UGANDA

AGRICULTURAL NONTRADITIONAL EXPORT

PROMOTION PROGRAM II

(ANEPP II)

PAAD SUPPLEMENT

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ACRONYMS

A.I.D.	-	Agency for International Development
ANEPP	-	Agricultural Nontraditional Export Promotion Program
API	-	Assessment of Program Impact
BOU	-	Bank of Uganda
CIF	-	Cost, Insurance and Freight
CIP	-	Commodity Import Program
CP	-	Condition Precedent
CPI	-	Consumer Price Index
EPADU	-	Export Policy Analysis and Development Unit
FX	-	Foreign Exchange
GDP	-	Gross Domestic Product
GOU	-	Government of Uganda
IMF	-	International Monetary Fund
L/C	-	Letter of Credit
NTAE	-	Nontraditional Agricultural Exports
OGL	-	Open General Licensing
PAAD	-	Program Assistance Approval Document
PFP	-	Policy Framework Paper
PMB	-	Produce Marketing Board
SIP	-	Special Import Program
USAID	-	United States Agency for International Development
Ush.	-	Uganda Shilling

1. BACKGROUND AND RATIONALE

A. Economic and Political Background

The Republic of Uganda, a landlocked nation of 16-plus million people, is a country of abundant water and arable land resources, comprised of 151,000 square kilometers. Historically Uganda's people have been able to feed themselves and generate sufficient surplus to engage in lively commercial activities. The major food crops grown include bananas, matooke (plantain), beans, maize, cassava, sweet potatoes, groundnuts, sorghum, and millet. Livestock yields milk, meat, horns, hides and skins. Virtually all these commodities are traded in both local and regional markets within Uganda, as well as across Uganda's borders into neighboring countries. Food crops dominate agriculture, with about 90 percent of the arable land that is under cultivation being devoted to them, and the remaining 10 percent given to export crops. Previous export crops cultivated include coffee, tea, cotton, and small amounts of cocoa, nuts, and spices. Formerly, small amounts of sugar and tobacco were also exported but now these crops are locally processed to meet domestic demand. Coffee remains the single most important traditional export crop.

Agriculture accounts for over two-thirds of Uganda's GDP, and an even larger share of government revenues. Most farms (the average size of which is 2.5 hectares) are held by small-scale producers. Except for tea and sugar, which are grown on estates (with some outgrowers), most other production for export, as well as for domestic consumption, is produced on smallholdings.

During its recent past, Uganda has depended primarily upon coffee to generate foreign exchange earnings, with over 95 percent of export revenue accruing from coffee exports. Taxes on coffee exports have also been an important source, as much as 20 percent government revenue. Hence, the 1989 collapse of the International Coffee Agreement and the accompanying precipitous fall in world coffee prices has created a severe economic crisis for Uganda, affecting not only the balance of payments but also fiscal policy objectives.

Severe deterioration in the economic situation began after Idi Amin seized power in January 1971. Real GDP declined about 20 percent during the 1970s. Many of Uganda's most talented citizens either fled into voluntary exile (estimates range from 500,000 to over one million people), or were forced to leave, as in the mass expulsion of Asians in 1972. The successor Obote government in early 1981 initiated a recovery program with considerable assistance from the donor community. Despite some recovery in the early 1980s, there was increased political and military instability beginning in 1984. Government spending escalated, inflation accelerated, the exchange rate became increasingly overvalued, and GDP declined in absolute terms. A military coup, followed by a civil war, inflicted further destruction on infrastructure, and brought the economy to a virtual standstill.

The Museveni-led government inherited an extremely difficult situation when it came to power in January 1986. A great part of the major trunk roads had deteriorated to the point of requiring substantial new investments, rural feeder roads generally had received even less attention to maintenance, large portions of the nation's vehicle fleet were either destroyed or stolen, most manufacturing plants had closed down, and productive agricultural areas had been ravaged. The new government also inherited a considerable debt burden.

In January 1987, the government approached the donor community for financial support to arrest the economic decline and set the basis for sustained development. The IMF and the World Bank initiated stabilization and structural adjustment programs, with sizable financial support. At the time, the economy faced a number of serious problems:

-- the private sector was legally excluded from most marketing, including external trade, transactions, and had effectively no legal access to foreign exchange;

-- the official exchange rate was grossly overvalued, with the parallel market rate almost ten times as much as that rate;

-- the Government of Uganda (GOU) was heavily involved in barter trade, the terms of trade for which were against Uganda; and

-- inflation was very high due to the pressures of inappropriate monetary and fiscal policy, and interest rates were decidedly negative.

