

SECOND AMENDMENT

TO

PROJECT GRANT AGREEMENT

BETWEEN

REPUBLIC OF UGANDA

AND THE

UNITED STATES OF AMERICA

FOR

AGRICULTURAL NON-TRADITIONAL EXPORT PROMOTION PROGRAM

DATED: August 31, 1993

SECOND AMENDMENT TO THE PROJECT GRANT AGREEMENT

FOR THE

AGRICULTURAL NON-TRADITIONAL EXPORT PROMOTION PROGRAM

WHEREAS, the Government of the Republic of Uganda (the "Grantee") and A.I.D. (collectively the "Parties") entered into a Project Grant Agreement No. 617-0114 dated September 29, 1992 (the "Agreement") for the project component of the Agricultural Non-Traditional Export Promotion Program, which Agreement was amended on May 21, 1993 and

WHEREAS, the Parties desire to further amend the Agreement to grant the Grantee an additional one million United States ("U.S.") dollars (\$1,000,000) under this Project, and to modify the Project budget consistent therewith, thereby bringing total obligations to date to three million five hundred thousand United States ("U.S.") dollars (\$3,500,000).

NOW THEREFORE, the Parties hereto hereby agree that the Agreement is amended as follows:

1. The second paragraph of Section 2.1(b) is hereby deleted and replaced with the following:

"It is anticipated the A.I.D.'s overall contribution to the Total ANEPP over the life of the Program/Project will be fifty-four million United States ("U.S.") dollars (\$54,000,000), of which thirty-two million, five hundred thousand U.S. dollars (\$32,500,000) in non-project assistance and five million, five hundred thousand U.S. dollars (\$5,500,000) in project assistance has already been provided; and an additional thirteen million, five hundred thousand U.S. dollars (\$13,500,000) in non-project assistance will be provided, subject to the availability of funds to A.I.D. and the mutual agreement of the parties to proceed, as described in and pursuant to the terms of the Program Agreement, and three million five hundred thousand U.S. dollars (\$3,500,000) is provided, as more specifically described below."

2. The first paragraph of Section 3.1 is hereby deleted and replaced with the following:

"To assist the Grantee to meet the costs of carrying out the Project, A.I.D., pursuant to the Foreign Assistance Act of 1961, as amended, hereby grants the Grantee an amount under the terms of this Agreement not to exceed three million five hundred thousand U.S. Dollars (\$3,500,000)."

3. Sections 4.2 and Section 4.3 are hereby deleted in their entirety and replaced with the following:

"Section 4.2 Disbursement of Funds for Construction of a Cold Storage Facility. Except as A.I.D. may otherwise agree

in writing, prior to disbursement under the grant of funds for construction of a cold storage facility, or to the issuance by A.I.D. of documentation pursuant to which such disbursement will be made, the Grantee shall furnish or have furnished to A.I.D., in form and substance satisfactory to A.I.D.:

(a) written evidence that the Civil Aviation Authority has adequate budgetary resources to undertake, in a timely manner, surveying, site preparation, road construction and installation of electrical and water supply connections for a cold storage facility at Entebbe International Airport.

Section 4.3 Notification. When A.I.D. has determined that the conditions precedent specified in Section 4.1 and Section 4.2 have been met, A.I.D. will promptly so notify the Grantee.

Section 4.4 Terminal Dates for Conditions Precedent. If all of the conditions specified in Section 4.1 have not been met within one hundred twenty (120) days of the date of this Agreement, and all of the conditions specified in Section 4.2 have not been met within one hundred twenty (120) days of the date of the Second Amendment to the Agreement, or such later dates as A.I.D. may agree to in writing, A.I.D., at its option, may terminate this Agreement by written notice to the Grantee."

4. Annex 1, the Project Description, is supplemented by the attached Project Description Supplement and the Illustrative Summary of Project Costs By Expense Category and Source (the project budget) is deleted in its entirety and the attached project budget is substituted in its stead.

5. Section D.1 of the Standard Provisions Annex is hereby deleted and replaced by the following:

"(a) Either party may terminate this Agreement in its entirety by giving the other party 30 days written notice. A.I.D. also may terminate this Agreement in part by giving the Grantee 30 days written notice, and suspend this agreement, in whole or in part upon giving the Grantee written notice. In addition, A.I.D. may terminate this Agreement in whole or in part, upon giving the Grantee written notice, if (i) the Grantee fails to comply with any provision of this Agreement, (ii) an event occurs that A.I.D. determines makes it improbable that the objectives of the project or the assistance program will be attained or that the Grantee will be able to perform its obligations under this Agreement, or (iii) any disbursement by A.I.D. would be in violation of the legislation governing A.I.D.

