. The other 50 per cent is made up of purchased inputs and equipment depreciation. Second, it is assumed that the opportunity cost of land and labor used in production and in-country processing and marketing is one-half of the land and labor content of the FOB value of the exports.

The Economic Rate of Return (ERR) is calculated from the last column, "Net Benefits," which is "Increased Value Added" from

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[47] The allocation of expenditures over the 12-year period was based on existing disbursement information and an "informed guess." The total USAID cost of $136.5 million shown in Table 1 was rounded for purposes of the benefit cost analyses to $135 million, of which $40 million was estimated yet to be expended.

[48] Actual NTAE growth is used for 1991 and 92. Based on an analysis of export data for 1990-92, when on average, both for agricultural exports as a whole, and for non-coffee exports, exports for the last 6 months of the calendar year were about 80 per cent of those for the first half, NTAE exports for all of 1993 were assumed to be larger than the available figures for the first six months by a factor of 0.8. It was further assumed that NTAEs will grow by 50 per cent a year during 1994-96; 25 per cent a year during 1997-99; 20 per cent a year during 2000-2001; and 10 per cent during 2002-2006.

attributed NTAE growth (4th column) less "Costs" (2nd column). The ERR implied by Alternative A, which attributes 25 per cent of NTAE growth beginning in 1991 to USAID support, is 8.42 per cent. The ERR implied by Alternative B, which attributes 50 per cent of NTAE growth to USAID support, is 16.22 per cent.

The latter ERR appears relatively favorable by the traditional benchmark of 10 per cent for a satisfactory rate of return. But a 50 per cent attribution rate is generous in view of the very substantial support for policy reform and infrastructure provided by other donors, especially the World Bank and IMF. In fact, data reported to the OECD indicate that in the late eighties and early nineties, the U.S. accounted for five per cent at most of all foreign assistance received by Uganda.[49] However, a five per cent attribution rate would clearly be too small, particularly in view of the unquestionably significant role played by USAID Mission leadership and staff in the dialogue over policy reform with the GOU and other donors.

On the other hand, no attempt was made to incorporate a portion of the $10 million in local currency generations from PL 480 Title III that went to feeder road construction or agricultural research into the "Costs" column. Nor has an estimate of GOU contributions to cost, for the most part contributions in kind, been added. Finally, some of the recorded NTAE growth may reflect previously unrecorded, "clandestine" exports now becoming "official." As noted previously, this phenomenon was likely to have been more significant, if it was at all, as the major reforms were being implemented in 1988-90, rather than in subsequent years (see footnote 2, p.3).

An offsetting factor would be the extent to which USAID support has stimulated **traditional** export growth. Table 2, above, shows significant growth in the early nineties of non-coffee traditional exports. While coffee exports continued to decline, the **rate** of decline slowed considerably. There are reports that the liberalization of the exchange rate led at least some producers to improve their cultivation practices of traditional crops and to plant higher yielding varieties, which should have had positive effects on productivity and export growth (with a gestation lag in the case of some new varieties). Finally, the overall boost to the economy from the reforms and infrastructure rehabilitation, including to non-agricultural activity, should be

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[49]The World Bank (IDA), the IMF and the UK have been, in that order, by far the largest sources of Official Development Assistance (ODA) to Uganda in recent years. The U.S. has been fourth, at about half the level of the U.K., and roughly equal to assistance from Germany and,in the early nineties, from Denmark. Overall, the U.S. accounted for about 4.5% of Uganda's total net ODA receipts for 1986-91 (about 11% of bilateral ODA). The share increased slightly to about 5% for 1989-91 (12% for bilateral ODA). (From latest OECD, Geographical Distribution of Financial Flows to Developing Countries.)

taken into account in a complete analysis.[50]

What on balance is to be concluded from the discussion of these two alternative scenarios? At best they are suggestive of orders of magnitude that result from analysis of available data, modified by a number of assumptions and estimates about some parameters (e.g., value added and donor attributions) and prospects for future NTAE growth; and caveated by the complete absence of estimates of other factors (e.g., GOU costs and broader benefits). In any event, the likelihood that the USAID investment will achieve an adequate (above ten per cent) rate of return depends heavily on whether the assumed projections of future NTAE growth are realized.