In May 1987, the GOU announced an Economic Recovery Program ERP, to restore price stability and a sustainable balance of payments position, substantially improve capacity utilization in industry and agriculture, improve producer incentives, restore efficiency in the public sector, and improve public sector resource mobilization and allocation. This ERP has been underway for three-plus years, and has seen significant improvements in Uganda's economic policy environment. GDP growth has been in excess of six percent annually, and the rate of inflation has been reduced from 200-plus percent at the outset of the period to within the 30-percent target for 1990.

Finally, active exchange rate management has resulted in reducing the premium on the exchange rate from 900 percent in the mid-1980s to just over 60 percent today.

B. A.I.D.'s Strategic Objectives in Uganda

The country program is directed at supporting the government's policy reform program. USAID strategy is centered on increasing agricultural growth with emphasis on private sector participation. The project and program portfolio consists of a package of complementary activities: research, commodity imports, input distribution, crop production, agroprocessing, and commodity marketing with an overall emphasis on sectoral growth and diversification of agricultural exports. Most resources go toward support of the private sector, except research and allied training. An integral part of this strategy is policy reform which is aimed at improving the structure of incentives, the private investment climate, and addressing constraints to expansion of export trade. Beyond project level assistance directed at these areas including the non-traditional export promotion and development program, a PL 480, Title I program reinforces the strategy with related policy measures, balance of payment support, and local currency for the development budget.

A second element of the country strategy is to preserve the natural resource bases in the nation's parks and protected areas, in order to stimulate Uganda's tremendous tourism potential, further diversifying its sources of foreign exchange and fiscal revenues. A third leg of the strategy is to address the issue of rapid population growth through a family planning program. Finally, an important target of opportunity is in the health sector.

C. Program Rationale

ANEPP I's purpose was to increase rural incomes by overcoming short-term constraints to exporting nontraditional agricultural products. This was to be accomplished by assisting the GOU in developing and implementing a program for promoting and exporting nontraditional agricultural exports (NTAE). By the end of the program, ANEPP I was to have established an environment in which Ugandans could produce and sell crops for export in an open competitive market.

The analysis that was done during design of ANEPP I identified three basic reforms which were needed to arrive at such an environment. These reforms were, briefly: (1) regular exchange rate adjustments, (2) streamlined foreign exchange approval process for imports, and (3) GOU approval of private sector export of nontraditional agricultural commodities. In addition, the GOU, with technical assistance, would develop a strategy and program to promote NTAE and establish the organizational structure to implement the strategy.

Over these first two years, in addition to carrying out all these reforms, the GOU also (1) legalized the parallel exchange rate, (2) established a foreign exchange retention system for exporters, (3) moved from a system of single transaction export licenses to one of unlimited, time-based licenses, and (4) removed the air transport monopoly.

As a result of these reforms, the environment in which exporters operate changed to one more conducive to increased production for export. Motivated by the changes in the policy environment, exporters more than tripled their non-coffee exports, most of which were purchased from small farmers and fishermen. Increased competition with the parastatals and among private traders has led to better prices for producers, more diversity in production, more areas of the country involved in production for export, and more consumer goods availability. ANEPP I has, indeed, established the environment it set out to build.

Despite greater than planned progress made under ANEPP I, the ability of the small-scale producer, both farmers and fishermen, to fully participate in the benefits from NTAE, is dependent on the continuation of these policies. A number of constraints still exist. ANEPP II will focus on some of the constraints, principally those related to infrastructure, the dual exchange rate, market expansion, availability of credit, petroleum pricing policies, and inefficiencies in licensing. Through conditionality for cash disbursements, continued dialogue, continued technical assistance to EPADU export producers/marketing agents and budgeting (and spending) of the counterpart deposits, the GOU will address these constraints. As a result, the economic environment for small scale farmers and fishermen will stabilize and improve.

