Expanding Credit for Uganda's Non-Traditional Agricultural Exports

in conjunction with

The Financial Sector Development Task Force of the Bank of Uganda

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SUMMARY

This report analyzes Uganda's programs for financing non-traditional agricultural exports, with particular emphasis on the Export Refinance Scheme of the Bank of Uganda. It recommends improvements in the Scheme that will increase the flow of credit to exporters, and it sets forth a path of reforms designed to attract substantial new capital.

The report responds to a scope of work conceived and shaped by the Bank of Uganda's Financial Sector Development Task Force and the Agribusiness Development Centre of the United States Agency for International Development. Beyond submission of a report, the scope of work calls for efforts to build consensus around the recommendations. To this end, the author conducted interviews with more than fifty people, some of them several times, representing 11 commercial banks, eight exporters, seven donor programs and projects, and several organs of the Ugandan government. The author presented and tested interim findings at two roundtables, each of which attracted over thirty participants, broadly representing exporters, lenders, the Bank of Uganda, other governmental entities, and donors. The chairman of the Uganda Bankers' Association chaired one of the roundtables; the Deputy Governor of the Central Bank, the other.

Findings

Core findings are these:

- An increase in the supply of export credit would translate into an increase in exports. Numerous creditworthy exporters, with expansion opportunities at hand, are constrained by a shortage of credit.

- The Export Refinance Scheme is well designed. In particular—and unlike many government-operated, targeted credit programs—it is compatible with the healthy expansion of a private-sector financial system.

- Financial market conditions have changed markedly since the establishment of the Scheme in 1991, rendering the original rationale and approach outmoded.

- Commercial banks once found the Scheme attractive because of tight liquidity. However, today most banks avoid the Scheme because its spread is so tight that banks can not make a profit.

- Today, the Scheme provides principally post-shipment and near-shipment credit. Exporters desperately need pre-shipment and inventory financing as well.

- Certain administrative weaknesses limit the effectiveness of the program.

Recommendations

The recommendations and corresponding action plan call for the following steps:

- In light of today's financial market conditions, the Scheme should be dedicated not to building liquidity or subsidizing interest rates; instead it should focus on building the lending expertise of commercial banks and the creditworthiness of borrowers.

- The Bank of Uganda, Government, and donors should add up to Shs. 10 billion in capital to the Scheme.

- The terms on loans eligible for refinancing through the Scheme should be modified to increase the incentives for commercial banks to build the market.

- Administration of the Scheme should be strengthened and reformed, particularly with respect to loan approvals and reporting. An export line of credit should be extended to participating banks.

- The Scheme should be expanded to provide financing for pre-shipment costs and, most critically, for the holding of inventory.

- Subsidies in rates to end borrowers should be curbed. Subsidies should be delivered to both banks and borrowers in the form of technical assistance and training.

- Lending by the Scheme should be tightly integrated with the provision of technical services and training by the donor community.

- The Bank of Uganda, along with the many parties determined to expand non-traditional agricultural exports, should rally behind the efforts to establish product standards and grading, to institute warehouse receipts, and to organize a commodity exchange. These advances will enable the exporters and traders to finance their inventories, an essential step toward stimulating production, building sales and exports, moderating prices, and mitigating risk.

The report provides detailed guidance and recommends a specific series of steps to implement these recommendations.

SECTION I
INTRODUCTION AND OVERVIEW

In an export sector long dominated by coffee, Uganda's non-traditional agricultural exports have recently shown promise of vindicating the country's export diversification strategy. Representing just 10% of foreign-exchange earnings in the late 1980s, the non-traditional crops accounted for 20% of those earnings by 1996. With respect to value, the non-traditional agricultural exports more than quadrupled between 1990 and 1996, from US$24 million to US$106 million. More could be achieved if additional credit were prudently supplied to the exporters of these crops. The purpose of this report is to chart a course to accelerate the flow of such credit and to contribute, thereby, to an expansion of non-traditional agricultural exports.

A. Terms of Reference

The assignment was conceived and shaped by the Bank of Uganda's Financial Sector Development Task Force and the Agribusiness Development Centre of the United States Agency for International Development, and the terms of reference were approved by the Task Force and USAID. The terms of reference, included as Appendix A, call for an analysis of Uganda's programs for financing non-traditional agricultural exports, with particular emphasis on the Export Refinance Scheme of the Bank of Uganda. The analysis is to be set in the context of complementary programs under investigation in Uganda (e.g., financing based on warehouse receipts), and it is to draw on the experience of export-financing programs of other countries. Based on the analysis, the consultant is to present a detailed plan of action designed to increase the flow of credit for the export of non-traditional agricultural products.

This report is part of a concerted effort to expand the volume and quality of credit available to Uganda's exporters of non-traditional agricultural products and, thereby, to stimulate increased export sales. The research and writing is sponsored by the Uganda Bankers' Association as well as the above-mentioned Financial Sector Development Task Force and the Agribusiness Development Centre.

B. Method and Process

Relying on earlier drafts of this report to provoke discussion, the sponsors organized two roundtable discussions (Appendices B and C) bringing together a broad sampling of participants in Uganda's non-traditional agricultural export sector. The first session, held May 27 and chaired by the chairman of the Bankers' Association, produced a lively exchange among government, the banking community, and the exporters, revealing considerable common ground as well as some specific differences in diagnosis and prescription. The second session, held June 4 and chaired by the Honorable Deputy Governor of the Bank of Uganda, critically reviewed a concrete plan of action, complete with milestones, dates, the names of responsible parties, and a mechanism to monitor progress.

This paper and the roundtable discussion were informed by interviews with scores of commercial bankers, officials and management of the central bank, grain traders, grain growers, flower growers, specialty high-value crop growers and exporters, donors, and staff of the Agribusiness Development Center. (See Appendix D for a list of those interviewed.) The paper has relied heavily as well on documentation, reports, memoranda, statistical analyses, and financial data provided by the Bank of Uganda, the World Bank, the Agribusiness Development Centre and others. (A bibliography is included as Appendix E.)

C. Recommendations

The recommendations and corresponding action plan call for the following steps:

- In light of today's financial market conditions, the Bank of Uganda's Export Refinance Scheme should be dedicated not to building liquidity or subsidizing interest rates; instead, it should focus on building the lending expertise of commercial banks and the creditworthiness of borrowers.
- The capitalization of the Scheme should be boosted to Shs. 10 billion. Some of this should come from the Government and the Bank of Uganda, and much from the donors. The Scheme may be able to borrow additional funds.
- The terms of loans eligible for refinancing through the Scheme should be modified to increase the incentives for commercial banks to build the market.
- Administration of the Scheme should be strengthened and reformed, particularly with respect to loan approvals and reporting. Export lines of credit should be extended to participating banks.
- The Scheme should be expanded to provide financing for pre-shipment costs including, most critically, the holding of inventory.
- Subsidies in rates to end borrowers should be curbed. Subsidies should be delivered to both banks and borrowers in the form of technical assistance and training.
- Lending by the Scheme should be tightly integrated with the provision of technical services and training by the donor community.
- The Bank of Uganda, along with the many parties determined to expand non-traditional agricultural exports, should rally behind the efforts to establish product standards and grading, to institute warehouse receipts, and to organize a commodity exchange. These advances will enable the exporters and traders to finance their inventories, an essential step toward stimulating production, building sales and exports, moderating prices, and mitigating risk.

D. Deliverables

Deliverables from this consultancy consist of the following:

- The present report, including the action plan.
- Identification of organizations suitable to take charge of each action.
- Definition of a method of monitoring progress in implementing the action plan, and identification of the persons qualified to serve on a monitoring committee.
- Agreement with the Bank of Uganda on the reforms required in the Export Refinancing Scheme.
- The basis of consensus among donors on preconditions to their contribution of additional capital to the Scheme.

E. Organization of this Report

The report is presented in five sections:

I. Introduction and Overview
II. The Nature, Context and Significance of Export Finance
III. The Export Refinance Scheme of the Bank of Uganda
IV. Findings and Observations
V. Recommendations

SECTION II
THE NATURE, CONTEXT, AND SIGNIFICANCE OF EXPORT FINANCE

A. Definition and Importance

The term "export financing" is generally taken to refer to post-shipment credit, i.e., the extension of a loan to tide the exporter over from time of shipping the product to the collection of payment from the importer. It may include, too, the credit needed to build up stocks to fulfill a firm order.

Export financing is critical to the health of an exporter. It allows the exporter to replenish working capital prior to collection of the receivable from the overseas buyer, advancing the next cycle of selling, stocking, shipment, and collection. In this manner, the exporter expands the business. In turn, this expansion increases demand on the exporter's suppliers, ultimately increasing production. Export financing provides a cash market, obviating the need of suppliers to extend credit. Further, to the extent the exporter finances its suppliers, export financing also moves working capital upstream to intermediate handlers and ultimately to the producers.

In Uganda, an effective program of stimulating credit for non-traditional agricultural exports is the linchpin for diversifying export earnings, dampening the volatility of export earnings, cutting the risk of hardship in years when coffee revenues fall off, tapping the skills of rural people in support of the government's economic development programs, and bringing some modicum of wealth to rural producers and traders.

B. Export Finance in the Context of a Business's Overall Financing Need

In this report, we define export financing broadly, looking at all of the financing that the exporter needs to operate the business. Specifically, we look not only at the funds required to finance shipments but also at the funds needed to build stocks to fill firm orders. We also consider the funds needed to build stocks before orders are received. Further, we look at the financing needed for preparation of product for sale, including cleaning, processing, packaging, storing and safekeeping.

We take this broader view for three reasons:

- Any financing that helps the exporter to expand the business or to operate more efficiently will contribute to the growth of exports.

- Conversely, financing constraints in any dimension of the exporter's business will hinder growth.

- The financing of shipments in anticipation of payment represents only a small financing requirement for many exporters.

We signal this more encompassing scope by referring, as we do in the title, to "credit for export" rather than the more familiar "export financing."

C. An Encompassing View of Means to Meet the Financing Need

Just as we take a comprehensive view of the need for finance, so we take a comprehensive view of the methods of providing it.

Increasing the Supply of Funds: Strengthening the Financial Sector. To provide financing in adequate supply, the commercial banks must understand the sectors to which they are lending so that they can spot profit opportunities and accurately assess risk. For our purposes, this means they must possess some specialized knowledge of the non-traditional agricultural products—their production, processing, distribution, and their markets. The banks must be able to service customers at reasonable costs, controlling both operating expenses and default. Over time, the commercial banks, along with other financing institutions, generate an increasingly specialized set of financial instruments to deliver export funds to a business. For the exporter, these include the Scheme's export-financing loans, warehouse receipts for inventory financing, commodity exchanges, forward and futures contracts, and more.

Increasing Effective Demand: Strengthening the Borrower. A business expands access to funds by increasing its creditworthiness. It does so by strengthening the fundamentals of its business: building customer loyalty; understanding and outmaneuvering the competition; controlling cost and establishing defensible margins; operating in a smooth and predictable manner. Improved operations can free up internal funds, both reducing the need for working capital while providing the capacity to service additional debt should expansion opportunities arise. Thus, business managers are always well advised to achieve every efficiency in cash management, receivables collection, inventory control, and production. In the agricultural sector, a complementary means of increasing the borrowing power of the exporter lies in standardizing the product. Commodities are easier to finance than non-standardized products. This is because their physical characteristics are well specified, their value is known, and a ready market for their sale always exists. Under the right conditions, inventory of a commodity can attract its own financing.

D. Alternative Designs of Export-Financing Programs

If a country's financial markets operated successfully, no artificial stimulation of export finance would be needed. Governmentally sponsored export-financing schemes grow out of a belief that markets are not operating efficiently. Using the same terms as above, the perceived shortcomings can be viewed as inefficiencies in the *supply* of credit and inefficiencies in *demand.* The particular culprit varies from market to market. The prescription can vary as well. The variety in the design of export-promotion programs around the world reflects the variety of market deficiencies and the variety of means of redressing them., as summarized in the Foundations of Export Financing Program, Table 1.

Table 1: Foundations of Export-Financing Programs[1]

Diagnosis	Prescription	Export Financing Program Examples
I. Deficiencies in Supply		
A. Liquidity is tight	Refinancing	*Export Refinance Scheme of the Bank of Uganda*★Lesotho Refinance Scheme★Swaziland Export Credit Scheme★Export Credit Finance of the Bank Negara Malaysia
B. Skills, experience lacking in commercial banks	1. Technical assistance, training	None
	2. Guarantees and insurance	*Export Refinance Scheme of the Bank of Uganda (design only)*★US Small Business Administration's (SBA) Export Finance Program★Export Working Capital Program★US Ex-Im Short-term Loan Guarantees and Insurance★USDA's Facility Guarantee Program and Commodity Export Credit Programs of the Commodity Credit Corporation★Lesotho's Export Credit Guarantee Scheme★Swaziland's Export Credit Finance Scheme★Mauritius' Export Credit Insurance Scheme
C. Intermediation costs are too high	Subsidies to the commercial banks	None
D. Medium- and long-term money is unavailable	Provision of medium-/ long-term deposits or interest-rate guarantees	*Export Refinance Scheme of the Bank of Uganda (design only)*★US SBA's Export Finance Program and its Export Working Capital Program
II. Deficiencies in Demand		
A. Borrowers lack creditworthiness	1. Technical assistance	None
	2. Guarantees and insurance	Numerous programs: see long corresponding list above
B. Borrowers lack collateral	Supplement collateral by guarantees, use inventory as collateral, etc.	*Export Refinance Scheme of the Bank of Uganda (design only)*★US SBA's Export Working Capital Program★ Swaziland's Export Trade Financing
C. Credit is too expensive	1. Borrower subsidies	Export Refinance Scheme of the Bank of Uganda★Lesotho's Credit Guarantee Scheme★Swaziland's Export Credit Finance Scheme★Bank Negara Malaysia Export Refinancing Facility
	2. Grants	US Ex-Im grants to combat competing concessions

[1]This table is presented from the perspective of government efforts to address export finance deficiencies. As such it does not include private efforts, e.g., buyer credit at reduced rates in response to bank credit at high rates of interest or provision of outside services to enhance borrowers' creditworthiness.

As we see, the Export Refinance Scheme of the Bank of Uganda can be well described using the framework of market deficiencies in supply and demand. It is designed to correct several deficiencies, in fact, of both kinds. This is a useful schema, one to which we will return in subsequent sections of this report. Anticipating our later findings and recommendations, the framework prompts several observations:

- Many programs invite commercial banks to enter lending markets where risks are high and not fully understood; at the same time, they curb the banks' profit margins.

- Similarly, many programs invite businesses to borrow more without due attention to increasing their management powers and debt-bearing capacity.