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[50]Given the fact that benefits in the above analysis have been measured as value-added from NTAE growth, it could be argued that the portion of costs of the RPE and CAAS projects that applied to traditional exports and domestically consumed production should be deleted. No data were available that would permit an attribution of costs between these categories. To get an idea of what the impact might be on the rate of return, it was simply assumed that half of the costs of RPE and CAAS were not associated with NTAE growth. This implies reducing the cost for RPE by $5 million in 1987 and in 1988 (i.e., $10 million from a total disbursed cost of about $20 million), and reducing the costs for CAAS by $5 million in 1989 and in 1990 ($10 million from a total cost of $20 million). This adjustment to Alternative A yielded a relatively modest two percentage point increase in the rate of return, from 8.42 per cent to 10.86 per cent.

Table 3

BENEFIT-COST ANALYSIS
($ millions)
Alternative A[1]

YEAR	COST	INCR. EXPORTS	INCR. VALUE ADDED	NET BENEFITS
1987	10.0	0.0	0.0	-10.0
1988	15.0	0.0	0.0	-15.0
1989	15.0	0.0	0.0	-15.0
1990	15.0	0.0	0.0	-15.0
1991	10.0	2.18	0.54	- 9.46
1992	15.0	1.18	0.30	-14.70
1993	15.5	6.78	1.70	-13.80
1994	5.0	12.97	3.24	- 1.76
1995	5.0	22.25	5.56	0.56
1996	10.0	36.17	9.04	- 0.96
1997	10.0	46.61	11.65	1.65
1998	10.0	59.66	14.92	4.92
1999	0.0	75.98	19.00	19.00
2000	0.0	92.30	23.08	23.08
2001	0.0	111.88	27.97	27.97
2002	0.0	123.63	30.91	30.91
2003	0.0	136.55	34.14	34.14
2004	0.0	150.77	37.69	37.69
2005	0.0	166.41	41.60	41.60
2006	0.0	183.61	45.90	45.90

Economic Rate of Return: 8.42 per cent.

[1]See explanation of Alternatives A, B and C in text.

Table 4

BENEFIT-COST ANALYSIS
($ millions)
Alternative B[1]

YEAR	COST	INCR. EXPORTS	INCR. VALUE ADDED	NET BENEFITS
1987	10.0	0.0	0.0	-10.0
1988	15.0	0.0	0.0	-15.0
1989	15.0	0.0	0.0	-15.0
1990	15.0	0.0	0.0	-15.0
1991	10.0	4.35	1.09	- 8.91
1992	15.0	2.35	0.59	-14.41
1993	15.5	13.55	3.39	-12.11
1994	5.0	25.93	6.48	1.48
1995	5.0	44.49	11.12	6.12
1996	10.0	72.33	18.08	8.08
1997	10.0	93.21	23.30	13.30
1998	10.0	119.32	29.83	19.83
1999	0.0	151.95	37.99	37.99
2000	0.0	184.58	46.14	46.14
2001	0.0	223.74	55.94	55.94
2002	0.0	247.23	61.81	61.81
2003	0.0	273.08	68.27	68.27
2004	0.0	301.51	75.38	75.38
2005	0.0	332.78	83.20	83.20
2006	0.0	367.18	91.80	91.80

Economic Rate of Return: 16.22 per cent.

[1]See explanation of Alternatives A, B and C in text.