II. ACCOMPLISHMENTS TO DATE AND LESSONS LEARNED

During July and August 1990, A.I.D. conducted an impact evaluation of ANEPP I, in part to examine the merits of this currently proposed second phase of the program (ANEPP II). (This PAAD Supplement is to amend the program, but for ease of discussion the existing program is referred to as ANEPP I and the proposed amendment as ANEPP II.) Although the terms of reference for this evaluation team explicitly excluded designing ANEPP II, the team was invited to provide the Mission with recommendations for inclusion in that design, based on the evaluation and the lessons learned from ANEPP I. It is important to understand that the impact evaluation focused its analytical efforts on impact, rather than on success in meeting the policy dialogue, CIP, and local currency aims of ANEPP I. Thus, if a routine program evaluation had been carried out, focusing on whether implementation of each program element had proceeded according to plan, the findings against such criteria would have doubtless been positive. With the impact evaluation coming as it did only one month after the announcement of sweeping policy changes, and only two years after signing of the Program Agreement, it faced a difficult challenge to confirm the degree of impact that would otherwise have been expected once the economy has digested the reforms. In addition, the evaluation included a discussion of some aspects of the management and implementation of ANEPP I. The following discussion draws heavily on that evaluation report, which is included as Annex B to this PAAD Supplement.

A. Achievements Under ANEPP I

1. Policy and Regulatory Changes

The most important aspect of the ANEPP program is the effect it has had on the overall development strategy of the Government of Uganda. Through constant policy dialogue, through the work of EPADU, and through program conditionality, ANEPP has been responsible, at least in part, for a major sea change in the Government's attitude toward Uganda's development. Perhaps nowhere else in Africa has a Government so openly and so self-consciously embarked on an outward oriented development strategy as in Uganda.

This is particularly marked in the budget speech of the Minister of Finance in June, 1990, which: (1) legalized the parallel market in foreign exchange; (2) further devalued the official exchange rate; (3) outlined streamlined provisions for export licensing; and (4) promised tax relief for nontraditional exporters. As important as these reforms are, perhaps more important is the government's overall posture. Commenting on the budget speech, President Museveni stated that the reason for taking these measures (particularly the devaluation) was to enable the export sector to be competitive in world markets, and to diversify an economy, which for too long has been propped up by "the coffee man."

These latest measures build on earlier important policy reforms:

(1) Macroeconomic stabilization which has seen a reduction of inflation from annual rates of over 200 percent to annualized rates of between 20 and 30 percent;

(2) A fairly continual devaluation of the official exchange rate, which has seen a depreciation of 16 percent in real effective terms since 1988. There remains much to be done in this area;

(3) The establishment of the dual licensing program for nontraditional exporters, which was the keystone of ANEPP I;

(4) The removal of monopoly control of exports by the Produce Marketing Board (PMB); this change was a covenant under ANEPP I;

(5) Elimination of monopoly positions of tea authority, hides and skins parastatal, and other parastatals.

Taken together all of these reforms substantially removed policy impediments to nontraditional export trade. For the first time, exporters were free to legally sell their goods abroad at the real opportunity cost. This liberalization of the policy regime, taken together with dramatic improvements in transport infrastructure and the return of confidence in the economy and in the Government has led to substantial increases in nontraditional export trade.

2. Performance of the CIP Component

The CIP component of ANEPP I was designed to provide the private sector of Uganda (defined as including the cooperative sector) with access to foreign exchange to purchase imported inputs for producing, processing, and marketing nontraditional exports. Funds available included $12.5 million provided by A.I.D. and $5 million provided by the GOU, all in support of the CIP. At the outset of the program, the specific list of commodities eligible for import under the program included seeds, fertilizer, steel for basic agricultural implements, jute for gunny bags (as well as gunny bags), packaging materials, and other non-specified goods. Subsequently, in May 1989, the eligibility list was substantially expanded to include any commodity (primary, intermediate, or capital) that can be funded under any A.I.D. commodity import program. In January 1989, A.I.D. indicated to the GOU that the first tranche ($7.5 million) was ready for disbursement, and that a Letter of Commitment in that amount had been opened in the appropriate correspondent bank.

Disbursement of the second tranche, $5.0 million in A.I.D. funds, is being delayed pending GOU provision of its matching $5.0 million contribution.