- Many programs rely more on introducing financial instruments than on building managerial expertise. Training and technical assistance do not figure prominently in most programs.

If we believe that credit expansion can, in the long run, rest only on a sound foundation of stronger banks and stronger borrowers, then we insist on capacity building—training and technical assistance—as an essential adjunct to the introduction of financial instruments and techniques.

SECTION III
THE EXPORT REFINANCE SCHEME OF THE BANK OF UGANDA

A. History and Design

The Export Refinance Scheme was established in 1991 pursuant to the government's objective of broadening the country's agricultural export base and diversifying foreign-exchange earnings. Specifically it sought to support exporters of non-traditional agricultural products in their credit requirements, both those of medium-term pre-shipment nature and those of a short-term post-shipment nature. The Bank of Uganda and the commercial banks were to share credit risk through a loan-guarantee mechanism. The Scheme was to be capitalized at approximately Shs. 10 billion.

The Scheme was never fully implemented. Only 20% of the anticipated capital was forthcoming. The entire amount was contributed by the Bank of Uganda. The portion to be supplied by the government was not provided due to budgetary constraints. Lacking sufficient capital, the Bank of Uganda was never able to activate a medium-term credit facility. Nor was it able to establish the intended guarantee component. The scheme has concentrated, therefore, in providing short-term money to commercial banks to fund mostly short-term post-shipment loans.

The Export Refinance Scheme operates though commercial banks. It is the commercial banks that perform the functions of loan origination, credit analysis, collateral evaluation, loan documentation, disbursement, loan administration, and (if necessary) workout and foreclosure. The commercial banks bear all of the credit risk. That is to say, should a borrower default, it is the commercial bank that bears the loss. The Bank of Uganda lends to commercial banks in US dollars at an interest rate of 5.5% (derived from prevailing London Interbank Offer Rate, LIBOR, at the program's inception). Commercial banks are permitted to charge 8.5% to end borrowers. Since its inception, the Scheme has disbursed 190 loans at an average principal value of Shs 67 million with the term concentrated in the range of 30 to 120 days.

As indicated, all of the capital in the Scheme today has been contributed by the Bank of Uganda. No donor has yet injected any funds.

B. Rationale

When the Scheme was introduced in 1991, no lending of any magnitude was being extended to non-traditional agricultural exports. Economic and financial conditions made export very difficult indeed: shilling interest rates were 55%, inflation was even higher, the currency was overvalued, exchange controls were maintained, and the commercial banks suffered a severe lack of liquidity. The Export Refinance Scheme responded by offering to refinance non-traditional agricultural export loans extended by commercial banks. Eligible loans had to be denominated in dollars with interest rates capped as a function of short-term dollar LIBOR. At once, the Scheme offered liquidity to the banks; it brought down nominal interest rates by more than 40%; and it shifted the currency of the loan to dollars, offsetting the exposure of the exporters to sales revenues that varied with the dollar/shilling exchange rate.

In the terminology used above, the Export Refinance Scheme was designed to compensate for deficiencies both in the supply and the demand for financing. It stimulated supply by offering added liquidity. It stimulated demand through nominal interest rates much below market. In its design, but not in practice, it was to have further stimulated supply by shielding the commercial banks from some of the credit risk through a partial guarantee.

SECTION IV
FINDINGS AND OBSERVATIONS

In this section, we offer findings and observations first on the Export Refinance Scheme and then on more general issues in the financing of exporters.

A. The Export Refinance Scheme Is Needed

Before analyzing how the Scheme might be made more effective, we must ask first whether the Scheme serves a useful purpose. Would exports of non-traditional agricultural products grow if the Scheme were improved and enlarged? Would this growth come at acceptable costs? Are alternative means likely to prove more cost-effective, and are they capable of being implemented with reasonable speed?

1. Indicators of Need for Credit

In 1990, the value of non-traditional agricultural exports was $15 million. For the next five years, these exports grew at an annual rate of 31%, reaching $58 million in 1995.[2] At the beginning of this period, virtually no lending was being offered to non-traditional agricultural exports.[3] From 1991 to 1994, credit for post-shipment financing of non-traditionals averaged about $3 million per year, falling thereafter to less than $2 million per year.[4] Assuming an average period of 30 days between shipment and collection, the non-traditional sector today needs an average outstanding loan balance of $5 million throughout the year in post-shipment financing alone (at $58 million per year, exports average $5 million per month). The Export Refinance Scheme, the major source of non-traditional agricultural export finance, is supplying less than half this amount of money and is providing its limited resources to only 5% of exporters (1995 figure).[5]

Credit for capital investment, crop financing and pre-shipment stocking and processing is much more strained. In recent years, bank credit to all agriculture production (traditional and non-traditional) actually fell, dropping from $8.3 million in 1990 to $4.6 million in 1994, even while non-traditional exports nearly quadrupled and traditional exports nearly tripled.[6] A production survey

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[2]These figures include high- and low-value field crops and exclude fish, animal and forestry products. The value fell back to $33 million the following year.

[3]Interviews with officials of the Bank of Uganda.

[4]Figures supplied by the Bank of Uganda.

[5]Alifas Yeko Mwanga, *Exporters' Survey 1995: "Impact of Government Policy on Exports with Emphasis on NTAEs,"* no date, p.x.

[6]The statistics in the reports consulted do not break out credits to non-traditional exports. One must exercise caution further because some agricultural export credit may be captured as "trade and marketing."

conducted by the Agricultural Secretariat estimated that the entire agricultural sector could have employed more than $200 million in credit at the early part of this period and more than $300 million in the latter part. The Ministry of Planning and Economic Development estimates that the entire agricultural sector obtains less than 10% of its financing requirements.[7]

The Export Refinance Scheme covers no part of the financing requirements prior to shipment. Though authorized by statute to extend pre-shipment credit and medium-term credit, it has chosen not to do so for lack of capital.

Making due allowances for the unreliability of some of these statistics, and particularly of the opinion surveys, the picture still emerges of a sector starved for credit.

2. Indicators of Effective Demand

Clearly the need is great, but are there enough creditworthy exporters to take advantage of the Scheme? If additional capital were injected, would it be used?

By December 1996, the Scheme approved 225 applications and disbursed Shs 13.6 billion. Since its inception, it has turned its capital more than two times per year. With loans extending up to 180 days, this turn rate indicates fairly brisk business.[8] (In the past two years, turns have fallen, probably reflecting a combination of events, i.e., user frustration with the process, easing of liquidity, restrictive Scheme interest rates.) In the past year, nearly 70% of funds have been placed in loans, a rate that may represent near full practical utilization, given the need to hold liquid funds to honor commitments under approved loans. (See Appendix F for recent utilization rates.)

Experience with the Investment Term Credit Refinance Fund (ITCRF) suggests a sizable pool of creditworthy borrowers, capable of supporting debt on commercial terms. After interest rates were allowed to move to market, the Fund's capital of $25 million was quickly committed.[9]

3. Indications that Increased Credit Would Spur Exports

Many exporters claim that they are foregoing significant sales opportunities that are immediately at hand because of their inability to build and carry inventory. A trader in high-value crops explains that she passes up orders for chillies because the period required to amass stocks exceeds permitted delivery period. She would be willing to build inventory and hold it on speculation, but her banks

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[7]M. Onyach-Olaa, *A Review of Credit Facilities for Agriculture and Export Finance (With Special Focus on Non-traditional Agricultural Exports),* Export Policy Analysis Unit, Ministry of Planning and Economic Development, 1995, p. 28.

[8]The Scheme's capital was approximately $1 million at the outset, with another $1 million added subsequently. Disbursements of approximately $14 million in a period of just over five years on a base of capital assumed to be $1.5 million on average represent annual turns of about just under two.

[9]This is the conclusion drawn by the World Bank and others.

are not willing to advance credit without a firm order. A large grain trader has sufficient sources of supply, sufficient transport, sufficient storage, and sufficient buyers to expand sales threefold, he claims, but for lack of credit to finance inventories. Rose farmers report that profits in their industry are dampened by the high cost of informal credit to which they are forced to resort. Over the long summer when they have no revenues but continue to incur significant costs, they stay afloat on trade credit, frequently stretching it beyond its term and thereby foregoing discounts and promotional prices. Dependent on the prompt payment by the auction in Holland, the flower growers are slow to move into the more profitable realm of direct sales.

The few pertinent surveys and studies support the anecdotes. Exporters consistently report that shortage of credit represents one of the primary limitations on their ability to grow.[10] The non-traditional crops are particularly ill-served. The Agribusiness Development Centre has estimated that, with adequate credit, the grain sector could increase its export sales by 100%, and horticulture by 20%.[11] The study of Ivan Nyieri in 1994 reached similar conclusions. The study by the Ministry of Planning and Economic Development cited above reported the opinion of non-coffee exporters that with $5 million of pre-shipment credit they could triple exports.[13]

B. The Export Refinance Scheme is Well Designed, but the Market Conditions that Shaped the Scheme's Rationale have Changed

1. Rationale and Approach

The conditions in the financial markets that shaped the Scheme's design in the early nineties have changed significantly. While a program to increase the volume of credit for non-traditional agricultural export seems well warranted, its rationale and its approach need to be brought into line with today's market conditions.

In its design, the Scheme focused sharply on two obstacles to providing credit to exporters:

- Facing a shortage of liquidity, the commercial banks were strapped for loanable funds.
- Nominal interest rates were out of reach, at 55%.

The Scheme addressed the liquidity constraint by offering to refinance qualifying loans, thereby replenishing the pool of loanable funds. It addressed the second constraint by denominating loans

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[10]See, for example, the 1993 and 1995 surveys by the Export Policy Analysis Unit in which exporters ranked "lack of credit" as more constraining than any other factor, including quality of export commodities, quantity, and storage. Concern over credit is matched only by dissatisfaction with transport costs. See Mwanga, p. 17.

[11]Calculations supplied by William Kedrock of the Agribusiness Development Centre.

[12][Citation to be supplied by the ADC].

[13]*Ibid.*, p. 41.

in the US dollar, on which nominal interest rates were very considerably lower than on shillings. Further, it subsidized the rate by tying it to the LIBOR, and not building into the rate the intermediation costs of the Uganda banking sector or a risk premium appropriate to the small Ugandan economy.

Conditions have changed in six years. Liquidity in general is not the constraint it was. (Though liquidity for non-traditional exports as noted above still appears relatively tight.) Nor are interest rates as daunting as the 55% rate prevailing at the time of the Scheme's inception. However, interest rates in the low twenties for shillings, as they are today, can be quite stifling for agriculture.

Despite some improvements in the financial environment, the Scheme is still needed, the statistics tell us. The thrust should expand, however, to incorporate not only the provision of export liquidity at market rates but also the lack of experience and specialized skills on the part of banks in lending for non-traditional crops and the managerial weaknesses in the export businesses.

Thus the Scheme's present rationale and approach do not address today's challenges. (A revamping is proposed in Section V, Recommendations.)

2. Compatibility of the Scheme with a Market-based Financial System

Targeted credit schemes must be considered in light not only of their effect on exports; they must be judged as well on how they affect the financial system. Subsidized sectoral lending programs in developing economies are often criticized for retarding the growth of private-sector financial institutions. With the government offering highly subsidized credit to an under-served market of borrowers, private-sector institutions are incapable of competing. Worse, the government not only shuts the private-sector lenders out, it can contaminate the market by encouraging undisciplined borrowing, investment, and repayment habits.

In this respect, we must recognize the quality of the Scheme's design, even in its partially realized form. The Export Refinance Scheme has wisely avoided these dangers. It operates *through* the private-sector institutions, and not in competition with them. The commercial banks originate the loans, perform the credit analysis, make the credit decision, value the collateral, monitor disbursements, and service the loan. With the commercial banks bearing all of the credit risk, the incentive to hold the borrowers strictly to their obligations is not dulled. Further, the Scheme allows the commercial banks to extend their reach into markets where they would otherwise be slow to enter. Rather than retard the development of the private-sector banks, then, the Scheme is designed to foster their growth.[14]

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[14]The author recently concluded a series of USAID-sponsored engagements on the deleterious effect of subsidized sectoral lending programs in Central and Eastern Europe that have the government ministries lending directly to borrowers, bypassing (and undermining) the embryonic private-sector banking system. See John W. Haines, Richard Lewis and L. Warren Townsend, *Developing a Loan Guarantee Program for the Czech State Fund for the Environment*, 1996; Richard J. Lewis and John W. Haines, *Guidelines for a Credit Policy of the Czech State Fund for the Environment*, 1996; Thomas Downing, *Strategic Questions Facing the Czech State Fund for the Environment*, 1995.

Another danger of targeted, subsidized credit programs is that they will depress the mobilization of savings. This can occur if the scheme provides added liquidity without increasing the pool of borrowers, thereby decreasing the incentives of the commercial bankers to seek deposits from savers. This danger can be averted if the Scheme attracts new borrowers to the formal credit markets. The added liquidity is matched by the additional demand from new borrowers. The Scheme can bring new borrowers into the market by helping to build up the lending skills of the banks and the creditworthiness of the borrowers, consistent with the observations made above.

Guarantees provided by government to protect commercial banks from credit losses often cause considerable mischief. The central bank, along with many commercial banks, believes that the discipline of repayment is not yet sufficiently established and that a guarantee would encourage borrowers to treat their obligations too casually. The guarantee component of the program as originally envisioned appears unnecessary for now.[15]

The below-market interest rate of the Scheme is not fully consistent with the Government policy of expanding the market-based financial system. The rates to the end borrower are not so distortive as they might appear,[16] but the imposition of the cost of the subsidy on the commercial banks, and not the government, is pernicious. The three percent spread the banks can earn is capped at a level far below market. Unable to earn a competitive rate of profit, the commercial banks have little incentive (absent a liquidity crunch) to participate. The reformulated design and approach must relieve the commercial banks of bearing the cost of subsidies and must free the spreads to move to competitive, market rates.

The central bank does not believe subsidies are an essential feature of the Scheme. The exporter receives the greatest benefit of the Scheme when moving from the informal credit system to the formal credit system; shaving the last few points through subsidies is less valuable. Informal credit—renting to avoid investment, paying premium prices for fast delivery instead of holding inventory, foregoing discounts to stretch payables—often carries exceedingly high implicit interest rates. Even the full market rate of interest in the formal sector represents significant savings over the rates implicit in these trade practices. Further, the central bank and many exporters alike believe that a streamlined application process and predictable disbursements are more valuable than a subsidy.

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[15]A study commissioned in 1995 by the Bank of Uganda—Michael Gudger, *The Development of a Self-Sustaining Credit Guarantee Facility for Rural Sector Finance*—demonstrated convincingly that a guarantee program for cotton would not attain sufficient size to achieve the economies of scale and the diversification of risk required for safety and sustainability. These conclusions could have applicability to non-traditional agriculture as well, and would need to be considered in designing any guarantee program.