The last alternative, "C" (Table 5), focuses more on the projected benefits and costs of **direct** assistance to agribusiness, including **agribusiness-specific** policy assistance. Thus, the cost column of the table excludes $15 million from 1988-1990, which represents the non-project assistance in support of **macro**-policy reform funded from ANEPP. It continues to include, however, the costs of other activities focussed on assistance more directly targeted on agribusiness. The third column of the table shows the program having a measurable impact on NTAEs beginning only in 1993, at U.S. $1 million. On the other hand, it also assumes that the gestation period for establishing a NTAE sector is over and that rapid growth can now be expected. Thus, the **rate** of growth from this small base is assumed to be faster (although still declining over time) than for Alternatives A and B.[51]

The ERR resulting from these assumptions is near zero, 0.64 per cent. This alternative illustrates the point that future growth in NTAEs will have to be dramatic for the direct assistance element of the USAID program to have been cost-effective. This alternative should not be taken as a projection or prediction of what is **likely** to occur. It should also be noted that some, perhaps a majority, of this growth would occur in commodities where USAID has not had and may well not be having much impact, notably maize and cut flowers. Only the export growth that can be attributed to the USAID program should be included in this ERR calculation. On balance, therefore, it appears very unlikely that the program can ever achieve a significant positive rate of return on the **entire** $120 million investment (excluding the macro-policy reform support). This does not mean that the program should be discontinued. All it means is that a large part of what has been funded in the past has had little or no impact. These expenditures should now be written off as sunk costs and decisions regarding future funding should be based on realistic projections of actual impact on exports and value-added.

[51] The assumed annual rates of NTAE growth are 100 per cent a year for 1994 to 1996; 50 per cent for 1997-99; 25 per cent for 2000-02; 20 per cent for 2003-04; and 10 per cent for 2005-06.

Table 5

BENEFIT-COST ANALYSIS
($ millions)
Alternative C[1]

YEAR	COST	INCR. EXPORTS	INCR. VALUE ADDED	NET BENEFITS
1987	10.0	0.0	0.0	-10.0
1988	10.0	0.0	0.0	-10.0
1989	10.0	0.0	0.0	-10.0
1990	10.0	0.0	0.0	-10.0
1991	10.0	0.0	0.0	-10.0
1992	15.0	0.0	0.0	-15.0
1993	15.5	1.0	0.25	-15.25
1994	5.0	2.0	0.5	- 4.5
1995	5.0	4.0	1.0	- 4.0
1996	10.0	8.0	2.0	- 8.0
1997	10.0	12.0	3.0	- 7.0
1998	10.0	18.0	4.5	- 5.5
1999	0.0	27.0	6.75	6.75
2000	0.0	33.75	8.44	8.44
2001	0.0	42.19	10.55	10.55
2002	0.0	52.74	13.18	13.18
2003	0.0	63.29	15.82	15.82
2004	0.0	75.95	18.99	18.99
2005	0.0	83.55	20.89	20.89
2006	0.0	91.91	22.98	22.98

Economic Rate of Return: 0.64 per cent.

[1]See explanation of Alternatives A, B and C in text.

FACTORS AFFECTING PERFORMANCE AND IMPACTS

Three factors have adversely affected the agribusiness program's impact on production: project design considerations; the lack of an articulated agribusiness strategy; and the macro-economic setting within which the agribusiness program was implemented.

Project Design Considerations

At the overall program level, two design factors stand out. On the positive side, the program had an unusual amount of flexibility built in that allowed the Mission to adjust quickly to changing conditions and take advantage of targets of opportunity. When a public or private institution needed assistance in providing improved services to the agribusiness sector, the Mission was able to respond with more timely and appropriate financial support or technical assistance than is normally true of USAID programs. The Mission was also able to provide timely support to agribusinesses for market and technology development as well as for facilitating contacts between Ugandan and foreign firms. Under the rapidly changing political, economic and market conditions that prevailed in Uganda during most of the period covered by the agribusiness program, USAID could not have effectively met the needs of the Ugandan agribusiness sector without this flexibility.