Performance under the CIP, especially during the first year, was spotty, partly because of a disagreement on the conversion rate between CIP dollars and local currency generations. By June 1989, six months after the opening of the Letter of Commitment, A.I.D. had concurred in import applications amounting to approximately $2.0 million. At that point, the GOU opened a new foreign exchange allocation mechanism, using an exchange rate of USh 400 per dollar, compared to the USh 200 per dollar official exchange rate at which the A.I.D. CIP was generating local currency. A.I.D. asked that CIP generations occur at the more depreciated rate, but the GOU refused. Ultimately, the CIP process was in hiatus until March 1990, at which point the official exchange rate had been depreciated to the point that it nearly coincided with the rate in the aforementioned GOU allocation mechanism, thereby removing the disagreement between A.I.D. and the GOU.

As of August 1990, the BOU (Bank of Uganda, the central bank) has received $16.6 million in applications, of which it has approved $15.0 million for A.I.D.'s CIP. Of these, the Mission has concurred with a subset totalling $7.3 million, or 96 percent of the first tranche funds. A smaller subset of these, approximately $3.1 million, have resulted in opened and confirmed Letters of Credit. USAID/Uganda anticipates the CIP funds (USAID and GOU) will be depleted prior to the end of March 1991, assuming the GOU adds its $5.0 million by October 1990.

At the outset of the program three choices were offered in terms of local cover payment. They were revised in June 1990, to permit importers under the CIP to make local currency counterpart payments according to the following three options. First, 100 percent of the cash cover could be provided prior to opening the L/C. As a second alternative, 50 percent of the cash cover could be deposited prior to opening the L/C, with the balance payable within 180 days, at 3.5 percent interest per month on the unpaid balance. The third option is for a 35 percent cash cover deposit, with the balance payable within 120 days, at an interest rate of 3 percent per month on the unpaid balance. Apparently, the vast majority of applicants have opted for the option involving the least up-front deposit.

According to information available in USAID, over 60 percent (in value terms) of the applications A.I.D. has approved have been for the importation of gunny and other bags. There is clearly a strong demand for imported bags in Uganda and, although one can not of course state that the bags imported under this program were in direct support of export activities, anecdotal evidence suggests that bags for the export of maize and other commodities were indeed in short supply this year. The second largest category of imports among the A.I.D.-approved applications (15 percent) was for fishnets and boat engines for individual Lake Victoria fishermen. Traders report a significant expansion of fishing and processing activity. The bulk (15 percent) of the remainder of the approved applications was for agricultural production inputs, but there is no evidence that these indeed went as inputs to export activity. At the same time, it is understood that such inputs are fungible between activities relating to exports and domestic sales. The important point is to ensure that export-related activities are not hamstrung by lack of access to necessary imported inputs.

3. Technical Assistance

The PAAD for ANEPP I described and justified the provision of project assistance funding to establish and support an Economic Policy Analysis and Development Unit within the Ministry of Planning and Economic Development (EPADU). EPADU, with its technical assistance funded by A.I.D. and other costs met by ANEPP CIP proceeds, was to serve three functions: carry out policy analysis for the GOU, carry out export promotion activities, and assist in the monitoring of ANEPP I impact. The following comments on achievements under this technical assistance component are brief, inasmuch as a follow-on to this assistance has already been authorized in a separate document prior to the preparation of this ANEPP II PAAD Supplement.

The A.I.D. evaluation team report for ANEPP I (see Annex B) contains an assessment of EPADU, and a more detailed appendix to that report describes EPADU's activities through August 1990. EPADU has prepared a preliminary export strategy for Uganda, and this strategy has been reviewed at the highest levels of government. Initially, EPADU and its technical assistance personnel focused on policy analysis. Only recently has EPADU begun to turn its attention (and technical assistance resources) to export promotion activities. Under the technical assistance contract, external advisory services in this aspect of EPADU's mandate also have only recently arrived in Uganda. Finally, as to the ANEPP I monitoring aspect of EPADU's work, the evaluation team found that this has lagged behind the Unit's establishment by approximately eight months.

B. Impact of ANEPP I on Intended Beneficiaries

The impact analysis that was the primary focus of the recent ANEPP I evaluation (see Annex B) discussed (a) macroeconomic impact, (b) impact on nontraditional exports, and (c) impact on key economic actors. The following is a summary of the evaluation findings:

1. <u>Macroeconomic Impact</u>

The evaluation notes that in each of the past two years the Ugandan economy has grown at a rate exceeding six percent, and that inflation appears to have been sharply reduced from over 200 percent in 1988 to less than 30 percent in 1990. The evaluation points out A.I.D.'s program was a major stimulus for that improvement.