[16]It should be noted that the subsidy element of the Scheme's loans are not so great as it might appear. The loans are denominated in dollars, not in shillings, and therefore the Scheme's interest rates should not be compared to the shilling interest rate. It should instead be compared to the dollar interest rate, adjusted both for risk and for the operating costs of the banking system. All factors considered, the Scheme's 8.5% interest rate does represent a subsidy, though not so large as one would estimate by comparing this rate to the current average rate of 21% on short-term shilling loans.

We will return to all of these points under the section "Recommendations."

C. The Scope of Activities Eligible for Financing Under the Scheme Is Narrow

We have noted above that lack of capital has forced the Export Refinance Scheme to lend exclusively for post-shipment needs. With this limitation, the Scheme can at best meet only a small portion of the exporters' financing requirements. One grain trader estimated that his pre-shipment credit needs exceeded post-shipment needs by a factor of three. For horticultural exporters, the skew is more pronounced since they tend to receive prompt payment on export but must tie up considerable funds in production, storage, and transport facilities.

1. The Central Role of Inventory

For many exporters, and almost all traders, the largest asset is inventory. The lack of financing for inventory is hobbling. Building inventory is becoming a competitive necessity among many Ugandan exporters. The grain exporters report that the World Food Program, the Red Cross, and other relief agencies are tendering for larger and larger orders—thousands of tons rather than hundreds. (Though the WFP, in an attempt to enhance local purchases, is moving to smaller lots.) To be confident of being able to supply such quantities on a tight schedule, the traders must hold substantial stocks before winning the order. Exporters of certain high-value crops (e.g., chillies) must build inventory, too, if they are to respond promptly to orders.

The Scheme was designed to furnish inventory financing and it is authorized by statute to do so. But lacking capital, it has been unable to serve this critical role.

2. Stabilizing the Supply Chain

The shipment of product is the last link in a long chain of activities. Product originates with the growers; it then passes through traders, often many of them; next it moves to the exporter; and finally it is transferred to the overseas buyer. Payments move in the opposite direction, from buyer to exporter to trader to producer.

A country's success in exporting rests on the reliability of this chain. That reliability, in turn, depends in large measure on financing.

The non-traditional agricultural export chain does not exhibit a high degree of reliability. Volume and quality of product is variable and unpredictable. Product standards are not widely used, and products are not graded. Prices are volatile. Producers and traders are sometimes unable or unwilling to honor delivery commitments. Agreements on price are sometimes thrown open as price levels move. The availability of finance is one of the key factors determining the reliability of the supply chain. Prompt, dependable upstream payment keeps product flowing; *accelerated* upstream payment—i.e., credit—accelerates product flow. On the other hand, uncertainty or delay in payment breeds caution, causes interruption, and produces inefficiency, all of which curtail production and dampen export volume.

In Uganda today, credit for non-traditional agriculture is so crimped that it exacerbates rather than ameliorates the instability of the supply chain. Much has been said above about the shortage of post-shipment credit. Here it is appropriate to emphasize the severe limitations on inventory financing. Of the two, inventory financing requires a greater volume of capital; and of the two, it is located further upstream, consequently having a more direct influence on production and trading. When exporters build inventories it stimulates production and moderates seasonal price fluctuations, generally encouraging increased production. Increased production lowers costs, increases competitiveness and enables exporters to pursue new market opportunities, in turn reinforcing the market signals to the producer.

3. Financing Inventory

The route to establishing inventory as a financeable asset, while long, is well charted:

- Establish a system of internationally recognized product standards that are widely used by buyers and sellers. (As noted above, these are not governmentally determined standards, but those that have arisen out of commercial transactions.)[17]

- Establish a reliable system of grading product and certifying the grades.

- Establish industry accepted sales contracts/arbitration measures.[17]

- Provide for the physical security of inventory and back this up with insurance/bonding.

- Introduce a warehouse receipt system, creating negotiable certificates representing ownership of well-specified stock.

- Establish a commodity exchange to speed transactions, build the volume of trade, publicize prices, and open opportunities for hedging.

Until the financial system provides an adequate supply of inventory financing, non-traditional agricultural exports will fail to reach their potential. Many activities are underway to promote these steps, and the more thoughtful of them deserve widespread support.

D. Administrative Snags Limit the Scheme's Effectiveness

Interviews with borrowers, lenders, and managers of the Scheme revealed displeasure on a number of administrative points and produced many suggestions on how to make the Scheme easier to use.

- The application process often consumes inordinate time, many complain, taking the exporter away from his or her business. Several applicants expressed this view in the sharpest of

[17]The Agribusiness Development Centre has drafted such standards for some commodities.

terms, concluding that they would rather pay market rates if the alternative were to spend hours mediating between their commercial bank and the central bank. Considering their lost time, penalties, and fees, they did not view the Scheme's loan as cheap money at all.

- Approval of the loan too often comes too late, sometimes after the letter of credit has expired. Grain traders, for example, must typically fill orders within 30 to 45 days; loan approvals, on the other hand, sometimes take several months. Costs rise; exporters default on delivery commitments; orders are lost; the discipline of the supply chain is strained. Furthermore, when loans are disbursed late, the funds are often diverted from their intended purpose, increasing the risk of default.

- Nearly all observers believe that the spread earned by the commercial banks—3%—is inadequate. Only one of a dozen bankers found it profitable to lend at the Scheme's rates, and this was because of ancillary services sold to the borrowers. The experience of another neatly illustrated the near impossibility of earning a profit under the Scheme. The bank contracted with a third party for valuation, safeguarding, and reporting on the collateral backing its loans. The cost of the service, which is a proxy for the cost of performing the services internally, was 2.5 to 3.0%. No margin was left for other administrative cost or default risk, let alone profit.

- Making no money on the Scheme, commercial banks are typically not helpful to the applicant. Few commercial banks advise the exporter of the availability of the Scheme. The banks do not energetically represent the exporter with the Bank of Uganda to obtain loan approval, instead leaving the borrower to advocate on his or her own behalf. More than a few bank executives were not terribly familiar with the program, one calling it "a well-kept secret."

- Bearing all of the credit risk, some commercial bankers bristled at the review of their credit decision by the Bank of Uganda. In the opinion of the central bank, this review served a purpose in the early days of the Scheme, when the central bank exhibited some flexibility in enforcing the loan terms with the commercial banks. Today, the review could be performed in a more summary fashion without sacrifice of control.

- The World Bank has commissioned two studies that found that the Development Finance Department was overburdened with the programs it was administering and was in need of strengthening.

E. Recap of Findings and Observations

The Export Refinance Scheme is Needed. Though incomplete, all evidence indicates that non-traditional agricultural exports are constrained by credit and that healthy businesses stand ready to draw on additional credit to expand exports.

The Export Refinance Scheme is Well Designed, but the Market Conditions That Shaped the Scheme's Rationale have Changed. Unlike many programs of its type, Uganda's Export Refinance Scheme is compatible with, even supportive of, the maturation of a market-based, private-sector financial system. When established, it was well tailored to prevailing conditions in the financial markets. Those conditions have changed markedly since.

The Scope of Activities Eligible for Financing Under the Scheme is Too Narrow. Export businesses cannot prosper without means of financing pre-shipment costs, particularly inventory. The Scheme is designed to provide such financing but has been prevented from doing so for lack of capital.

Administrative Snags Limit the Scheme's Effectiveness. Establishing an export line of credit between the Bank of Uganda and eligible commercial banks will reduce some of the administrative snags and encourage greater participation by exporters and banks alike.

SECTION V
RECOMMENDATIONS

A. The Bank of Uganda Should Redefine the Mission of the Export Refinance Scheme: From Adding Liquidity to Building Capacity

The rationale and approach of the Export Refinance Scheme should be brought into line with current conditions in the financial markets and the current level of expertise found in the banking sector and among exporting businesses. The lending programs should then be made to conform with the revised rationale and approach.

Promotion of non-traditional exports remains government policy. Expansion of credit to the sector remains government policy as well. Against this constant policy backdrop, conditions in the financial markets have changed since the Export Refinance Scheme was introduced. The Scheme remains a desirable tool, but the obstacles to which it must be applied have changed. The original rationale for the Scheme, Table 2, may no longer be applicable without modification.

Table 2: The Original Rationale for the Scheme

	Market Deficiencies	Prescription
I. Supply of Credit	Lack of liquidity in commercial banks	Refinance commercial bank loans
	Excessive credit risks	Guarantee (not implemented)
II. Demand for Credit	Nominal interest rates too high	Lend in U.S. dollars
		Cap rate at below markets

Under today's conditions, stimulation of supply should focus on strengthening the capacity of the banks to spot profit opportunities in the non-traditional agriculture sector and respond to them in a timely manner, with a cost structure that allows a reasonable profit. Stimulation of the demand should be accomplished by expanding the pool of creditworthy borrowers. The following table presents today's rationale for the Scheme.

Table 3: Today's Rationale for the Scheme

	Market Deficiencies	Prescription
I. Supply of Credit	Loans are risky; costs of administration are high.	Offer adequate spread, at market rates, and training to lower costs and risks.
	Too narrow focus on post-shipment and near-shipment financing; not enough on inventory build-up.	Adequately capitalize the fund. Collaborate in adoption and promote the use of warehouse receipts and a commodity exchange.
	Banks lack experience and specialized expertise in non-traditional crops.	Training and technical assistance.
II. Demand for Credit	Shilling interest rates are too high.	Lend in U.S. dollars.
	Business management skills of the borrowers are limited.	Coordinate training and technical assistance.

The Scheme should be governed by a mission statement along the following lines:

> The Export Refinance Scheme supports of the Government's drive to expand non-traditional agricultural exports. A shortage of credit is limiting such exports; added credit would expand the exports. The factors that today represent binding constraints on the extension of credit to non-traditional agricultural exports are a lack of experience and specialized skills on the part of the lenders, high risks and cost inherent in entering a new lending market, and the managerial weakness of the borrowers. The Export Finance Scheme offers credit on such terms and in combination with such services as to overcome these three constraints.

B. At Least Shs. 10 Billion of Capital should be Added to the Scheme

Additional capital must be invested in the Scheme if it is to have its intended developmental effect.

1. Amount to Be Sought

Capitalization of Shs. 10 billion was originally envisioned. Recent estimates of need range around this figure.[18]

[18]Conversations with the Bank of Uganda, Nyieri, Agribusiness Development Centre

2. Form of Contribution: Ensuring the Capital Does not Go Unused

The amount of capital required is unavoidably uncertain. It depends on the terms at which the funds are lent, on macro-economic conditions, and on the administrative capacity of the Development Finance Department, among other factors. Therefore, capital should be contributed in a manner that allows adjustments in amount as events unfold. Capital could be contributed as a grant or in the form of a loan (with or without interest). In either case, it could be offered in tranches, with amount and timing dependent on the Scheme's disbursements. Alternatively, they could be drawn as needed. Should excess funds accumulate, providers of loan capital could require partial repayment. These mechanisms would ensure that the Scheme was not overcapitalized and that money did not lie idle.

3. Sources

In expanding the capital base, the Bank of Uganda and the Government should be the first parties to contribute additional capital. Donors should be approached next. If the Scheme is to be leveraged, a wide range of lenders could be approached.

4. Leveraging the Scheme

The Bank of Uganda should explore the possibility of leveraging the contributions of permanent capital by borrowing additional funds.

In principle, the Scheme is eminently suited to taking on debt. Its assets are sound, representing obligations of the commercial banks. Its capacity for early detection of any deterioration in asset quality is, of course, exceptional. The Scheme has an effective means of ensuring timely repayment, as it can attach commercial bank funds on deposit with the Central Bank. Furthermore, the Scheme has excess cash flow from which it could pay interest since it earns interest on all of its assets but pays interest on none of its contributed capital.

As the proforma statements of Appendix G show, the Scheme could bear a very considerable amount of debt. Using reasonable assumptions about interest rates and the mix of assets the Scheme holds, it appears that the Scheme could add debt equal to 50% or more of its contributed capital.

Many obstacles could stand in the way of the scheme's leveraging itself, and these must be explored before any firm recommendation can be made. Some questions to be investigated include the following:

- Statutory limitation on the ability of the Bank of Uganda to borrow for this purpose.
- Restrictive covenant in any other borrowing.
- Restrictive covenants in any agreements with donors.

- The accounting treatment of any borrowing in the statements of the central bank and of the government.
- The availability of loan funds at reasonable rates.
- The ability of the Scheme to match maturities of assets and liabilities.
- Back-up sources of liquidity should borrowing not be easily rolled over.

Given the creditworthiness of the Scheme and the large amounts of debt capital that could in principle be added, these questions are well worth studying.[19]

C. Loan Terms should be Modified, Raising End-user Interest Rates to Market, Allowing Commercial Banks to Earn a Reasonable Profit, and Extending Maturities

The Bank of Uganda, after full consultation with commercial banks and exporters, should revise the terms of the loans eligible for the Scheme's support. The starting point should be as follows :

Term. Loans up to 270 days should be eligible, this period being necessary for building and liquidating inventory during an annual production cycle. In the case of crops with two seasons, a shorter period would be sufficient.

Rates. The Uganda Bankers' Association should be invited to propose a spread that would attract the commercial banks to sound lending opportunities in the non-traditional sector. The central bank should be prepared to allow the rate charged to the ultimate borrower to be set by the commercial-bank lender, with no cap by the Bank of Uganda. It should be prepared as well to set the rate charged by the Bank of Uganda to the commercial banks at a level lower than the commercial banks' average cost of money. The net effect will be a fully attractive spread—upwards of 10%—sufficient to encourage banks to explore unfamiliar lending territory. The rates to exporters will be limited by competitive pressures.

Subsidies. Subsidies to the end borrower that are paid by the commercial bank—the situation today because of the cap on rates charged to borrowers—should be eliminated. They discourage the commercial banks from participating in the Scheme. A modest subsidy to the commercial banks can be justified as a means of inducing them to take on the higher risks and higher costs of entering a new lending market. This should take the form of below-market funds provided by the central bank to the commercial banks.

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[19]The contractor operating the Agribusiness Development Centre under contract with USAID has performed studies on similar leveraging funds in Poland. The work was performed under the USAID-funded contract Environmental Action Program Support project managed by Chemonics Inc.

The technical assistance provided to both borrowers and commercial banks represents a subsidy as well, and a valuable one. Because it does not pass through the financial system, this subsidy creates few distortions and raises few objections.

Guarantees. No guarantee should be offered to the commercial banks at this time. However, guarantees are an important element of many export finance programs offered by many exporting countries—the U.S. for example offers a 90% guarantee to qualifying banks—and should not be completely ruled out as a further future Scheme enhancement.