(b) Except for payment which the parties are committed to make pursuant to noncancellable commitments entered into with third parties prior to such suspension or termination, suspension or termination of the entirety or part of this

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Agreement will suspend (for the period of the suspension) or terminate, as applicable, any obligation of the parties to provide financial or other resources to the Project, or to the suspended or terminated portion of the Project, as applicable. Any portion of this Agreement which is not suspended or terminated shall remain in full force and effect.

(c) In addition, upon such full or partial suspension or termination, A.I.D. may, at A.I.D.'s expense, direct that title to goods financed under the Grant, or under the applicable portion of the Grant, be transferred to A.I.D. if the goods are from a source outside the Grantee's country, are in a deliverable state and have not been offloaded in ports of entry of Grantee's country."

6. Section B.3(a) of the Standard Provisions Annex is hereby deleted and replaced by the following:

"(a) Any resources financed under the Grant, unless otherwise agreed in writing by A.I.D., will be devoted to the Project until the completion or termination of the Project, and thereafter (as well as during any period of suspension of the project) will be used so as to further the objectives sought in carrying out the project."

7. Except as amended herein, the Agreement, as amended, remains in full force and effect.

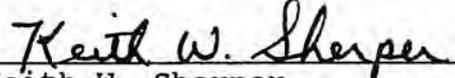
IN WITNESS WHEREOF, the Government of the Republic of Uganda and the United States of America, each acting through its duly authorized representative have caused this Amendment to be signed in their names and delivered as of the day and date indicated below.

FOR THE GOVERNMENT OF THE  
REPUBLIC OF UGANDA

  
Hon. Jehoash Mayanja-Nkangi  
Minister of Finance and  
Economic Planning

Date: 31<sup>st</sup> August 1993

FOR THE GOVERNMENT OF THE  
UNITED STATES OF AMERICA

  
Keith W. Sherper  
USAID Mission Director

Date: 8-31-93

A.I.D. Project No. 617-0114  
 Agricultural Non-Traditional Export Promotion Program  
 Project Agreement Amendment No. 2

ILLUSTRATIVE SUMMARY OF PROJECT COSTS BY EXPENSE CATEGORY AND SOURCE  
 (in \$000)

Expense Category	<u>This Obligation</u>	<u>Cumulative Funding to-date</u>	<u>Life of Project Funding</u>
	AID Grant (in \$000)	AID Grant (in \$000)	AID Grant (in \$000)
Technical Assistance/ Special Activities	-	800	800
African Project Development Facility	-	200	200
Small Enterprise Assistance	-	400	400
Evaluation/Audit	-	200	200
Infrastructure (Cold) Storage	700	700	700
UIA and EPADU Support	300	1,200	1,200
<b>Total</b>	<b>1,000</b>	<b>3,500</b>	<b>3,500</b>

1. Over the life of the Program and Project the GOU is contributing the local currency equivalent of \$31,150,000 to Program and Project activities.
2. Life of project budget is subject to the availability of funds to A.I.D. for this purpose and to the mutual agreement of the parties to proceed at the time of each subsequent increment.
3. Either party may unilaterally, with written notice to the other, adjust line items in this budget to a maximum of 10% per line item, provided, however, that the total obligated amount as shown in the budget is not exceeded and provided further that the GOU contribution and the amounts budgeted for evaluation and audit are not reduced.

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## PROJECT DESCRIPTION SUPPLEMENT

The purpose of this supplement to the ANEP Project Description is to increase LOP funding by \$1 million to a new total of \$3.5 million and to add components for construction of a cold storage facility at Entebbe airport and operational support to the Export Policy Analysis and Development Unit (EPADU) and the Uganda Investment Authority (UIA). In addition, planned funding of \$1.1 million for the African Project Development Facility (APDF) will be reduced to \$200,000 because most of A.I.D.'s direct assistance to firms seeking to start or expand export projects will be transferred to the Investment in Developing Export Agriculture (IDEA) Project (617-0125) in mid-1994. The current grant to APDF has adequate funding (from 617-0113) to continue providing financial advice to ANEPP clients through June 1994. A description of the new components follows.