2. <u>Impact on Nontraditional Exports</u>

The AFR/PPC impact evaluation on ANEPP I was unable to find definitive answers to the question of what impact this program has had in the nontraditional export sector. In particular, customs data on nontraditional exports are inadequate. It is estimated that 70 percent of all exports pass through either Entebbe (for air freight out of the region) or Kampala. According to official statistics, nontraditional exports at these two customs points were valued at $5.5 million dollars in 1988, $8.6 million in 1989, and $5.8 million for the first six months of 1990. Annualized, these data imply a doubling of nontraditional exports in two years, albeit from a very low base. IMF estimates show an even more marked increase, from $6 million in 1988/89 to $19.0 million in 1989/90, a 200 percent increase in just one year. The IMF attributes the large increase to the suspension of foreign exchange surrender requirements.

The IMF estimates are consistent with the customs data. On the other hand, both sets of numbers may understate the volume of non-coffee exports. For example, during the first 21 months of the 1988/89 - 1989/90 period, export licenses in an amount of $88 million were granted by the GOU. An unverifiable amount of such licenses may have been taken out for speculative purposes, especially since the license fee was low (0.25 percent of the value of the license), and was only payable upon actual export of the commodities. The impact evaluation team estimates that one-half of the export licenses were actually used. An evaluation team sample of eighteen established firms determined that these exporters used approximately 70 percent of the licenses they took out.

Complicating the quest for sound data on growth of non-coffee exports is the problem of illegal exports in the period preceding the liberalization. A certain portion of the statistical growth of exports may have occurred as exports that were in previous periods illegal (and therefore not included in the data) began to flow through official channels. It is important to begin to verify from this point on what is happening to non-coffee exports.

Three facts stand out:

(1) the growth rate of nontraditional exports has been high, perhaps exceeding 40 percent per year, albeit from a low base;

(2) the diversity of these exports is very broad, both in terms of commodities (hides and skins, tea, fish and fish products, ginger, maize, beans, sesame, horticultural products, etc.), and destination (regional markets, the Middle East and Europe); and

(3) all exporters indicate that only the tip of the iceberg is now visible, and that the growth rate will continue to be very high.

The following examples from the evaluation team's survey are illustrative:

One grower has negotiated new contracts for exporting raw sugar cane to the Netherlands;

The same grower, who exported 2.5 metric tons of ginger to Europe between December, 1989 and June, 1990, plans to export 24 metric tons to Abu Dabai in August 1990 (incidently, they received technical assistance from Abu Dabai in ginger processing and drying).

Another exporter has just built a fish processing plant which will begin operation in August 1990. They are also exploring the possibility of importing flower seeds from Hawaii for exporting cut flowers to Europe in 1991.

Another exporter spoke of Canadian buyers contacting Ugandan exporters with an offer to negotiate a five year contract for sesame whereby Uganda would supply 12,000 metric tons of sesame a year. At $7 per kg, this contract would be worth $84 million per year.

Another interviewer spoke of Greek interest in smoked and fresh Ugandan fish.

Another fish producer is test-marketing its smoked tilapia in Paris and London (Marks and Spencer), and attempting to refine its product on the basis of consumer response (too salty, too smokey, etc.).

> The leather processing firm indicated that interest is being expressed in the products by buyers from Greece and Italy (who are also now purchasing the experimental fish leather).

The point to be made here is that the nontraditional export sector in Uganda is demonstrating that it is becoming the dynamic engine of growth that A.I.D. believed it would be when this program was begun. This strategy is now the centerpiece of the Government's development plan, and with continued care and nurturing can lead to a major turn-around in Uganda's fortunes. There's every reason to believe, that nontraditional exports can grow as a percent of total export earnings by up to 5 percent per year. Assuming coffee resources remain stable by 1995 nontraditional exports should represent 25 percent of the value of total exports.

3. Impact on Key Economic Actors

As of the moment there is no quantifiable data on the economic benefits of this program on specific actors in the system. Current estimates are based on a series of key interviews. Based on this data base the following generalizations seem defensible:

(1) Exporters. Exporters were clear beneficiaries. Many of them have expanded their activities because profits were to be made. Some have been willing and able to make major new investments (in processing plants, transport equipment, technology development, marketing, etc.) All the above indicates exporters are likely to do very well under the new regime.