One reason that the program was so flexible is that much of it was funded with local currencies generated by non-project assistance, including CIPs, PL 480, and balance of payments support. The Uganda program has relied on this type of funding more than most USAID programs. The evaluation team found that, although this contributed much needed flexibility, it also had some negative effects. First, the CIP-generated local currencies were not always available when needed because the imports that generated those local currencies often did not take place as planned. Dollar funding would have been more reliable. Second, because the local currencies were owned by the GOU, they were not as closely managed by the Mission as dollar funds would have been. As a result, many of the local currency-funded activities do not fit into an overall strategy and do not have clear purposes and goals. This has tended to reduce the long-term impact of even some of the most successful of these activities.

Beyond these broad, program-wide issues, several specific design shortcoming have had a negative effect on output achievement and development impact:

- The foreign exchange made available under the CIPs was made available to importers at the official exchange rate, which greatly overvalued the currency. This resulted in foreign exchange being spent on goods that would not have been imported at the full market price. The resulting impact of these imports on agribusiness growth was unsustainable as was demonstrated when policy reforms brought the official and market exchange rates in line with each other, and agribusinesses stopped importing goods that had previously been imported under the CIPs.

- The RPE loan program was not sustainable because it was implemented by commercial banks that had neither the expertise nor the interest to manage an agribusiness loan program. The result was that the intended revolving loan fund for agro-enterprises never developed.

- There were a number of design shortcomings in the CAAS project, but the most basic is that most cooperatives did not have an economic base that would allow them to benefit from the CAAS interventions and become financially viable. Had this been taken into account in the initial design, the cooperative development program would have been smaller, more focussed, and more cost-effective. This lack of focus also affected the ANEPP export development component during its first three years. An appropriate design would have identified the sub-sectors with the most potential and the specific needs of the agribusinesses operating in these sub-sectors. When this was done (in 1990), ANEPP export development activities started having much more impact.

These shortcomings affected the program mostly between 1984 when the program started and 1990 when all of the activities were redesigned. Since 1990, the program has been much more effective in providing appropriate support to potentially viable agribusinesses. This recent experience has provided the basis for the IDEA project, which will provide focussed assistance to private agribusinesses based on a solid analysis of the constraints they are facing.

The Lack of an Articulated Agribusiness Development Strategy

Until 1990, the USAID agribusiness strategy lacked clear objectives and was based on an inadequate analysis of constraints. In the early years, 1984-1986, USAID's implied agribusiness strategy was to rehabilitate productive enterprises. This "quick-start" strategy, with little design effort, was perhaps appropriate for the times, but the resulting impact was short-lived, partly because agribusiness needs and the capabilities of intermediary financial institutions had not been properly analyzed. From 1987 to 1990, as economic conditions improved, the de facto strategy was broadened to include institution building and policy reform, but once again the strategy suffered from an inadequate analysis of constraints as well as insufficient consultation with the private sector. As a result, many of the targets were overambitious, and in some cases inappropriate, and most of the activities were not focused on critical constraints. During this period, only the policy reforms supported by ANEPP made a significant sustainable contribution to agribusiness growth.

In 1990, based mainly on the experiences of its ongoing program, the Mission: 1) increased the emphasis on NTAEs; 2) identified critical constraints to agribusiness growth; 3) redesigned its activities, including PL 480-generated local currencies, to focus on those constraints; and 4) provided more direct assistance to agribusinesses. Since then, the agribusiness program as a whole has made measurable progress in creating the conditions for export-led agribusiness growth, although it is still too early to measure the impact in terms of increased value added, income and employment.

The cost of the lack of a strategy in terms of lost impact became especially clear when the Mission articulated for the first time an agribusiness sector strategy for the 1992 CPSP (Country Program Strategic Plan). The process of setting strategic objectives and targets highlighted the importance of having objective and verifiable impact indicators against which to assess program effectiveness. The usefulness of an articulated strategy as a management tool can be seen from a brief description of the strategy.

The program's overall strategic objective is to increase the incomes of men and women rural producers from agricultural exports. The export targets relate to growth in total value of non-traditional exports, and export diversification as measured by the number of products and the number of export markets.