### 1. Cold Storage

#### a. Need for Donor-Funded Cold Storage

Studies commissioned by EPADU to evaluate the potential for NTAEs have identified substantial potential export earnings from floriculture and horticulture. The lack of a cold store at Entebbe airport is, however, a major constraint to realizing this potential. In order to receive prices in the European market high enough for an acceptable profit margin, the produce has to arrive at the market in good condition and to have a long shelf life. To achieve this, most fresh produce must be kept in a cold chain from shortly after harvest until the product is sold in Europe. The existing cold storage and handling facilities at Entebbe international airport are totally inadequate for a quality floriculture and horticulture industry. If the industry is to expand beyond a few exporters, it is imperative to have a cold store and related handling facilities at the airport.

USAID and the GOU have been aware of the need for cold storage for a number of years and have sought ways of encouraging the private sector to invest in one. The main reason this has not happened is that construction and operation of a cold storage facility is not profitable in the short to medium term. A financial analysis of the cold storage facility to be funded by this project indicates that the cash surplus over the first five years of operation would not be sufficient to meet the interest payments on a loan to construct a cold store, never mind the principle. The fees that would have to be charged to cover capital costs would be so high that the produce would lose its competitive advantage in the market. In most countries trying to establish similar exports, cold storage at the international airport is considered to be an essential part of the infrastructure that is appropriately provided by the public sector.

b. Construction and Operation of the Cold Storage Facility

The Civil Aviation Authority (CAA), the entity responsible for the international airport at Entebbe, has a good site identified for a cold storage facility in its master plan for the airport and it is willing to construct the facility with USAID funding. The estimated cost of the cold store is \$638,000. CAA will assume the cost, estimated at Ush 190 million (\$160,000), of surveying and site preparation, construction of an access road and provision of water and electrical connections for the cold store.

CAA will tender for and oversee the construction of the cold store through international competitive bidding. As soon as possible, but at least within one year of the start of operation of the cold store, a company, Entebbe Airport Cold Store (EACS), will be formed to own the facility. Initially, the company will be wholly owned by CAA, but within one year, CAA will offer shares for sale to private individuals and firms. Over time, CAA will seek to dilute its shareholdings to 35% of the total. Proceeds from the sale of shares by CAA will be reinvested in EACS. It is proposed that holdings of any one individual should be limited to 10% of the total. All profits after dividends will be reinvested in EACS. CAA will grant EACS a 39 year lease for the land on which the cold store is sited. Other details such as the size and composition of the board have not yet been determined. CAA will present a detailed proposal on the structure and operation of EACS, including the mechanism for valuing and selling shares, that will form the basis for a Memorandum of Understanding between CAA and USAID.

The CAA or EACS will tender for management of the cold storage facility on a competitive basis. Bids will be evaluated on the basis of the bidders' financial fitness and capability to run the facility efficiently. The company managing the cold store will be responsible for the efficient and effective running of the cold store, and facilitating the functions of customs and phytosanitary inspectors and liaising with airline representatives, particularly Uganda Airlines which is responsible for moving the cargo and loading it on the plane. Officials of all these entities have been apprised of these plans and have promised full cooperation.

USAID will provide up to \$62,000 for costs associated with the construction tender, formation of the EAC and working capital to assist CAA with start-up and initial operation of the cold store should there be a gap between the date when the facility is ready for operation and the start of the management contract. The total estimated cost of the cold storage component is \$700,000.

2. Operational Support to EPADU and UIA

a. Export Policy Analysis and Development Unit

EPADU was created in 1988 to act as the implementing unit for

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ANEPP. It has two primary functions. The first is to recommend policy, regulatory and infrastructure changes to improve the environment for non-traditional exports. EPADU's work has played a role in key reforms such as liberalization of the foreign exchange regime, the shift from import licensing to simpler import certification, deregulation of fixed prices and the abolition of monopolies, and creation of the investment code. EPADU's second function is to promote export development directly by working with potential exporters. Its most substantial activity to date has been with vanilla producers and exporters. With EPADU's assistance, smallholder vanilla production expanded from 160,000 plants to well over 350,000 plants in one-year period and almost 600,000 new plants are projected over a 3-5 year period beginning in 1992. Current and projected plantings are expected to yield 40 tons of cured vanilla for export with a value of over \$2 million between 1992 and 1997. Technical assistance and training has also been provided to Uganda's infant floriculture industry. A series of commodity studies conducted under EPADU's direction have identified the most promising commodities for agricultural export.