Collateral. Commercial banks should establish collateral requirements, consistent with overall standards established by the central bank. All parties—lenders, borrowers and donors—should work together to establish conditions under which inventory could serve as collateral. This means promoting the establishment of a system of product standards, grading and certifications, establishment of a warehouse receipt system, and establishment of a commodity exchange.

D. Rather than Approving Loans Individually, the Bank of Uganda should Extend a line of Credit to Qualifying Commercial Banks

Since commercial banks, and not the central bank, bear the credit exposure to the end borrower, there is no compelling rationale for the central bank to approve each individual loan application. And since instances of delayed and cumbersome reviews are not uncommon (though their frequency is reportedly diminished)[17], there is strong reason to allow commercial banks to make most individual loan authorizations themselves. This can be accomplished in a controlled manner by extending to qualifying banks a line of credit. Within the limits of the credit line and subject to various conditions, commercial banks could approve loans themselves and issue disbursements. Rather than seeking approval in advance, they would provide notification after the fact. The Bank of Uganda would be obligated to accept loans into the Scheme's portfolio if the commercial lender followed the rules.

The amount of credit line would be determined by the commercial banks's credit strength, as assessed by the Bank of Uganda, and its past experience with the Scheme.

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[17]The relative contributions of the commercial banks and the Central Bank to processing delays are hard to apportion. From the borrower's point of view, this hardly matters. Processing delays have indeed been a problem in the past, but most observers note that as of late this has been remedied. One might be tempted to propose that the Central Bank impose requirements on the commercial banks for speedy processing, or even to prescribe the method of processing. We do not take that route here, however. The increased spread to the banks will give them a commercial motivation to act promptly. Standards imposed by the Central Bank would be difficult to enforce and would interject the government inappropriately into the credit procedures of the commercial banks.

E. The Scope of Activities Eligible for Financing should be Expanded to Include Pre-shipment Costs, Particularly those of Holding Inventory

1. Expanding eligibility to pre-shipment costs and inventory

With additional capital, the Scheme should support loans for three purposes:

- Post-shipment financing, as at present.
- Pre-shipment financing, now done relatively close to shipment.
- Building and holding inventory, with or without a firm order in hand.

These services are envisioned in, and authorized under, the legislation that originally established the Scheme but lack of capital has precluded the effective provision of all these.

2. Support of complementary initiatives to enable exporters to finance inventory

Change in policy on the part of the Scheme is only one of a number of steps required to facilitate the financing of inventory, and far from the most challenging. We described above the need to institutionalize product standards, to create a system of warehouse receipts, and to establish a commodity exchange. Since the ability to finance inventory is so critical to the country's success in expanding non-traditional agricultural exports, the central bank and all the supporters of the Export Refinance Scheme should take an active role in encouraging and helping these related developments along. We traced, above, the paths many economies have taken in developing the institutions required to transform inventory into a financeable asset. To help the country move down the path, several actions would be beneficial:

- Inventory financing should be placed high on the agenda of the donors' coordination committee.

- Donors which are supporting non-traditional agriculture should consider placing resources and technical skills behind the issue of inventory finance for exports. This challenge promises payoff in the near and intermediate term. Stabilizing the supply chain is also the most promising method of moving credit and technical assistance upstream to the producers.

- The central bank should charge a senior official with responsibility for closely monitoring activities in standards, warehouse receipts and commodity markets to lend both moral and technical support.

- Associations and donors which are actively working on the issues of inventory financing should ensure that their efforts are widely publicized since support could come from many quarters.

F. The Bank of Uganda Should Build the Administrative Capacity of the Development Finance Department.

The Development Finance Department has taken on an increased set of responsibilities in the past few years. The World Bank has raised concerns about the administrative capacity of the Department to discharge its duties effectively in its current configuration. Two reports of the World Bank analyze the administrative challenges and vulnerabilities in detail. A work plan prepared by the Bank of Uganda charts improvements. The chief opportunities to strengthen the Department lie in these areas:

- Ensuring concentration of the Department on core activities of the Bank of Uganda.
- Adding functions to the Department only as administrative capacity allows and only to the extent that these functions are core activities of the Bank.
- Organizing work flow and tasks to promote cross-fertilization and short, efficient communication paths.
- Subcontracting non-core activities.
- Supplementing the Department's operating income with funds from the Bank as necessary to support adequate staffing and oversight.

G. The Scheme Should Mobilize Training and Technical Assistance as an Adjunct to Credit

1. A Central Role for Training and Technical Assistance

The reformulated mission recognizes the importance of training and technical assistance. Skills and experience are important ingredients in non-traditional export financing. Credit must be accompanied with a drive to build expertise. Training can address both supply and demand deficiencies in the provision of export credit, Table 4.

Table 4: The Role of Training and Technical Assistance in Export Credit

	Market Deficiencies Constraining Credit	Role of Training / Technical Assistance
I. Supply of Credit	Banks lack experience in non-traditional crops.	Familiarize banks with the crops, the distribution system, and the export markets. Teach them how to spot opportunities for profitable lending.
	High risk lending.	Teach banks how to identify and contain risks.
II. Demand for Credit	Weak management increases risk for borrower and lender.	Reduce risks and increase creditworthiness by helping exporters to improve business management skills.

2. Content of the Training and Technical Assistance

The targets of training are the exporters (and grower/exporters), the commercial banks and the Development Finance Department of the Bank of Uganda. The most urgent needs are set out on the following page.

3. Implementation: Collaboration among Lenders, Borrowers, and Technical Assistance Providers

The Bank of Uganda, the commercial banks, and the providers of technical assistance should join together in an effort to build capacity of both lenders and borrowers. They should agree that decisions on lending and provision of technical assistance will, when appropriate, be made jointly.

One can envision an agreement in which the bank advanced credit on condition that a technical-assistance provider and the borrower worked together on improving operations and management. The bank would prescribe the remedy, the technical-assistance provider would administer it, and the business would agree to follow the prescribed regimen.[18]

This formula could not be applied to all loans, or even the majority. Rather, the limited instances in which it was applied would be used as models, with results being replicated to a wider class of borrowers. For instance, lender, borrower, and donor might all agree that the donor would help the borrower devise a more effective costing method. The resulting technique would be spread to other similar exporters.

[18]The Agribusiness Development Centre, of the USAID-funded IDEA Project, already offers a service—the Consultant Access Fund described in Appendix H—that could be used to fuse bank export lending to the provision of technical assistance. Others offer similar programs as well.

Table 5: Curriculum of Training and Technical Assistance

Trainee	Subject	Providers
Exporters	• All aspects of operations: crop selection, cultivation, post-harvest handling, inventory management, packaging	Crop associations
	• Market evaluation; information sources	UEPB
	• Market requirements: labeling, phytosanitary, quality	UEPB
	• Financing inventory and shipments	Commercial banks
	• Alternative forms of credit (formal and informal) and comparison of their terms and costs	Donors
	• Negotiating with an overseas buyer	Crop associations, Donors, Exporters
	• The export sales contract	Donors, Exporters
Crop Associations	• Inventory management and financing for non-traditional crops: the role of product standards, warehouse receipts, and commodity exchanges	Crop associations, Donors, Exporters
Commercial Banks	• Fundamentals of the leading non-traditional crops: production and distribution economics, pricing, profit opportunities, competition, risks	Crop associations, Donors, Exporters
	• Market conditions in importing countries	UEPB
	• Information sources	UEPB
	• Inventory management and financing for non-traditional crops: the role of product standards, warehouse receipts, and commodity exchanges	Crop associations, Donors, Exporters
Bank of Uganda	• Inventory management and financing for non-traditional crops: the role of product standards, warehouse receipts, and commodity exchanges	Crop associations, Donors, Exporters

Successful collaboration among lenders, borrowers, and donors will, in the short run, create examples of successful and profitable loans, encouraging all lenders to take a closer look at this overlooked market. In the long run, it will build creditworthiness, reduce defaults, cut banking risks, and cut costs, thereby increasing the flow of credit.

The terms of the agreement among lenders, borrowers, and technical advisors would run along the lines of the following:

- *Premise.* At the margin, commercial banks would find it attractive to lend to exporters if the loan were accompanied by technical assistance and/or training to strengthen the exporter's creditworthiness.

- *Mechanism.* A framework agreement among commercial banks, donors and the UEPB providing for technical assistance and/or training to be delivered in conjunction with loans to qualifying non-traditional agricultural exporters.

- *Activation.* To trigger the loan and the provision of technical assistance and training, the lender, the TA/training provider, and the borrower, would enter into a letter agreement, pursuant to the framework agreement and specifying particular terms, including the precise nature of the TA and training.

- *Eligibility.* Exporters of non-traditional agricultural products who are accepted by a commercial bank and by the training provider.

- *Terms of the loan agreement.* The loan documentation would include provisions as follows:
  - TA/training would be specified.
  - TA/training provider would agree to provide, and borrower would agree to accept the TA/ training.
  - Disbursement would be contingent on receiving TA/training.
  - Loan would become due if TA/training were discontinued.

- *Dissemination & replication.* Where practical, the TA/training would be designed so as to be useful to other exporters. For example, a costing method developed for one exporter might be generalized for the benefit of many.

4. The Role of the Uganda Export Promotion Board

The newly organized Export Promotion Board could contribute valuable technical services to lenders and borrowers, further reducing risk and costs of lending. They should be invited to the working session described just above and invited to offer assistance of three types:

- The UEPB, as part of its normal services, can advise individual firms on markets and marketing. These services could be coordinated with banks' credit reviews as described above.

- The Board routinely gathers information on conditions in overseas product markets. Keeping the commercial banks informed on current condition would help them in monitoring loans they have extended.

- The Board occasionally conducts studies of opportunities for exporters, including in-depth analyses of particular commercial sectors in overseas markets. Though written for exporters, these studies could help commercial banks begin to develop the specialized knowledge that they require before they consider extending credit.

H. The Bank of Uganda Should Openly Publicize the Availability of the Scheme, its Decision-making Process, its Decision, and its Accomplishments

The commercial banks must be properly informed on the availability and terms of loans under the Scheme. This is particularly so for those banks that seek a line of credit. The Development Finance Department should organize a training session on the Scheme, and as a condition of extending a line of credit, require the commercial banks to attend the training and to design a senior credit officer as responsible for staying informed on the Scheme.

Exporters have a right to know of the availability of the Scheme. Once the Scheme is reformed and revitalized, the Bank of Uganda should consider a modest publicity campaign, possibly consisting of mailings to agricultural associations and exporters, newspaper advertisements, and posters. Commercial banks should be obligated freely to provide information to prospective borrowers on request.

To win support for the Scheme and to assure observers that it operates fairly, the Development Finance Department should disseminate its operating rules and procedures. It should also disseminate on a frequent and regular basis information on the Scheme's performance—applications received, disposition, disbursements, crops served, volume of exports assisted. The report issued for 1994 was excellent and should be a regular publication. Those who should be targeted to receive such information include the press, certain organs of government, the commercial banks, the agricultural associations, and the donors.

I. In the Implementation of these Recommendations, the Bank of Uganda should Take the Lead. The Governor Should Assemble an Ad Hoc Committee of Dedicated Reformers within and outside the Bank to Stimulate Action, Build Momentum, and Monitor and Report on Progress

1. Management by the Bank of Uganda

The Bank of Uganda should appoint a senior officer to lead the implementation of the recommendations. Core responsibilities will be these:

- Determine which of the recommendations to accept.
- Constitute the various task force and working groups to take the indicated actions.
- Establish an ad hoc committee to monitor and report on progress.

2. Ad Hoc Committee for Monitoring and Reporting

To prevent reforms from bogging down, the Bank of Uganda should constitute a small ad hoc committee representing the Bank of Uganda, Government, commercial banks, exporters and donors. The committee's job will be to make sure that responsibilities for actions under the implementation plan are clear, to find volunteers as needed, to monitor progress against the plan, to prod the laggards, and to report progress. To communicate the importance of their task, members should be selected personally by the Governor and the offer of appointment should be conveyed formally and should include a written charge. The life of the committee should be no more than a year. The demands on members time should be held to no more than, say, five hours per week. On a regular schedule, the committee will publish a simple one-page progress report to the leaders of the institutions represented on the committee and to other interested parties.

The several members of the committee will be busy people who are serving on a voluntary basis. They will require the services of someone who, as part of his or her full time job, can be assigned responsibility to help the committee with administrative and managerial tasks, someone who will call meetings, keep track of correspondence and records, and draft communications. The likely candidates are the Business and Finance Advisor at the Agribusiness Development Centre or one of the Centre's contractors.

The appendices, I and J, contain terms of reference for the committee as well as a monthly reporting form.

J. Solicitation Package

If the Bank of Uganda enacts most of the recommendations in this report, it will be able to present a strong case to donors that the Scheme is worthy of their support. A solicitation package should be built around the following elements:

- Evidence of government and Central Bank support of the Scheme, ideally in form of a capital contribution, however modest. Alternatively, the endorsement could come in the form of public proclamation or personal representation by the most senior officials.

- A statement of the Scheme's rational, approach, developmental objectives, and management plans, consistent at least in broad outline with the recommendation of the present report.

- A study by an independent and well-regarded organization, documenting the past effectiveness of the Scheme in promoting non-traditional agricultural exports. Appendix K offers Terms of Reference for the engagement.

- Proforma financial statements demonstrating the ability of the Scheme to operate on a sustainable basis.
- An analysis showing that the principles on which the Scheme operates are consistent with the development of a market financial system.
- Evidence that the World Bank's concern about administrative capacity of the Development Finance Department have been allayed.
- Adoption of procedures and standards of operational and financial reports.

K. The Bank of Uganda and the ad hoc Committee should Pay Particular Heed to Certain Risks and Contingencies

The recommendations above are dependent on the concerted action of a number of parties and the investment or contribution of a significant amount of capital. Here we describe what might go wrong and what preventive and corrective actions might be taken.

Momentum might be lost. The purpose of the ad hoc monitoring and reporting committee is to guard against this. Finding members who are not only knowledgeable and well connected but also dependable and well organized will be critical. Defining their role crisply and making their task manageable is equally important. The Central Bank, which has a direct stake in the outcome of the reforms, should spark the committee if need be. The job or contract performance of the party providing administrative and managerial support should be evaluated with reference to the ad hoc committee's effective functioning.

The work will get mired in bureaucratic complexity. It may be tempting to draw large numbers of people into numerous consultative committees, but this temptation should be resisted. Once the general direction of reform is set—and this report proposes the general direction—implementation is a technical task. The interests of all affected parties have already been polled and groups and individuals have been offered several opportunities to present their views. Further consultation can be limited to those whose consent or assistance is required for implementation.