Taking into account the CPSP strategy as well as more recent developments, such as the IDEA Project, the evaluation team derived five sub-targets, corresponding to project-level purpose indicators, that would lead to the achievement of the overall target. These are:

- <u>An improved policy, regulatory and institutional environment</u> for agribusiness. The indicators would be the actual changes in policies and regulations, and the means of achieving the changes, the policy analysis and dialogue provided for in ANEPP, and the advocacy work of the trade associations that are to be strengthened under IDEA.

- <u>Improved access to the production and marketing technologies</u> needed to compete effectively in export markets. The indicators would be the new technologies themselves. The IDEA project will support technology transfers by facilitating alliances with agro-enterprises in more developed countries and by strengthening the ability of GOU research institutions to meet the needs of Ugandan agribusinesses.

- Improved access to export markets. The sub-target indicator would be the number of new or significantly expanded markets and the means of achieving the sub-target would be through improved market information, assistance in market development, assistance in creating business alliances, and actions aimed at removing trade barriers in neighboring countries. (IDEA)

- Improved access to financing which would be measured by the increased flows of credit and investment to agribusiness, and would be achieved through strengthening banking (CAAS) and venture capital institutions (RPE).

- Stronger farmer groups and trade associations involved in technology and market development and in advocating for appropriate policy, regulatory and institutional reforms. (IDEA)

USAID's ability to achieve its overall export targets as well as these kinds of sub-targets will depend on certain key assumption that will have to be closely monitored. For the sub-targets to lead to the overall target, the GOU must continue to pursue liberalized macroeconomic policies and must place top priority on maintaining international competitiveness, creating conditions for private sector-led growth, and eliminating the budget deficit. A second requirement is that donors continue to finance infrastructure improvements, especially roads, telecommunications and electricity, as well as support key institutions, like EPADU (or the export policy analysis unit that will continue in the MFEP) and UIA, until the GOU is in a position to assure their effective operation. Even at the sub-target level other donor activities will be critical, since USAID will not be the only donor contributing to each sub-target. The GOU must also undertake certain actions, including restructuring the financial sector and strengthening its agricultural research and extension programs.

Finally, the link between the targets and the overall strategic objective (S.O.) is critical, especially the link between NTAE growth and increases in the **incomes** of men and women rural producers. More systematic information than is currently available will be required to adequately monitor and assess people level impact in these terms.

Presenting the strategy in this way brings out the importance as a management tool of the USAID Africa Bureau requirement that each Mission prepare an annual "Assessment of Program Impact" (API). With an annual review of the strategic targets and sub-targets, the Mission can restructure the overall program and assess the effectiveness of the individual activities. The key is to focus on the achievement of the sub-targets and on the validity of the links between sub-targets, targets and strategic objective. This is the only way to assess objectively and accurately whether USAID's resources are having their intended development **impact.** The Mission's questions should always be: "Is progress satisfactory?;" "Is this where we thought we would be?;" and, if not, "Were our targets inappropriate or are we doing something wrong?" These are not easy questions, and the answers will often be subjective. The key is to approach the exercise in an objective and hard-headed manner, looking for improvements, not excuses.

Subsequent to the team's field visit, the Mission submitted in December 1993 its second API. This API represents a significant evolution over the 1992 API, and parallels in several ways the evaluation team's construction, depicted above. The S.O. is defined the same way, followed by two targets (or "Program Outcomes" to use the term employed by the Agency's Program Performance Information System for Strategic Management-"PRISM"), with 3 sub-targets each:

- (1) increased exports of NTAEs:
  - -improved enabling environment for NTAE enterprises
  - -increased use of financial resources by NTAE enterprises
  - -improved management performance of NTAE enterprises

- (2) increased rates of return to producers and exporters from NTAEs:
  - -increased efficiency of NTAE markets
  - -improved on-farm post harvest technologies
  - -increased adoption of improved agricultural production technologies

The API includes performance indicators for each target and sub-target (and for the S.O.), and identifies the contributions of program and project activities to each sub-target.[52]