Up until now, ANEPP has funded technical assistance based in EPADU and training and commodities associated with EPADU's activities, but direct operational support for EPADU (personnel, office rental and operations) have been paid for with GOU-owned local currency generated under ANEPP. The pool of local currency generated from ANEPP is shrinking because cash transfer dollars are now being used to service multilateral debt rather than for imports or the foreign exchange auction, i.e., the dollars are not generating local currency. The GOU's own resources are extremely limited. USAID has therefore agreed to begin funding EPADU's operational costs with dollar resources. EPADU has sufficient local currency to carry it until October 1993. USAID will provide approximately 9 months of additional funding (\$600,000) which will carry EPADU through the beginning of GOU fiscal year 94/95. By this time, a determination will be made by USAID and the GOU regarding the future role of EPADU, and the future level of A.I.D. support for EPADU will depend on this decision.

#### b. Uganda Investment Authority

The UIA is a statutory body established under the 1991 Investment Code with a Board of Directors that is ultimately responsible to the Ministry of Finance and Economic Planning. Its main responsibilities as set out in the Investment Code are to provide a regulatory framework for local and foreign investment, to promote and facilitate investment projects on a "one-stop-shop" basis, to appraise applications, issue investment licenses, grant investment incentives and monitor investment project progress and to register technology transfer agreements and safeguard intellectual property and trade secrets. UIA has received 500 investment applications with a combined value of \$900 million and, as of April 1993, almost 400 applications had been approved for actual investments in the range of \$200-300 million.

UIA plays a crucial role in creating a conducive climate for both local and external investment. Without such investment, the range and value of non-traditional exports will not increase. Therefore, the success of UIA is an important factor in achieving ANEPP's purpose.

UIA operations since 1991 have been financed largely with GOU-owned local currency generated under ANEPP. Because of the diminishing local currency resources discussed above, USAID has agreed to provide \$600,000 from the ANEP Project for UIA's operational costs. This amount will carry UIA through June 1994. In the meantime, the GOU will identify other sources of funding for UIA. It has been suggested that the World Bank will fund UIA as part of its Export Promotion Project, but this has yet to be negotiated.

c. Implementation and Procurement

1. Implementation Schedule for Construction of Cold Storage

The estimated schedule for the cold storage component is presented below. CAA will be responsible for procuring the services of a contractor through an international competitive bidding process to build and equip the cold store. Since this will be a Host Country Contract (HCC), USAID will have to certify that CAA's procurement procedures are acceptable before AID financing is formally approved. USAID will do an assessment of CAA's procurement policies and procedures that conforms to AID guidance on host country contracting. Initial discussions with CAA officials suggest that CAA has procurement policies and procedures that are compatible with AID's standards. AID also requires that USAID have an observer on the technical review panel and approve all major steps in the HCC procurement process.

<u>Date</u>	<u>Activity</u>	<u>Responsible Parties</u>
8/15/93	GOU Request Submitted to USAID	GOU, EPADU
8/27/93	Contract CAA Procurement Assessment	USAID
8/30/93	Grant Amendment Signed	USAID, GOU
9/17/93	Procurement Assessment Completed	Contractor, CAA
10/01/93	CAA Issues Construction Tender	CAA
11/01/93	Tender Due	Bidders
12/01/93	Construction Contract awarded	CAA
2/01/94	CAA Issues Management Tender	CAA

3/01/94	Tenders for Management Due	Bidders
4/01/94	Management Contract Awarded	CAA
5/15/94	Construction completed	Contractor
6/01/94	Cold Storage Facility Opens	Management firm,

d. Financial Plan

This amendment increases LOP funding by \$1 million and reallocates the budget between line items. The previously authorized LOP budget and the revised LOP budget are summarized below. New line items are support for EPADU and UIA and infrastructure development. The host country contribution is increased by Ush 190 million (approximately \$160,000) to reflect the value of work funded by CAA for the cold storage facility.



Second Amendment  
Project Grant Agreement  
Agricultural Non-Traditional Export Promotion Program

Drafted: PDO: SFine 17 8/30/93  
Clearance: C/PPD: Nolsen 11/10 8/30/93  
: ADO: JDunn AD 8/30/93  
: CONT: KLeBlanc  
: RLA: AVance ADU 8/27/93

Appro.: 72-113/41014  
BPC: GSS3-93-21617-KG13  
GR-617-0114-00-93-013  
RES CTL No.: U932059  
Amount: Dols 1,000,000

FUNDS AVAILABLE  
K. McFate  
DATE 8/31/93

*[Handwritten mark]*

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