Capital may not be available to expand the Scheme. The Bank of Uganda should not give up easily because it can present a very strong case. It should enlist the leaders of government to press its case, and it should make every effort to secure additional capital from its own resources and from the government to communicate its determination to donors. If, in the end the Central Bank cannot raise adequate capital, it should proceed with those reforms that do not depend on additional capital, particularly the alignment of lending with technical assistance to the borrowers, the increase in the spread to commercial banks, the technical assistance and training of the commercial banks, and the administrative reforms. Even with the small capital base it has now, the Scheme can have a material effect on non-traditional agricultural exports. The limited fund should be concentrated on a select number of corps and a limited number of overseas markets. Such a concentration will provide an opportunity for the commercial banks to become expert in at least a limited range of exports and may spur them to develop further expertise on their own.

Additional capital may not find demand. Capital should be offered to the Scheme in tranches, to be released as required, or it could be offered in the form of debt, which the Scheme would be required to repay if it proved not to be needed. The reason for lack of demand should be evaluated and corrective action taken. Lack of demand should be no cause for chagrin if commercial banks are providing adequate capital from other sources.

The Scheme fails for any reason. Unless it failed because the private market was providing all the necessary funds, the exporters would still require capital. In that event, the donors and the commercial banks should form the collaborative agreements regarding technical assistance and training that are recommended above, in this case to support loans made from the banks' own sources of funds rather than from the Scheme's funds.

L. Recap of Suggested Actions to Revitalize the Export Refinance Scheme

The following actions are recommended and detailed in Table 6.

- The Bank of Uganda should redefine the mission of the export refinance scheme; for adding liquidity to building capacity.
- At least Shs. 10 billion of capital should be added to the Scheme.
- Loan terms should be modified, raising end-user interest rates to market, allowing commercial banks to earn a reasonable profit, and extending maturities.
- Rather than approving loans individually, the Bank of Uganda should extend a line of credit to qualifying commercial banks.
- The Scheme should seek to provide financing for inventory build-up and holding.
- The Scheme should mobilize training and technical assistance as an adjunct to credit.
- The Bank of Uganda should openly publicize the availability of the Scheme, its decision-making process, its decisions, and its accomplishments.
- In the implementation of these recommendations, the Bank of Uganda should take the lead. The Governor should assemble an ad hoc committee of dedicated reformers within and outside the Bank to stimulate action, build momentum, and monitor and report on progress.
- The Bank of Uganda and the ad hoc committee should pay particular heed to certain risks and contingencies.

Table 6: Implementation Plan

Action	Steps/Milestones	Target Date	Responsible (lead in *italics*)
Establish a structure to ensure that the reforms are carried through	• Place lead with a senior officer of the bank • Establish an ad hoc committee to monitor and report on results • Recruit energetic and committed volunteers • Charge individuals with tasks • Establish schedule • Committee to recruit a secretariat (possibly ADC) • Support and prod the committee as necessary	Month 1	*Bank of Uganda*
Redefine mission of Scheme	• Formulate mission centering on building capacity • Delineate programmatic and operating implications of change in mission • Win support from commercial banks, exporters, donors • Adopt the new mission	Month 1	*Bank of Uganda*
Mobilize training and TA	• Call on lenders to identify weaknesses limiting creditworthiness • With Uganda Bankers' Association in the lead, identify the gaps in commercial banks' expertise in lending for NTAEs • Adopt a TA and training curriculum, in consultation with affected parties • Forge alliance among training providers, lenders and borrowers to make training and TA as a condition of borrowing money, when necessary • Devise implementing clauses for loan documentation • Call of the UEPB to provide intelligence to lenders and borrowers	Month 3	*Bank of Uganda*
Expand lending to pre-shipment, particularly stocking	• Begin lending for pre-shipment, as already allowed by statute • Support work of associations, banks and donors in establishing product grading standards, warehouse receipts, and a commodity exchange • Appoint senior officer of the central bank to stay informed of these initiatives and to lend Bank of Uganda assistance as necessary	Month 3	*Commercial banks*, Bank of Uganda, donors

Action	Steps/Milestones	Target Date	Responsible (lead in *italics*)
Modify terms of loans	• Extend term to 270 day • Solicit proposal from the Uganda Bankers' Association on required spread • Increase the spread to upwards of 10% • Allow rates to end users to move to market • Provide subsidies primarily in the form of technical assistance • Abandon plans for guarantees	Month 5	*UEPB*, Bank of Uganda, donors, commercial banks
Extend line of credit to qualifying comm. banks	• Establish standards for eligibility • Establish controls and cash-forecasting methods • Build back-up liquidity • Provide for post hoc procedural review of commercial banks' actions	Month 5	*Donors*, BofU, UEPB, growers, commercial banks
Build the administrative capacity of the Development Finance Department	• Implement action plan formulated in response to World Bank studies • Document improvements • Obtain World Bank concurrence as to improvements • Establish line of credit for qualifying banks to cut processing time • Establish reporting standards and institute regular reporting • Conduct training and skill building for DFD staff	Month 8	*Bank of Uganda*
Publicize operations/ accomplishments	• Train participating banks • Require commercial banks to release information on the Scheme • Publicize procedures • Publish regularly a report on activity and achievements	Month 8	*Bank of Uganda* commercial banks
Build capital to Shs. 10 billion	• Determine amount of capital to be sought • Determine form of contributions to allow maximum flexibility • Obtain expert opinions on soundness of Scheme, design and operation • Seek government and Bank of Uganda contribution • Seek donor contributions • Explore leveraging the fund	Month 10	*Bank of Uganda* commercial banks

Action	Steps/Milestones	Target Date	Responsible (lead in *italics*)
Attend to risks and contingencies	The Bank of Uganda should be attentive the risks as follows, and follow contingency plans as outlined in the report: • Loss of momentum from lack of leadership • Bogging down in extensive consultations • Inability to raise capital • Shortage of demand	Ongoing	Ag associations, BofU, donors, commercial banks, with *lead to be determined*

Appendices

A Terms of Reference

B. Agenda and Minutes from the First Roundtable

C. Agenda and Minutes from the Second Roundtable

D. Persons Interviewed

E. Annotated Bibliography

F. Utilization of the Export Refinance Scheme: Recent Trends

G. Effect of Leveraging the Export Refinance Scheme

H. Consultant Access Fund of the Agribusiness Development Centre

I. Terms of Reference for an Ad Hoc Monitoring Committee

J. Monthly Reporting Format for the Ad Hoc Monitoring Committee

K. Terms of Reference for a Performance Audit of the Export Refinance Scheme

Appendix A

Terms of Reference

BACKGROUND

There are several obstacles confronting the Ugandan NTAE sector, e.g., transport, infrastructure, exchange rate, management, extension, and others. But, in spite of all the obstacles, the Ugandan NTAE sector could significantly increase exports if appropriate export financing was accessible. The lack of a proper NTAE finance facility may cost Uganda as mush as of US $25 million annually in lost exports, and Uganda farmers US $10 to $12 million in potential income.

Current grain export levels equate to about US $6 million per month over seven months (August to February), or about $42 million annually. Uganda's five year average is $24 million. While this sounds impressive, especially given the historical averages preceding the last five years, listen to exporters and they will tell you the recent gains are precarious and muted by the lack of proper export financing. Precarious because the bulk of these exports, as mush as 70 percent, are to the relief market; a market which is neither secure nor reliable. Muted because much of the export financing now available goes to the traditional crops such as coffee or tea, as much as 70 to 80 percent of it.

For grain exports, the lack of a functioning NTAE finance product is a critical constraint to diversifying the market and increasing the volume exported. There are markets for commodities in which Uganda is competitive despite all other obstacles, but exporters can not receive financing to purchase product and export.

Horticultural exports, particularly those that rely on outgrowers rather than nucleus estate production, suffer also. Lost horticultural exports do not reach the magnitude of lost low value commodity exports, but the losses are damaging to a sub-sector that requires confidence to invest in higher cost, higher return items. The loss of exports translates into a slower rate of investment in horticulture and, ultimately, a greater loss of potential revenue in the years to come.

For a variety of reasons, the history of NTAE financing in Uganda is spotty at best. The result is that NTAE companies, right or wrong, now pay the price. This situation is occurring ironically at a time when Uganda could benefit significantly from exporters' active participation in markets in which, despite everything, Ugandan NTAEs are competitive.

PURPOSE

The Bank of Uganda's Financial Sector Adjustment Credit Task Force (FSAC), a mixed private / public group, has requested that it and USAID-funded Agribusiness Development Centre (ADC), representing NTAE exporters, join forces to identify a workable export finance facility or program that private investors, the BOU, with budgetary support from the Government of Uganda, and / or donors will support. The goal of the short-term engagement ultimately is to contribute to increased NTAE. The purpose is to do so by fixing a definitive plan of action that will see a workable -- i.e., supported financially and rhetorically -- NTAE finance facility / program in place by the end of the end of the Government of Uganda's fiscal year, June 30, 1997.

APPROACH

To move the process towards conclusion, this engagement must go beyond a simple review of past NTAE finance efforts. The engagement must sift through the historical, comb the existing, and weigh the proposed. With this information, the consultant will be expected to develop a short list of workable export finance options, select one and build a consensus for it. The result will be a timetable for the establishment of a supported (financially and rhetorically) NTAE finance program.

The engagement will require researching existing documentation, amassing new information from interviews (in particular opinions from key constituents as to what may or may not work), and analysis based on the consultant's own significant exposure to export finance facilities. Key constituents include, potential finance recipients; GOU Ministry of Finance, Ministry of Trade and Industry, Ministry of Agriculture, Animal Industry, and Fisheries, Bank of Uganda; bankers; donors, e.g., USAID, World Bank, British Aid; mix statutory bodies such as Uganda Export Promotion Board and Uganda Investment Authority; and others.

It is expected that the consultant will work closely with an assigned sub-committee of the FSAC Task Force. The task force members will make time available to the expert and will facilitate meetings with other parties, such as identified key constituents, where and when requested.

The Task Force will assign a member to backstop and assist the consultant. This person will also be responsible for assuring that the consultant delivers the agreed to final product. The Task Force will be responsible for identifying and pulling together relevant reports, as outlined below, before the consultant arrives, and for assisting with organizing interviews and the proposed end of engagement roundtable discussion.

DUTIES/TASKS

The assignment is programed over five weeks, tentatively as follows:

- Week 1 -- Review documentation, carry out interviews
- Week 2 -- Continue with review and interviews, begin task of developing short-list of options.
- Week 3 -- Continue with interviews and refine short-list, this may involve a roundtable discussion with certain key constituents to build consensus.

- Week 4 -- Select preferred option, and begin task of building consensus among key constituents as defined.

- Week 5 -- Establish development time table, hold roundtable discussion with constituents to refine time table and build consensus for action.

The Task Force and ADC management expect the following outputs:

- Review of historical NTAE finance efforts in Uganda. (Task Force to provide relevant documents and assist with interviews.)

- Documentation review of the usefulness of Lesotho's, Swaziland's, Kenya's, Zimbabwe's and / or other relevant export finance programs. (Task Force to provide relevant documents.)

- Review of current, functioning export finance facilities or programs operating in Uganda, including BOU's Export Refinance Scheme. (Task Force to provide relevant documents and assist with interviews.)

- Synopsis of export finance programs under consideration, e.g., World Bank Warehouse Receipt System. (Task Force to provide relevant documents and assist with interviews.)

- Brief profile of export finance options and detailed description of selected option, with particular care to address management (private vs. public), roll-out, funding levels, eligibility, access, costs and who pays, targeting to particular sectors, and so forth.

- Time table for establishing facility / program and consensus agreement among key constituents with the time table.

- Proceedings from the roundtable discussion(s).

In addition to the information outlined above, the consultant will prepare and review with the Task Force, and others as appropriate, a proposed outline of the report within the first three days of the engagement. The Task Force will assist with logistics for the proposed roundtable discussion(s).

DELIVERABLES / REPORTING

The consultant will report directly to the Task Force representative assigned to this consultation. A draft options paper, with recommendation and time table, will be submitted three days prior to the proposed end of engagement roundtable. A draft final report, with the proceedings of the roundtable annexed, will be submitted before departure and will be reviewed with the consultant at least one day prior to departure. All parties (Task Force, USAID, ADC) will agree to a time frame for completion and submission of the final report. The consultant's final payment for services is contingent upon USAID/Kampala approval of either the draft report or final report, which ever is agreed to by all parties in the field.

DURATION OF ASSIGNMENT AND LOGISTICS

The consultant is expected to commence work on or about September 9, 1996, with an approved six-day work week while in country. Total estimated LOE for the engagement is 35 days, including billable travel days, six-day work weeks, and home-base time (part of the first week may be spent in the U.S. reading background material if made available by the Task Force and up to three days are allowed stateside for final report writing and editing). It is understood that the total level of effort (LOE) for this engagement may be increased or reduced.

The ADC has laptops but can not guarantee that one will always be available, so the consultant should bring a laptop. A printer is available for use in the ADC. Transportation will be provided whenever possible, but the consultant is expected to use local taxis as well. The ADC will lodge the consultant in its three bedroom apartment. The apartment is located in the same building as the ADC and is equipped with kitchen, laundry facilities, and maid service.

QUALIFICATIONS

The specialist will have at least 10 years of relevant experience with successful export financing facilities / programs, and preferably successful NTAE export financing. Relevant here means in the management and design of. The consultant must be able to relate to a diverse constituency and speak from a position of experience. The consultant will also have at least five years of practical overseas experience, with experience in East Africa preferred. A MBA is preferred, but experience will weigh heavily in the selection.

The ADC uses Novell's PerfectOffice software suite (WordPerfect 6.1, Presentations, Quattro Pro). Knowledge of this suite will facilitate drafting and presentation of the report.

First Roundtable Meeting discussion on Non Traditional Agricultural Export Financing Facili (NTAEFF) Sheraton Hotel Masaba Lounge 27th of May 1997.