It may be a moot question, but the Mission might have articulated this kind of strategy, possibly as early as 1990 when all three of its ongoing projects were redesigned to reflect its better understanding of what agribusiness development in Uganda entailed. A systematic analysis of the constraints facing

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[52] A question could be raised about the Strategic Objective as defined above, as to whether it is within the "manageable interest" of the USAID Mission. Growth in the incomes of men and women rural producers of NTAEs could be swamped by declines in the incomes of producers of traditional exports. A somewhat narrower definition might be considered.

agribusiness at that time could have led to a major redesign of both the RPE and CAAS projects, with a greater emphasis on commercial viability of the enterprises and institutions being assisted. The analysis might also have resulted in broadening the focus of USAID's activities beyond high-value NTAEs, with their limited potential for generating substantial production and employment in the medium term, to include the low-value NTAEs and perhaps even the traditional agricultural exports which are essential for Uganda's overall economic growth.

The Macro-economic Setting

Level of Development

Its natural resource base and low labor costs give Uganda obvious comparative advantages in agricultural exports although its inland location precludes it from the advantage of direct maritime access. Given these factors, the level of development sets the limits on how rapid the growth will be. The lack of infrastructure (roads, electricity, telecommunications, cold chain) and supporting services (technology development and dissemination, marketing, agricultural credit, agribusiness credit, affordable transport, storage and packing) have been and will continue to be the binding constraints to growth in non-traditional exports. Furthermore, because economic development in Uganda is starting from a very low base and the level of commercial activity will remain low for some time, economically justifiable and financially sustainable improvements in infrastructure and supporting services (public and private) will be slow in coming. This will keep competitors such as Kenya and Zimbabwe ahead of Uganda in important respects, but with the right policies and support, Uganda's comparative advantages can allow it to eventually close the relative gap with its "head-start" neighbors.

Macro-economic Policy Framework

The GOU's macroeconomic policy changes were an essential pre-condition to the rapid agribusiness growth that has occurred over the past five years, but there continues to be limited capacity to implement policy changes and conduct ongoing policy analysis. Until the country has brought its huge government and balance of payments imbalances down to manageable levels, and the GOU has developed or obtained access to an independent policy analysis capability, the agribusiness sector cannot be assured that the macro-economic policy framework will remain as attractive as it is at present. This continues to be a looming negative factor in the agribusiness environment.

Government's Commitment to Private Sector-Led Growth

Uganda's agribusiness policy, regulatory and institutional framework is steadily improving, as evidenced by the removal of government marketing monopolies, the new investment code, the absence of foreign exchange controls, and the World Bank-supported efforts to restructure the financial sector. These changes have contributed greatly to increased agribusiness activity, but they are not enough. The GOU's commitment to private sector development and market-led growth must be strengthened and made more coherent and consistent, especially with respect to regulation, privatization, parastatal management (e.g., electricity), export promotion, and demand-driven technology development.

SUMMARY OF FINDINGS AND CONCLUSIONS

Program Performance

1. The program has consisted of four major activities: the Rehabilitating Productive Enterprises Project (RPE), the Cooperative Agriculture and Agribusiness Support Project (CAAS), the Agricultural Non-traditional Export Promotion Program (ANEPP), and the PL 480 Title II Monetization Program (edible oils) in support of CAAS.

    - RPE was reasonably successful in providing imported agricultural equipment and inputs to agro-enterprises but, because many of these businesses were not commercially viable, this activity has not led to sustained increases in production and employment. RPE also failed to strengthen the capacity of commercial banks to provide credit to the agricultural and agribusiness sectors.

    - Due to lack of demand and UCCU under-capitalization, the CAAS CIP component did not deliver significant quantities of agricultural inputs to farmers, and, with few exceptions, the cooperative development component did not succeed in strengthening the ability of District Unions and primary societies to deliver agricultural inputs or provide other services to farmers. CAAS resources have helped strengthen the UCA, but it does not appear that this institution can ever become financially sustainable. After it was redesigned in 1991, CAAS succeeded in increasing the capacity of selected cooperatives to produce and process oilseeds (sunflowers), and helped make selected cooperatives more knowledgeable about producing and marketing non-traditional agricultural export crops.