(2) Importers. Importers of CIP commodities have profited by buying inputs at official exchange rates and selling commodities at parallel rates. Most CIP inputs (the exception being fishing nets and marine engines) appear to have been used for marketing rather than for production.

(3) Producers. It is difficult to determine the degree to which producers have benefited. Most producers are smallholders (pastoralist producers of hides and skins, fishermen, producers of traditional commodities such as maize, beans and sesame, and outgrowers of horticultural crops). There are, however, several more commercial ventures (tea plantations). Many horticultural crops (ginger, pineapple, vegetables, etc.) combine commercial farms with outgrower schemes.

Certainly, if smallholder produce were not exported it would have increased supply on domestic markets and depressed prices. Current market information does not enable determination of the effect of export outlets on domestic prices. For example, data are unavailable on the premium export pineapples receive over pineapples for the local markets. There are indications, however, that there are many export commodity markets which are quite competitive. Nevertheless, the gap between export price ($7,000 a ton for sesame) and farm gate price ($700 a ton) can be quite large.

(d) Traders and Employees. Other participants in the export trade include middlemen, plantation workers, and employees of exporters and producers (drivers, graders, packers, workers in processing plants, etc.). The numbers of these beneficiaries and the difference between the wages they earn in these occupations as opposed to their next best job opportunity is unknown.

(e) Consumers. Consumers as a group were substantial beneficiaries of this program. Since at present the actual total value of nontraditional exports is unknown, the volume of imports can not be determined. However, most exporters interviewed suggested that the bulk of the imports through the dual-license system consisted of consumer goods both for the low income consumer (batteries, used clothing, pots and pans) and high income consumer (vacuum cleaners, lawn mowers, and cosmetics).

C. Lessons Learned from ANEPP I

The draft of the recent impact evaluation available to USAID/Uganda was complete, with the exception of the section entitled "Lessons Learned." The Mission has reviewed the evaluation report, as well as our own experiences with ANEPP I, to derive "lessons learned" that affect this PAAD Supplement.

First, it is clear that adequate, active impact monitoring and evaluation are critical not only to ensuring that a program meets its purposes, but also that impact analysis is an important aspect of discussing alternative reform scenarios during our policy dialogue with a government. We have therefore included as a covenant to the Program Agreement amendment that the GOU establish and maintain a baseline data collection system under EPADU.

A second lesson from ANEPP I is that program management must be coordinated, despite the somewhat heterogeneous elements of a program such as ANEPP. For example, policy dialogue under ANEPP I has usually occurred between the Mission and the GOU at a fairly exalted level, as should be the case. On the other hand, the CIP component requires, to some extent, a different set of skills from the policy dialogue. The management of the EPADU project component probably requires yet another set of skills. USAID is planning, under this amendment to ANEPP, that overall responsibility for ANEPP II be assigned to a single officer, who will coordinate and be knowledgeable about all the activities under the program. Although this approach will still probably entail some delegation of management authority, primary responsibility will still reside with that manager.

The third lesson is that success in the dialogue effort depends on very close working relationships between the Mission and key individuals in the GOU. This rapport, now that it has been developed, will be nurtured and enhanced by the Mission over the continued course of ANEPP.

III. CONSTRAINTS TO DEVELOPING NONTRADITIONAL EXPORTS

AID/Washington's recent impact evaluation of the ANEPP has identified a number of constraints still facing the private sector in its attempts to increase production and marketing of nontraditional exports. Similar descriptions of constraints that continue to inhibit nontraditional export development are contained in a GOU policy paper entitled "Preliminary Export Strategy for Nontraditional Export Commodities," produced by the AID-supported Export Promotion and Development Unit (EPADU). These constraints appear to fall into four general categories. First, one can identify additional policy and regulatory constraints, such as the still-overvalued exchange rate. Second, one can identify infrastructure constraints, such as poor road systems. Third, one can identify financial constraints, such as the nascent state of development of financial intermediation in Uganda. Finally, one can identify marketing and information constraints, such as the inexperience of Ugandan traders with quality requirements in external markets.