Present

Nimrod Waniala	Senior Adviser, Min. of Trade and Industry
Gudo Ahluwalia	Managing Director, Ankole Unga Ltd.
Henry Kibirige	Executive Director, Sup Bank of Uganda
Iradj Alikhani	Economist, World Bank
H.G.K Nyakoojo	Govt. Official, UDC
Silver O.K. Ojakol	MKT Research Off
Richard Obura	Deputy General Manager, Coop Bank
Moses Ogwal	Market Research Officer, UEPB
Naome Nasasira	SPBO/DFD, Bank of Uganda
A. Akena Okema	Director/DFD, Bank of Uganda
Robert K. Rutaagi	Executive Director, UEPB
Emmanuel Lule	Deputy Governor, Bank of Uganda
John Miller	Managing Director, Stanbic Bank
Iona Joy	Manager Operations, DFCU
William Kalema	Director, UMACIS
Haruna Sebaggala	Asst. General Manger, Greenland Bank
Vincent Ssenyonjo	Chairman, UFEA
Stanley Omwonya	PAS, MTI
A.N. Nair	Managing Director, Crane Bank
M. Guha	General Manager, Trust Bank
K.S. Shivaswany	Credit Manager, Orient Bank
Soman Ninen	Credit Manager, Gold Trust Bank
William Kedrock	Business & Fin Agri Dev Centre
Margaret Nakato	UMACIS
Lydia P. Obbo	UMACIS
L. Okello -Ochero	Managing Director, Lira Millers
Henry Opondo	H/Real Sector, Bank of Uganda
Aga Sekalala Jr.	Director, Uvan Ltd.
Tom Downing	Consultant, Chemonics

The workshop was opened at 2.00pm by Mr. Tom Downing, who introduced himself to tl participants as a consultant from Chemonics hired to review existing programs on No Traditional Agricultural Exports financing and help to identify how best to strengthen existii programs and or develop new programs.

Mr. Downing explained he had carried out a series of interviews with a number of people the past two weeks prior to the round table and was going to present his major findings ar observation, recommendations and features of an implementation plan.

He reported that in the first draft report (distributed), a more encompassing view was take addressing all of the financing that the exporter needs to establish and operate a busine including the operating cycle, capital and supplier financing. Mr. Tom Downing suggested th the term " export financing" which is generally taken to refer to post shipment credit to l substituted for "credit for export".

Alternative Approaches to meeting the financing needs of exporters

Mr. Tom Downing explained that there are three alternative approaches that can be used meet the financing needs of exporters. Theses include:

- Strengthening the financial sector for the exporter, these include the schemes expo financing loans, ware house receipts for inventory financing commodity exchange forward and future contracts and more,
- Strengthening the borrower to increase operating efficiency,
- Standardizing the product as a result the inventory becomes a commodity which ca attract its own financing.

Borrowers concerns

On concerns raised by the borrowers Mr. Tom Downing observed the following:

- Pre-shipment credit needs exceeded post shipment needs especially for fruit vegetables and flowers the skew was more pronounced.
- Building inventory is increasingly becoming competitive and is a necessity to enabl suppliers respond to large tenders.

- The need for post shipment credit was becoming less useful as payment was n prompt.
- Time consumed negotiating for a loan between the commercial bank and Banl Uganda was more costly and borrowers would rather pay high market rates.
- Commercial banks were not helpful to the applicant as their did not represent exporter with the Bank of Uganda, leaving them to advocate on their behalf.
- Approval of loans often comes after the letter of credit has expired.
- Facing a shortage of credit from the scheme and commercial lenders, many expor were resorting to financing at very high interest rates.

Lenders Perspective

On the side of the lenders who participated in the export refinance scheme, Mr. Tom Dowr noted that:

- The commercial banks found the scheme more attractive during the period w liquidity was tight than now.
- The spread of 3% was too low and only covered cost of performing serv internally with no margin left for other administrative cost or default risk, let al profit.
- Most bankers believed that the spread must be widened or else Bank of Uganda o a guarantee.
- A few bank executives were not familiar with the Bank of Uganda Export Refina Scheme.

Comments from Some officials of Bank of Uganda

Some officials of Bank of Uganda agreed with some of the views raised by commercial ba and borrowers and noted that:

- The capital in the scheme is inadequate to meet demand.
- They appreciated the fact that commercial banks have inadequate incentive with 3% spread.
- Although processing of credit facilitates was a problem in the past this had b remedied
- Exporters sorely need the term financing originally envisioned as part of the schen

Efforts under way to tackle export financial problems

- One bank owns its own bonded ware house
- A private firm is now offering services to verify, inspect, value and safe gı collateral, including agricultural inventories.
- Several banks specialize in particular commodities, and they have built in-hc expertise.
- Efforts at operationalising widely accepted product standards are under way
- The World Bank, European donors and parties in Uganda are investigating establishment of a system of ware house receipts for agricultural products.
- Donors and Ugandans are exploring the feasibility of a commodity exchange.

Recommendations by persons interviewed

- Increase capitalization of the scheme.
- Establish targets for the schemes outstanding balances
- In conjunction with an increase in capital, create program financing statements demonstrate the ability of the scheme to operate on a sustainable basis.
- In expanding capital base we should be wary of donor funds
- Increase the spread to the commercial banks.
- Approve applications faster by simplifying the Bank of Uganda review.
- Bank of Uganda should publish the availability of the scheme and commercial ba should be obligated to provide information on request..
- Commercial banks should be required to advise the applicant in writing of the rea for rejection. Delays beyond agreed norms should be explained in writing.
- Financial tools and institutions should be built around the core of strong exporters.
- Donors technical assistance programs can help business become more credit wor and can on the margin, give banks more comfort in lending.

Training

- An exchange program that places exporters temporarily in the central bank and central bank officers at the exporters place of business.
- Loan officers are widely believed not to understand the agricultural sector well . an exchange between bank officers and exporters would be beneficial.
- Exporters complain that too many growers do not appreciate the exacting qua requirements of the internationals markets and this would be a useful subject training.

Comments From the Audience.

Iradj Alikhani the only representative from the Donor countries expressed disappointment o the absence of other Donor members. His main concern was the view of donor members v vis borrowers needs. To effectively engage the donor countries in this discussion Mr. Alikh recommended that all donor countries be invited to the 2nd round table. Mr. Alikhani arg that priorities of donor countries differed from those of borrowers and due considerat should be taken when discussing the Export Finance scheme.

Private bankers were concerned about the loss on the risk taken in the refinancing of expo The major question was who should bare the loss as the rates of Bank of Uganda are too l to entice private bank participation. The banks were of the view that although equity takin restricted by the Bank of Uganda, Financial Institutions should be allowed to take equity Non-Traditional Agriculture Export ventures.

Members present noted that as indicated in the summary of findings there were number institutional set backs which need to be addressed in order to improve on the delivery of n traditional agricultural exports.

Exporters complained about bank official ignorance of the commodities being exported a the documents needed for export.

Mr. Okello Ochero complained about donor countries imposing a system which is necessary compatible with the problems of Uganda's finance. In his argument he stressed need to allow a system be put in place by the efforts of key players and then implemente the donor countries.

Members agreed to a number of constraints listed in the report and further argued that:

- The Export Refinance Scheme did not cover inventory and only covered a s proportion of the exporters need.
- Approvals for loans were slow
- Commercial banks were not inclined to push their clients' cases to Bank of Ug as these funds were competing against their own. Yet exporters were being force borrow at high rates and this limits growth
- The funds available to finance exports are insufficient.
- The time span allocated to finance export credit is too short.
- The spread was inadequate between the central bank and participating banks.
- It was noted that Government was not interested in picking up the risk or subsidi the scheme.
- The risk to participating banks was high and not evenly proportioned amongst actors, i.e. central bank, exporters, participating banks.

Recommendations

- Consider the problem of lack of credit for non-traditional agricultural export described in the series of events in the entire cycle and take it as a package. facility should cycle encompass the entire operating cycle. For the grower/expo this begins with production and continues through harvest,, post harvest handl storage order fulfillment and collection. For the trader/exporter, the cycle and financing need begins with the building of stock and continues through shipment collection.)
- Capital financing be considered at production level. Acquisition or expansion land, building and equipment requires funds and these are often not forthcom especially for capital intensive exporters e.g. Horticulture exporters.
- Make finance available at the production cycle, market development level.
- A system be put in place to ensure funds available for export credit should co refinancing, guarantee and insurance.

- Initially government should subsidize the scheme in the short run as an effectiv system is established.
- Members suggested that Bank of Uganda should consider leaving the handling of th scheme completely to the participating banks. This will automatically widen th spread and make the scheme more attractive.
- Bank of Uganda should also consider guaranteeing the risk to the participating banks
- All parties reviewing the Export Refinance Scheme should work closely with a cor of strong exporters to incorporate as much of their views as possible.
- Institute training programs for Bank of Uganda staff in charge of the schemes.
- There should be some modest training exchange programs between the Bank o Uganda, commercial banks, exporters and growers.
- All Small schemes should be consolidated and some innovation should go into th delivery of existing programmes.
- The export finance scheme should consider lending out long term loans.

Appendix C

The Financial Sector Development Task Force of the Bank of Uganda
The Uganda Bankers' Association
and
The Agribusiness Development Centre of USAID

Expanding Credit for the Export of Non-Traditional Agricultural Products

Sheraton Hotel, Kampala
June 4, 1997

14:30	Opening & Welcome Statement of Objectives	The Honorable Deputy Governor Lule, Bank of Uganda
15:00	Review of Findings & Conclusion Previous Roundtable	Thomas Downing, Advisor to the Financial Sector Development Task Force and the Agribusiness Development Centre
15:15	Open Discussion	All - Mr. Downing, Facilitator
15:30	Recommendations	Mr. Downing
15:45	Open Discussion	All - Mr. Downing, Facilitator
16:00	Proposed Action Plan	Mr. Downing
16:15	Open Discussion	All - Mr. Downing, Facilitator
17:00	Oversight of Action Plan	Mr. Downing
17:30	Concluding Observations & Closing	The Honorable Deputy Governor

Minutes of the Roundtable on NTAE Financing Held June 4, 1997
Sheraton Hotel, Kampala, Uganda
Minutes by UMA-CIS

Present

Mr. E. Lule	BOU
Dr. W. Kalema	UMACIS
Mr. J. Gohary	USAID
Mr. T. Downing	ADC
Mr. M. Wong	AUSTRIAN REGIONAL BUREU
Mr. W. Kedrock	ADC
Mr. P. Loop	EUROPEAN UNION
Mr. K. S. Shivaswamy	OREINT BANK
Mr. Mr. P. K. Ndyingahi	COOP BANK
Mr. T. Opio-Oming	CEI
Mr. Okello-Ocero	LIRA MILLERS
Dr. Henry Opondo	BOU
Mr. C. Van Vugt	
Ms. O. Kayondo	OUTSPAN
Mr. J. F. Kahenano	BOU
Ms N. Nasasira	BOU
Mr. A. Gakwandi	COOP BANK
Mr. M. Ogwal	EXPORT PROMOTION BOARD
Mr. G. Ruhurira	EADB
Mr. S. Rutega	PSF
Mr. A. A. Okema	BOU
Ms. G. Ahluwalia	ANKOLE UNGA
Mr. Phares Mutibwa	BOU
Mr. L. Kashugyera	MOPED
Mr. S. Njuki	NILE BANK
Mr. S. Ninen	GOLD TRUST
Mr. I Alikhani	WORLD BANK
Mr. M. Bekabye	PSF
Ms. L. Ochieng-Obbo	UMACIS
Ms. M. Nakato	UMACIS

The Deputy Governor opened the meeting by inviting the stakeholders involved in the scheme to make their contributions in regard to the observations made by Mr. Tom Downing. He mentioned that the BOU would wish most comments to come from other stakeholders other than BOU since they are currently running the present scheme

Comments from the Audience.

JG/USAID

Most of the ideas are focusing on the helping the exporters and their is very little about the export itself

PL/EU

If liquidity was not a problem, and we are not advocating for subsidy on interest, what is it that we are really looking for? It is not very clear from reading the paper.

TD

The scheme ought to encourage commercial banks to lend to areas within the non-traditional agriculture export that would otherwise not be served.

WSK/UMACIS

The scheme was started to serve areas which were not being served by other credit facilities in the traditional export area

AAO/BOU

If the problems with the scheme are resolved it is believed that we would go a long way to boost this particular area of our exports.

IA/WORLD BANK

We need a package of indicators to tackle this problem We need to identify fully what we have in mind. As it now it is not very clear.

Poor accounting on the ITCRF some problems which have just been resolved

We need specificity about what we want and details about how the scheme is going work etc.

We ought to be modest about expectations and goals most of those mentioned may need long term planning.

Director Kahenano/ BOU suggested that the BOU and the banks should come together and agree on the most meaningful spread.

The Donors, Commercial banks and the Exporters could meet and agree on the mode of technical assistance required to help promote exports.

OO/ LIRA MILLERS

The scheme is useful. It is deliberate policy by the govt. to stimulate an area which is lagging behind.

MO/EPB

Promoting exports is package and the different components must be looked at.

Technical assistance is very important and without it the scheme may not achieve its full potential

CVV/Netherlands
The export of non-traditional agriculture produce is competing with the food security in the country. So how far has the discussion considered the question of food production its distribution and food security in the equation

MW/AUSTRIA
Is this only a financial problem? Were the other factors taken for granted?
Why should the Bank re-assess project proposals that the banks have already appraised.
Paper needs to zero in on the real issues

Tom Downing
Total financial need of the company
How much can you squeeze out of a company.

SR/PSF
We are looking for a way of expanding credit to the non-agric export facility

DG/BOU
If fund is increased by 8 to 10 m it could be sufficient to revitalise the scheme.

SR/PSF
We need to be very specific

IA/WORLD BANK
We do not question the desirability of the scheme. We should find out the best way to handle the problem.

WSK/UMACIS
Put the study in the right context. Do parts of the scheme contradict the ....scheme?
Evaluate this scheme against other forms of credit etc.

PL/EU
Clarify the issue of subsidy and to what extent, what period and length.

Austria
Look at the broader view - access to lines of credit has been possible for ....

JK/BOU
Between 1989 and 1990 there were Credit programmes geared towards increasing production supported by USAID and UCB to which farmers responded positively but their output could not be evacuated. The missing link seemed to be marketing credit. The scheme has been over subscribed.

How successful has the scheme been . It has a limit for each applicant. How well has the scheme performed should it be changed to meet the new challenges. What of other schemes? Should they replace this one should they be complimentary to the major scheme.

JG/USAID
Pay attention to the performance of the scheme. We need to have some figures that can help us make some decisions. Is this best way forward? We probably need to decide on the spread.

TD
BOU has a good record of the performance of the scheme whose figures will be in the final document.
It is incremental to build on something that is already in place than to start a new one.

JG/USAID
Do the Commercial Banks have to go to the BOU on each proposal?

MW/AUSTRIA
The comb takes the risk why should the Bank of Uganda have to review each case?
It is the case that sometimes these terms are dictated by the donors. Why doesn't the BOU give banks credit on a portfolio basis.

There could be a pier rating system where only a few banks are given a certain portfolio

OK/OUTSPAN, MO/EPB
Will the banks not divert the funds to other lines
The BS of BOU should be able to oversee and prevent the occurrence of this and take appropriate action..

UBA
We need to get a collective Bankers view

WSK/UMACIS
Once the scheme has been restructured it should be resold to the Ministry of Finance

PL/EU
Produce a draft and give it to the Donors and get their in-put right from the start to get their objections and comments.

WSK/UMACIS
To concentrate on grading and gauging the quality of the product.