    - The PL 480 Title II program has provided local currencies to fund grants to the UCA and other cooperative institutions and loans to farmers and agribusinesses. For reasons discussed above, the cooperative support funded with these local currencies has for the most part not been effective or sustainable. The repayment rate on the loans is steadily improving, but the program is closely managed by USAID-funded advisors, and no steps have yet been taken to institutionalize the program in the Cooperative Bank. Pilot production of promising high-value NTAEs (e.g., snow peas) has been supported.

- The ANEPP policy reform conditionalities were all met and the policy studies called for in the project design and workplans were all carried out by EPADU staff and advisors. The ANEPP policy reform component had a major influence on GOU policy affecting NTAEs prior to 1991, but has made little significant contribution since then. Conversely, the export development activities started slowly and were strengthened when it became evident that greater focus on export diversification was required if the agribusiness sector was to have the intended impact on economic growth and incomes.

2. The agribusiness program's overall performance was adversely affected by project design, including weak constraints analysis, and faulty, largely unsubstantiated assumptions regarding factors that were critical to project success:

- First, the assumption that agribusiness growth was constrained in particular by the lack of imported equipment and inputs led to a heavy emphasis on CIPs between 1984 and 1990. In the end, the CIPs contributed very little, if anything to agribusiness growth.

- Second, the agribusiness projects were funded with CIP-generated local currencies. Not only did this cause the projects to be under-funded when the CIPs were not utilized, many of the activities funded with the local currencies (which were owned by the GOU) were neither well designed nor well monitored. If these projects were deemed important for agribusiness growth, they should have been either monitored more closely or funded with U.S.-owned dollars, and designed and implemented accordingly.

- Because of these design weaknesses:

    - RPE had almost no lasting impact either on the targeted productive enterprises or on the financial institutions implementing the program;

    - CAAS has not been able to create viable cooperative institutions, nor even establish what the appropriate role of cooperatives as agribusinesses or as providers of services to farmers might be;

- the link between ANEPP's direct agribusiness development activities and the project's objective of doubling NTAE exports has never been clearly established;

- a sizeable PL 480 Title II-funded loan program for cooperatives, farmers and agribusiness was undertaken with no provision for its institutionalization or sustainability.

3. However, the adverse effects of weak designs have been partly made up by effective implementation actions, especially the close monitoring of output achievement. As a result, the activities have become increasingly focused on key constraints and opportunities and have started having small-scale but replicable impacts at the agribusiness level. This has led to: 1) an increasingly effective policy dialogue with the private agribusiness sector as well as with government; 2) the design of a new agribusiness project, IDEA, which combines the lessons learned from ANEPP, CAAS and the Title II-funded loan programs; and 3) new initiatives to address the urgent and highly constraining financial needs of agribusinesses.

Program Impact

4. NTAEs grew rapidly between 1987 and 1991, and again in 1993, due to political stability, increased private sector confidence, macroeconomic policy changes, and improved infrastructure. The rapid rate of growth was also facilitated by the large under-utilized productive capacity in agriculture and agribusiness. Sustained future growth will require the creation of new productive capacity and will therefore probably not be as rapid.

5. The USAID program contributed significantly to the improved policy environment for agribusiness through policy conditionalities under ANEPP and the PL 480 Title I and III programs, and by financing policy studies and dialogue in the Ministry of Finance and Economic Planning under ANEPP's EPADU component. More recently, USAID has contributed to policy dialogue through its support to the Uganda Investment Authority (UIA) and the Uganda Manufacturers Association (UMA), and by sponsoring joint government-private sector forums on economic, fiscal, and regulatory policies.