TOO/CEI
The standards are known. The quality of the products in Uganda are known The most important area to us is the Seed Project people who can advise on the potential out of a particular scheme.
We go by the specifications given by the buyers and these are known.

MO/EPB
We should not ignore the institutions that are recognized as certifying institutions at the international level.

WSK/UMACIS
Standards are set by the industry itself. The next stage is to promote industry set specification. Participants should be persuaded to adhere to these standards they set themselves.

OO/LIRA MILLERS
Export of non-traditional agriculture is becoming very sophisticated and the exporters are very much interested in the quality of their products because it is their livelihood.

THE WAY FORWARD

Program

We need a semi formal group to oversee the work plan. These could be volunteers representing the stakeholders here and reporting back to the constituents. These are for example;

Mr. Esoka
Dr. Kasekende
Mr. Okema
Dr. Kalema

WSK/UMACIS
The BOU should select a task force which should have people that has the energy and the experience who may not necessary be here.

GA/ANKOLE UNGA
BOU needs to think of ways of extending the financial credit to the rural areas and incorporate the ideas into the scheme so that exporters in the non-traditional agriculture area in the rural areas are not left out.

Appendix D

Persons Interviewed

Bank of Uganda

Joanita A. N. Babumba
Development Finance Department

Francis G. E. A. Emuron
Development Finance Department

J.F. Kahenano,
Director, Banking

Louis Austin Kasekende
Executive Director of Research & Policy

Henry Kibirigi
Director, Banking Supervisor

Charles Kikonyogo
Governor

Emmanuel Lule
Deputy Governor

Naomi N. Nasasira
Development Finance Department

Achelis Okema Akena
Director, Development Finance Department

Commercial Banks

Bank of Baroda

Angela Amuge

The Co-Operative Bank Limited

Peter Robinson
Acting Managing Director & CEO

Crane Bank Limited

S. K. Bablani
Sr. Manager

A.N. Nair
Managing Director

N. Krishna Subramanian
Chief Manager

Diamond Trust Bank Uganda Limited
Ahmed A. Bhaidani
Credit Officer

Gold Trust Bank Limited
Azad Dhomun
Chief Executive & General Manager

Soman Ninan
Principal Credit Officer

Greenland Bank Limited
Sulaiman Kiggundu
Managing Director

Vincent K. Musubire
Public Relations Officer

Fred M. Mutebi
Sr. Project Officer

Haroon Sebaggala
Assistant General Manager

Nile Bank Ltd.
Samwiri H. K. Njuki
General Manager

Orient Bank Ltd.
Ketan Morjaria
Chairman/Managing Director

Stanbic Bank Uganda Limited
John Murray Miller
Managing Director

Standard Chartered Bank Uganda Limited
Ebenezer N. Essoka
Managing Director

Trust Bank (Uganda) Ltd.
Manojit Guha
General Manager

Development Agencies, Donors and Assistance Projects
Austrian Regional Bureau
Michael Wong

Business Uganda Development Scheme
Joseph F. Burke
Manager

Development Finance Company of Uganda Limited
Iona Joy
Manager Operations

European Union
Philippe Loop
Economic Advisor

Uganda's Investment in Developing Export Agriculture
Clive Drew
Chief of Party

William Kedrock
Agribusiness & Finance Director

Mark Wood
Low-Value Crop Advisor

United States Agency for International Development
James Gohary
Private Sector Officer

The World Bank
Iradj Alikhani
Economist

Gaiv Tata
Senior Operations Manager

Exporters

Ankole Unga Ltd.
Guda Ahluwalia
Owner

CEI
Karim Somani
Chief Executive Officer

Lira Millers Ltd.
Okello Ocero
Executive Director

Magric
Gordon Jones
Managing Director

Mercury Investments Ltd.
John Nkera
Principal

Nile Roses
Vincent Ssenyonjo Bazira
Managing Director

Outspan
Olivia Kayondo
Principal

Tropical Flowers Limited
Paul A. Kagimu
Managing Director

Ministries, Boards and Governmental Corporations (excluding the Bank of Uganda)

Ministry of Trade and Industry
Nimrod Waniala
Senior Advisor, Export Development

Uganda Development Corporation Ltd
H.G.K Nyakoojo
Corporation Secretary

Uganda Export Promotion Board
Ogwal Moses
Market Research Officer

Silver O. K. Ojakol
Market Research Officer

Robert K. Rutaagi
Executive Director

Other Experts
Plans and Solutions
Kenneth D. Weiss
Principal

Uganda Manufacturers Association Consultancy & Information Services
William Kalema

Appendi:

Annotated Bibliography
Recent Reports on Non-Traditional agricultural Exports in Uganda

EPAU Statistics Paper No. 5: Export Statistics 1990-1996, January 1997. As the title indicates, the most up-to-date source on data on trends and volumes of non-traditional agricultural exports.

Report of the Task Force on Risk Management and the Warehouse Receipt System (WRS), January 1996. While focussed on coffee, the report offers, by analogy, insights into institutional improvements that will be required in the non-traditional sector to rationalize the flow of goods from farm to market. Such rationalization, in turn, forms the basis of financing the agricultural products prior to their export shipment. The report concentrates in particular on financing inventories, on establishing a commodity exchange, and on the management of currency risks. Again by analogy, the study helps to put into a broad perspective the post-shipment financing offered by the Export Refinance Scheme.

M. Onyach-Olaa, *A Review of Credit Facilities for Agriculture and Export Finance (With Special Focus on Non-traditional Agricultural Exports)*, Export Policy Analysis Unit, Ministry of Planning and Economic Development, 1995. A comprehensive review of the institutions and programs for financing agricultural exports, along with insightful analysis of shortcomings and needed reforms. The Export Refinance Scheme is subjected to an extended and capable critique. Useful statistics and appendices.

Alifas Yeko Mwanga, *Exporters' Survey 1995: "Impact of Government Policy on Exports with Emphasis on NTAEs."* This report centers on opinion surveys which, for the most part, produce results that are predictable and, in some cases, of limited value (e.g., exporters report that "credit" is the "#1" problem). Some of harder data do yield insights, however. For example, the Export Refinance Scheme has been used by only 5% of non-traditional agricultural exporters. Another example, pointing to the limitation of financing exports: fully 34% of exports are shipped on consignment.

Michael Gudger, *The Development of a Self-Sustaining Credit Guarantee Facility for Rural Sector Finance*, 1995. While focussing on cotton, this study demonstrates convincingly the insurmountable obstacles facing any effort to establish a self-sustaining credit guarantee program for the non-traditional crops. The crop volumes are too small for a guarantee fund to achieve diversification; without that, a fund could not survive the price and volume gyrations that characterize agricultural exports. Further, the small volume implies high administrative costs as a percentage of loan value, far higher than a fund could recover from borrowers.

Tuan Anh Nguyen, *Impact of Government Investment and Export Promotion Policy*, January 1994. A study of policy and practical constraints to increased exports, with recommendations for government action. Extensive statistics. Somewhat dated.

The World Bank, administration and management of the Development Finance Department of the Bank of Uganda. Two studies, along with extensive responses provided by the Bank of Uganda, outline the managerial challenges facing the Development Finance Department as it seeks to expand its programs and the amount of capital under management. An argument for augmentation of the Department's managerial and administrative capability.

Appendix F

Utilization Of The Export Reinvestment Scheme: Recent Trends

Date: Month End	Loans outstanding	Assets	Loan-to-Asset Ratio
March 1997	1256	2464	51%
February 1997	1402	2456	57%
January 1997	1516	2439	62%
December 1996	1516	2436	62%
November 1996	1764	2422	73%
October 1996	1847	2418	76%
September 1996	1880	2412	78%
August 1996	1868	2407	78%
July 1996	1943	2404	81%
June 1966	1566	2412	65%
May 1996	1616	2405	67%
Average (unweighted)			*68%*

4th April, 1997

EXPORT REFINANCE SCHEME PROVISIONAL POSITION AS AT 31st March 1997

Items Reported		Total U Shillings	%	NILE U Shillings	ICB U Shillings	JCB U Shillings	GREENLAND U Shillings	UDB U Shillings	SEMBULE U Shillings	DFCU U Shillings	BOB U Shillings	G/TRUST U Shillings	ORIENT U Shillings
Exporters Regd	460												
Appl. Received	284	25,706,129,553											
Appl. Approved	229	16,672,765,707											
Disbursements													
Cummulative		13,941,420,922		6,403,999,138	395,335,973	1,152,218,447	2,137,560,058	578,090,719	904,107,520	345,743,125	1,331,256,286	308,049,339	385,060,317
This Month		0		0	0	0	0	0	0	0	0	0	0
Contracts	190												
Recoveries													
Principal		12,685,491,571		5,998,094,233	402,671,941	1,101,972,140	1,962,024,294	490,053,615	889,918,007	335,524,6[illegible]7	1,242,269,567	180,637,115	82,326,002
Interest		413,759,414		155,203,840	22,638,018	30,001,516	53,830,582	53,408,176	39,234,066	8,072,6[illegible]3	41,398,704	7,726,575	2,245,324
Guarantee		13,943,873		3,233,490	1,663,441	3,0[illegible]1,578	515,498	3,442,157	120,138	1,878,8[illegible]1	8,750	0	0
Surcharge		36,471,867		11,030,315	2,667,824	2,0[illegible]9,565	5,581,620	7,968,476	5,127,232	[illegible]24,016	1,648,649	334,170	0
Check>>>>		13,149,666,725											
Cummulative		13,149,666,725		6,167,561,878	429,641,224	1,137,144,799	2,021,951,994	554,872,424	934,399,443	345,500,107	1,285,325,670	188,697,860	84,571,326
This Month		154,336,864		30,030,613			0	0	11,918,927		70,000,000	0	42,387,324
Overdues (Days)													
30		(799)	(0)	(799)			0		0		0	0	0
31-60		0	0	0			0		0		0	0	0
61-90		300,930,767	58	0			0		0		0	0	300,930,767
91-120		0	0	0			0		0		0	0	0
121-150		63,653,199	12	0			0		0		63,653,199	0	0
151-180		0	0	0			0		0		0	0	0
181-210		0	0	0			0		0		0	0	0
211-240		0	0	0			0		0		0	0	0
241-270		0	0	0			0		0		0	0	0
270+		151,931,989	29	112,446,316			0	0	0		0	39,485,673	0
Total		516,513,156	100	112,445,518	0	0	0	0	0	0	63,653,199	39,485,673	300,930,767
Recovery Rate		96		98	100	100	100	100	100	00	95	83	22
Cash in Fund	EFF	1,194,301,930											
Cash in Fund	CGF	943,873											
T/Bills		13,000,000											
Contribution		2,000,000,000											

BALANCE SHEET (CASH ACCOUNTING BASIS AS AT 31-03-97)

LIABILITIES	UShillings	ASSETS	UShillings
Contribution	2,000,000,000	Cash EFF a	1,194,301,930
Interest Earned	450,231,281	Cash CGF a/	943,873
Guarantee Fund	13,943,873	Treasury Bil	13,000,000
		Loans-Princ	1,255,929,351
	2,464,175,154		2,464,175,154

Appendix G

Effect of Leveraging the Export Refinance Scheme

(All figures in Billions of Uganda Shillings)

I. Base Case: No Leverage

Balance Sheet—Simplified
May 31, 1997

Contribution	2000	Cash	800
Interest earned	400	Loans	1600
Borrowed capital	0		
Totals	2400		2400

Cash Flow
Pro Forma, based on May 31, 1997 Balance Sheet

Cash Outflows	
Loan principal	3200
Interest on capital	0
Total	3200
Cash Inflow	
Principal repayments	3200
Interest earnings	
on cash	56
on loans	88
Total	3344
(of which interest	144)

II. Modeling the Effects of Leverage: Variables to be Tested

Total assets before leverage	2400
Leverage	0%
Percentage assets held as cash	33%
Percentage assets lent	67%
Annual turnover of loan portfolio	2
Interest rates	
earned on cash	7%
earned on export loans	5.5%
Paid on borrowed capital	n/a

Balance Sheet: 1:1 Leverage, 12% Debt
Pro Forma, Uganda Shillings in Millions

	Base	Test		Base	Test
Contribution	2000	2000	Cash	800	1600
Interest earned	400	400	Loans	1600	3200
Borrowed capital	0	2400			
Totals	2400	4800		2400	4800

Cash Flow: 1:1 Leverage, 12% Debt
Pro Forma, Uganda Shillings in Millions

	Base	Test
Cash Outflows		
Loan principal	3200	6400
Interest on capital	0	288
Total	3200	6688
Cash Inflow		
Principal repayments	3200	6400
Interest earnings		
on cash	56	112
on loans	88	176
Total	3344	6688
Increase (decr) in cash	144	0

Appendix H

Consultant Access Fund of the Agribusiness Development Centre

General Guidelines

■ **Eligibility Requirements**

- Activity of Applicant

Applicants must be registered Ugandan, private nontraditional agriculture exporting firms. Nontraditional agricultural exports (NTAE) are defined as any product other than coffee, cotton, tea, tobacco. The applicant must be engaged in or planning to engage in production, processing, or export of NTAEs.

- Conditions of Eligibility

Applicant must meet the above activity specifications and the following:

- Proposed engagement must contribute to a firm's ability to produce or process and export NTAEs and be compatible with CAF guidelines.

- If applicant is not already a client of the Agribusiness Development Centre (ADC), then applicant must receive technical approval from an ADC technical advisor. Usually this will be somebody from either ADC's High Value (flowers, fruits/vegetables, spices, etc.) or Low Value (grains, beans, etc.) office.

- Applicant can only use local, registered private consulting firms approved by ADC. (A list of approved firms is available from the ADC. In addition, the ADC will consider for qualification other firms suggested by applicants.)

■ **Possible Activities**

CAF may be used to access local consulting expertise for NTAE activities of either an efficiency or financial nature.

- Efficiency Activities
  - Diagnostic of company performance
  - Annual operating plans, including production / crop plans
  - Accounting and budget systems but not annual audits
  - Periodic productivity and financial reviews / analysis
  - Outgrower program development / management
  - Product costing
  - Management information system design and implementation, but not hardware

- Financial Activities
  - Business plans for long term financing
  - Venture capital financing proposals
  - Strategic alliance plans
  - Applications for short-term financing and loan guarantees

■ **Cost-Sharing Parameters**

- Amount

The amount the ADC will pay per CAF engagement is based on the client's previous use of CAF, as depicted in Table 1 - Cost Share Formula. The maximum payable per engagement by the ADC through CAF is UShs. 4,000,000 regardless of the cost-sharing formula used.

Table 1: Cost-Share Formula

Number of Client Engagements	Contribution	
	Client	ADC*
1 - 2	25%	75%
3	50%	50%
4	75%	25%

*Maximum ADC contribution is 4,000,000/=.