6. The program's success in strengthening institutions that are

important for agribusiness growth has been mixed. RPE failed to create an agricultural lending capability in the major commercial banks, CAAS failed to make cooperatives commercially viable suppliers of agricultural inputs and marketers of agricultural products, and ANEPP has not yet completed the task of institutionalizing policy analysis and development capabilities related to NTAEs. However, USAID provided critical support for the establishment of the UIA, a key institution in the promotion of private sector agribusiness investment, and has also played an important role in strengthening the UMA, the largest and most effective private sector trade association in Uganda. Even in the case of the UIA, however, sustainability is not assured because the institution is entirely dependent on donors for its funding and there is no indication that the government will be able to assume financial responsibility for UIA in the foreseeable future.

7. Since *direct assistance* to agribusinesses did not become a major part of USAID's agribusiness program until 1991, this assistance has not yet had a significant and widespread impact on agriculture-based value-added, employment and incomes. Thus far, the impact has consisted mainly of promising pilot activities and a better understanding of constraints.

Factors Affecting Impact

8. Its natural resource base and low labor costs give Uganda obvious comparative advantages in agricultural exports, but the level of development sets the limits on how rapid the growth will be. The lack of infrastructure (roads, electricity, telecommunications, cold chain) and supporting services (technology development and dissemination, marketing, agricultural credit, agribusiness credit, affordable transport, storage and packing) have been and will continue to be the binding constraints to growth in NTAEs. Furthermore, because economic development in Uganda is starting from a very low base and the level of commercial activity will remain low for some time, economically justifiable and financially sustainable improvements in infrastructure and supporting services (public and private) will be slow. This will keep competitors such as Kenya and Zimbabwe ahead of Uganda in important respects, but Uganda's comparative advantages will allow it to eventually close the gap, assuming the right policy framework and infrastructure investments.

9. The GOU's macroeconomic policy changes were an essential pre-condition to the rapid agribusiness growth that has occurred over the past five years, but there continues to be

limited capacity to implement policy changes and conduct ongoing policy analysis. Until the country has brought its huge government and balance of payments imbalances down to manageable levels, and the GOU has developed or obtained access to an independent policy analysis capability, the agribusiness sector cannot be assured that the macro-economic policy framework will remain as attractive as it is at present.

10. Uganda's agribusiness policy, regulatory and institutional framework is steadily improving, as evidenced by the removal of GOU marketing monopolies, the new investment code, the absence of foreign exchange controls, and the World Bank-supported efforts to restructure the financial sector. These changes have contributed greatly to increased agribusiness activity, but they are not enough. The GOU's commitment to private sector development and market-led growth must be strengthened and made more coherent and consistent, especially with respect to regulation, privatization, parastatal management (e.g., electricity), export promotion, and demand-driven technology development.

11. Until 1990, the USAID agribusiness strategy lacked clear objectives and was based on an inadequate analysis of constraints.

- In the early years, 1984-1986, USAID's implied agribusiness strategy was to rehabilitate productive enterprises. This strategy was appropriate for the times, but the resulting impact was short-lived partly because agribusiness needs and the weaknesses of intermediary financial institutions had not been accurately assessed.

- From 1987 to 1990, as economic conditions improved, the de facto strategy was broadened to include institution building and policy reform, but once again the strategy suffered from an inadequate analysis of constraints as well as insufficient consultation with the private sector. As a result, many of the targets were overambitious, and in some cases inappropriate, and most of the activities were not focused on critical constraints. *During this period, only the policy reforms supported by ANEPP made a significant sustainable contribution to agribusiness growth.*

- In 1990, based mainly on the experiences of its ongoing program, the Mission: 1) increased the emphasis on non-traditional agricultural exports; 2) identified critical constraints to agribusiness growth; 3) redesigned its activities, including PL 480-generated local currencies, to focus on those constraints; and 4) provided more direct assistance to agribusinesses. *Since then, the agribusiness program as a whole has made measurable progress in creating the conditions for export-led agribusiness growth, although it is still too early to measure the impact in terms on increased value added, income and employment. If the growth performance of 1990, 91 and 93 of high* **and** *low-value NTAEs is maintained over the next five years, the impact on the incomes of men and women rural producers and workers will be substantial.*