To illustrate, a first time CAF client (cost-share formula 25:75), using a pre-qualified consulting firm, with an engagement cost of Shs. 5,000,000 would pay 1,250,000/= and the ADC would pay 3,750,000/=. Another example, a third time CAF client (cost-share formula 50:50) with an engagement cost of Shs. 10,000,000 would pay 6,000,000/= and the ADC would pay 4,000,000/=. Why not 50:50 as the formula would indicate? Because in this example the 4,000,000/= ADC limit is reached before the 50 percent contribution level.

- Award Restrictions

Following each engagement, the ADC and the client will evaluate the contracted consulting firm's performance. Highly rated consulting firms will remain eligible for future CAF engagements, with no limitation on the number of engagements. Similarly, clients that follow-up a CAF funded engagement with implementation of the recommendations will remain eligible for CAF, for up to 4 engagements.

■ **Fixed Price Contract and Payments**

CAF will fund the delivery of a product, not the number of days worked. In short, it is up to the consulting firm to budget an adequate number of days and incidental expenses to complete the job. The client and the ADC will then review the budget and negotiate a final product price. Once negotiated the price remains fixed regardless of actual number of days worked or expenses incurred.

Under CAF, the ADC will disburse money directly to the contracted consulting firm, rather than the client, according to the contribution formula in Table 1. The client also pays the consulting firm directly, furnishing the ADC with a copy of a receipt of payment. A contracted consulting firm will receive payments from the client and the ADC according to the following schedule, unless another schedule is agreed to and reflected in the Letter of Agreement.

- 25 percent of contract price paid up front by the client.
- Upon approval of a draft document by the client and ADC, the consulting firm receives 35 percent of the contract price. Depending on the cost-share formula used, all or a portion of this amount will be paid by the client. Any remaining amount will then be paid by the ADC.
- Upon approval of the final document by the client and ADC, the consulting firm receives the remaining 40 percent of the contract price. Depending on the cost-share formula used, a portion of this amount could be paid by the client, with any outstanding amount then paid by the ADC.

The payment schedule effectively requires CAF clients to disburse their funds before the ADC disburses CAF money, highlighting the earnestness of the client and enhancing consulting firm confidence that they will be paid. Neither the client nor the consulting firm will be reimbursed for consulting costs incurred in excess of the total amount committed to the engagement. Also, the engagement cost must reflect a reasonable cost relative to the value to be realized.

- **Deliverables**

There must be a clear, easily understood relationship between the engagement and the expected deliverables, i.e., the deliverable must contribute to the achievement of the identified objective. For this reason CAF will fund the delivery of a product rather than the number of days worked. The deliverable may be for example, a report, a plan document or a financing proposal, as specified in the Terms of Reference.

- **Terms of Reference**

The ADC will assist approved applicants to develop the Terms of Reference for the engagement. These terms may include background, purpose, approach, duties/tasks, deliverables/reporting and duration and logistics. The terms will also state the expected client contributions i.e., information, materials, staff time, and so forth. The final Terms of Reference will be negotiated, with ADC guidance, between the client and the selected consulting firm.

The Terms of Reference will include benchmarks or milestones. Milestones serve as predetermined, agreed upon performance evaluations, e.g., a benchmark can be the production of a report. Second, the attained milestones are the mechanism for releasing payments by the client and the ADC to the consulting firm. Milestones may be specified in terms of an approved draft report or document and an approved final, implementable report or document. Milestones, therefore, serve as both a check on "work in progress" and as a funds control mechanism. Agreed benchmarks will be included in the Letter of Agreement.

- **Responsible Parties**

Responsibility for satisfactory completion of the engagement, as determined by the client and the ADC, rests solely with the consulting firm, as spelled out in the Letter of Agreement. Responsibility for implementation of the deliverables rests with the client, where feasible with the help of ADC.

- **Time Limitations**

The Terms of Reference, which are part of the Letter of Agreement, will contain a time frame and delivery dates. The consulting services must be completed within the agreed time frame. The period will be determined by the work to be performed. In practice, most engagements should be completed within two months.

Appendix I

Terms of Reference for an Ad Hoc Committee to Monitor and Report on Efforts to Revitalize and Expand the Export Refinance Scheme of the Bank of Uganda

Background

In May and June of 1997, the Bank of Uganda's Financial Sector Development Task Force and the Agribusiness Development Centre of the United States Agency for International Development sponsored a critical review of the financing available for non-traditional agricultural exports. The report—*Expanding Credit for the Export of Uganda's Non-Traditional Agricultural Products* (Thomas Downing, July 1997)—recommended a set of actions directed at revitalizing and expanding the Bank of Uganda's Export Refinance Scheme. A summary of the action plan is attached. When instituted these recommendations will impact on not only non-traditional agricultural exports but all non-traditional exports.

Purpose of the Committee

Wishing now to ensure that the recommendations are enacted, the Bank of Uganda is establishing an ad hoc committee of respected leaders of the exporting community to focus attention on the needed reforms, to stimulate action, to overcome obstacles, to maintain momentum, and to bring the revitalization and expansion to a successful conclusion.

Members; Terms of Appointment

The ad hoc committee will be constituted as a subcommittee of the Financial Sector Development Task Force. It will have a life of one year.

Members will be appointed by the Governor of the Bank of Uganda and will be drawn from among non-traditional exporters, commercial banks, Government, the Uganda Export Promotion Board, and the Bank of Uganda. The committee is not intended to represent these groups. (They were represented during the formulation of the analysis and recommendations.) Instead, committee members will be selected based on their knowledge of the non-traditional agricultural export sector, their commitment to its growth, and their demonstrated capacity to build and maintain momentum for reform.

Specific Duties

The ad hoc committee will promote the enactment of the recommendations of the report *Expanding Credit for the Export of Uganda's Non-Traditional Agricultural Products,* particularly as summarized below, subject to clarification and amendment from time to time by the Bank of Uganda and the ad hoc committee. To this end, the ad hoc committee will perform the following tasks:

- With the Bank of Uganda, recruit volunteers to take charge of each of the recommended actions.

- With the task leaders and the Bank of Uganda, agree on a timetable for implementation of actions
- Monthly, issue a brief report showing actual progress against schedule.
- As needed, recommended changes in the plan of action to the Governor of the Bank of Uganda.
- As needed, coach and advise the task leaders and teams.
- At the end of the committee's one-year term, issue a final report.

Appendix J

AD HOC COMMITTEE TO REVITALIZE AND EXPAND THE EXPORT REFINANCE SCHEME
MONTHLY REPORTING FORMAT

Action	Steps/Milestones	Respons. (lead in *italics*)	Due	Actual	Notes
THESE TWO COLUMNS DO NOT CHANGE FROM MONTH TO MONTH. THEY ARE A PART OF THE FORM. THE ENTRIES ARE DRAWN DIRECTLY FROM THE PROPOSED ACTION PLAN.		*COMPLETING THESE COLUMNS IS ONE OF THE FIRST TASKS OF THE AD HOC COMMITTEE. ONCE SET, THEY CHANGE ONLY BY EXCEPTION.*		*THESE TWO COLUMNS ARE UPDATED MONTHLY. THIS IS THE ESSENCE OF THE PROGRESS REPORT.*	
Redefine mission of Scheme	• Formulate mission centering on building capacity • Delineate programmatic and operating implications of change in mission • Win support from commercial banks, exporters, donors • Adopt the new mission				
Mobilize training and TA	• Call on lenders to identify weaknesses limiting creditworthiness • With Uganda Bankers' Association in the lead, identify the gaps in commercial banks' expertise in lending for NTAEs • Adopt a TA and training curriculum, in consultation with affected parties • Forge alliance among training providers, lenders and borrowers to make training and TA as a condition of borrowing money, when necessary • Devise implementing clauses for loan documentation • Call of the UEPB to provide intelligence to lenders and borrowers				
Expand lending to pre-shipment, particularly stocking	• Begin lending for pre-shipment, as already allowed by statute • Support work of associations, banks and donors in establishing product grading standards, warehouse receipts, and a commodity exchange • Appoint senior officer of the central bank to stay informed of [illegible]				

Modify terms of loans	• Extend term to 270 day • Solicit proposal from the Uganda Bankers' Association on required spread • Increase the spread to upwards of 10% • Allow rates to end users to move to market • Provide subsidies primarily in the form of technical assistance • Abandon plans for guarantees				
Build capital to Shs. 10 billion	• Determine amount of capital to be sought • Determine form of contributions to allow maximum flexibility • Obtain expert opinions on soundness of Scheme, design and operation • Seek government and Bank of Uganda contribution • Seek donor contributions • Explore leveraging the fund				
Extend line of credit to qualifying comm. banks	• Establish standards for eligibility • Establish controls and cash-forecasting methods • Build back-up liquidity • Provide for post hoc procedural review of commercial banks' actions				
Build the administrative capacity of the Department of Development Finance	• Implement action plan formulated in response to World Bank studies • Document improvements • Obtain World Bank concurrence as to improvements • Establish line of credit for qualifying banks to cut processing time • Establish reporting standards and institute regular reporting • Conduct training and skill building for DFD staff				
Publicize operations/ accomplishments	• Train participating banks • Require commercial banks to release information on the Scheme • Publicize procedures • Publish regularly a report on activity and achievements				
Establish a structure to ensure that the reforms are carried through	• Place lead with a senior officer of the bank • Establish an ad hoc committee to monitor and report on results • Recruit energetic and committed volunteers • Charge individuals with tasks				

Attend to risks and contingencies	The Bank of Uganda should be attentive the risks as follows, and follow contingency plans as outlined in the report: • Loss of momentum from lack of leadership • Bogging down in extensive consultations • Inability to raise capital • Shortage of demand				

Appendix K

Terms of Reference for a Performance Audit of the Export Refinance Scheme

Summary

The Bank of Uganda will soon be asking development assistance agencies to provide additional capital in support of export finance, augmenting its capacity to assist exporters of non-traditional products. To present its case most effectively, the Bank of Uganda wishes to provide prospective contributors and investors evidence that the current Export Refinance Scheme is worthy of their support. Specifically, the Bank of Uganda seeks a review of the past and current operations of the Scheme by a qualified, independent expert, along with a determination (if the facts support such a determination) that the Scheme operates in a manner consistent with its objective of promoting non-traditional exports.

Background

The Export Refinance Scheme was established in 1991 pursuant to the government's objective of broadening the country's export base and of increasing and diversifying foreign-exchange earnings. Specifically it sought to support exporters of non-traditional products in their credit requirements, both those of medium-term pre-shipment nature and those of a short-term post-shipment nature. The Bank of Uganda and the commercial banks were to share credit risk through a loan-guarantee mechanism.

The Scheme was never fully implemented. While it was to be capitalized at approximately Shs.10 billion, only 20% of this amount was forthcoming. This was contributed entirely by the Bank of Uganda. The portion to be supplied by the government was not provided due to budgetary constraints. No donor has yet injected any funds.

Lacking sufficient capital, the Bank of Uganda was never able to activate a medium-term credit facility. Nor was it able to establish the intended guarantee component. The scheme has concentrated, therefore, in providing short-term money to commercial banks to fund short-term post-shipment loans.

While current estimates of the Scheme's capital requirements center around the original Shs.. 10 billion target, the need is unavoidably uncertain. It depends on the terms at which the funds are lent, on macro-economic conditions, and on the administrative capacity of the Development Finance Department, among other factors. Therefore, capital should be contributed in a manner that allows adjustments in amount as events unfold. Capital could be contributed in the form of a loan. Whether loan or grant, capital could be offered in tranches, with amount and timing dependent on the Scheme's use of the funds and subject to a maximum. Either of these mechanisms would ensure that the Scheme was not overcapitalized and that money did not lie idle.

Purpose

The purpose of this engagement is to offer independent evidence to prospective investors and contributors that the Export Refinance Scheme is being operated in a manner consistent with its mission of promoting non-traditional exports.

Deliverables; Content of the Report

Much study of the Export Refinance Scheme has been undertaken, and the present report will not duplicate that earlier work. Specifically, this present report will not address the following topics:

- The government's policy of export diversification.
- The role of the government and the central bank in export financing.
- Alternative methods and techniques that might have been adopted to stimulate exports.
- The amount of capital required by the Scheme.

The deliverables of the assignment are several briefings and a written report. The report should focus on the following issues:

The Use of Funds; Loan Purpose
- The volume of capital that has been lent through the Scheme.
- The proportion of outflows used for the direct support of non-traditional exports.
- The rate of default by commercial banks on their repayments to the Bank of Uganda.
- The reasonableness of administrative costs relative to loan volume

Record-keeping and Reporting
- The adequacy of record-keeping.
- The adequacy of public disclosure and the easy availability of all information that by law or policy is public.

Internal Controls
- The adequacy of internal controls.
- The insulation of the credit decisions from political influence.
- Protection against corruption.

Effect of the Scheme on Exports
- Volume of exports supported by the Scheme.
- A few case studies illustrating effective use of loans.

Reforms
- The receptivity of the Bank of Uganda to recommendations made in previous studies; the Bank's willingness to take recommendations under serious consideration (acting, of course, only on those it deems sound)

Earlier Studies

The consultant will become familiar with all recent studies of the Export Refinance Scheme and directly related matters, including but not limited to the following:

Thomas Downing, *Expanding Credit for the Export of Uganda's Non-Traditional Agricultural Products*, July 1997

EPAU Statistics Paper No. 5: Export Statistics 1990-1996, January 1997

Report of the Task Force on Risk Management and the Warehouse Receipt System (WRS), January 1996

EPAU Statistics Paper No. 4: A Review of Credit Facilities for Agriculture and Export Finance, April 1995

M. Onyach-Olaa, *A Review of Credit Facilities for Agriculture and Export Finance (With Special Focus on Non-traditional Agricultural Exports)*, Export Policy Analysis Unit, Ministry of Planning and Economic Development, 1995

Alifas Yeko Mwanga, *Exporters' Survey 1995: "Impact of Government Policy on Exports with Emphasis on NTAEs"*

Michael Gudger, *The Development of a Self-Sustaining Credit Guarantee Facility for Rural Sector Finance*, 1995

Tuan Anh Nguyen, *Impact of Government Investment and Export Promotion Policy*, January 1994

The World Bank, several studies on the administration and management of the Development Finance Department of the Bank of Uganda

Independence

The consultant will be someone who, by professional training, professional standards, and temperament, is capable of exercising independent judgment based on facts and observations and who will not be unduly swayed by the desires of the client for any particular result. While the Bank of Uganda fully expects that the consultant will conclude that the Export Refinance Scheme is operating in a manner consistent with its purposes and has made a positive contribution to non-traditional exports, it will make no effort to impose these conclusions on the consultant.