A. Policy and Regulatory Constraints

The major policy constraints that affect the willingness of producers to produce for export, or traders to engage in export activity are policies that directly affect the prices facing individuals involved in exports. Key among these constraints are the price of foreign exchange and various taxes and duties assessed by the Government on exports themselves and on imported inputs to the production and marketing of exports.

1. Exchange Rate Policy

In the case of the price of foreign exchange, different actors in the economy still face different prices. (See Annex D for a discussion of Uganda's foreign exchange allocation and pricing system.) Over the past two years, the GOU has significantly liberalized the foreign exchange regime. In response to USAID's policy dialogue, the GOU in 1988 introduced a dual license system to permit exporters of selected nontraditional exports to import goods equivalent in value to their foreign exchange earnings realized through exports of nontraditional agricultural products. Although this approach had merit, in that it represented a tacit recognition by the GOU that the exchange rate matters to exporters and in that it permitted exporters to sell any imports at the Uganda shilling parallel market equivalent of their export earnings, the system was perceived as cumbersome by most exporters. This export retention scheme was broadened in March 1989 to include all nontraditional exports (i.e., export crops other than coffee), but the options for use of retentions for either imports by the same exporters or sale of foreign exchange to the GOU at the official exchange rate still made the retention scheme less than optimal.

In June 1990, the GOU took a major step in liberalizing the foreign exchange regime by legalizing the parallel rate prevailing. It became legal for licensed vendors to buy and sell foreign exchange at market-clearing rates, thereby permitting exporters to sell their foreign exchange to these vendors, at an exchange rate that was market-determined, rather than forcing them to realize the incentive effects by conducting import operations themselves.

At this stage, there should be few, if any, foreign exchange-related price impediments to producing or marketing nontraditional exports, other than the indirect disincentives noted in the following paragraph. A nontraditional exporter can immediately convert his foreign exchange earnings to local currency at a market-determined exchange rate. Producers (or processors) of exports can freely obtain foreign exchange for requisite imports at the same, market-determined rate. Thus nontraditional exporters (and producers) obtain a "real" return on their activities and can make production and marketing decisions on this basis.

At the same time, however, the subsidy provided to Ugandan manufacturers producing for domestic markets is significant, and serves to skew incentives unduly in favor of these manufacturers. This subsidy is provided by the GOU through the OGL (open general license) and SIP (special import program) schemes, whereunder qualified importers can import production inputs at the overvalued official exchange rate. (See Annex D discussion of "qualified importers" under the SIP.) In the case of the OGL, such imports are confined to a specific list of products and to a specific list of manufacturers. In the case of the current SIP mechanism that is in force, imports are more "open" and "general" than the OGL in terms of commodities and eligible importers, but the amounts of foreign exchange available are meagre and the pricing of this foreign exchange at the official rate results in an allocation system that does not reflect market forces and efficiency.

While exporters do use imported inputs in production and marketing, they almost assuredly have a lower ratio of imported inputs to gross value of production than do many domestic producers, particularly in the manufacturing industry. The continuation of a foreign exchange regime which provides two prices (the official and parallel rates) and uncertain access (see Annex D) results in excessive protection for domestic industries and a continued, albeit much reduced, bias in favor of import-competing production and non-tradables vis-a-vis exportables.

Moreover, the existing exchange regime imposes heavy implicit taxes on the coffee sector. The promotion of non-traditional exports should not be seen as development of an alternative to coffee, but as a complement to the coffee sector. The coffee industry is in substantial decline, not only because of the world coffee market, but also because of a history of heavy implicit and explicit taxation. Farmers currently neglect husbandry, cut down existing trees, and fail to plant new ones, solely because of the wedge between external and domestic prices. It is imperative that the government quickly move to bring coffee on to the same exchange regime as non-traditional exports. If non-traditional exports grow at 25 percent per year, while coffee declines at 5 to 10 percent, the net results for the economy will be negative.

For both these reasons (the continuing bias to domestic industries and the heavy disincentive to coffee) it is vitally important that the GOU move to a market-clearing exchange rate and all import licensing be eliminated. Movement toward a market-clearing rate for the official exchange rate will be part of the conditionality of ANEPP II.

2. Trade Licensing Procedures

During the course of the improvements in exchange rate policy over the past two years, one of the constraints to the achievement of immediate impact from such liberalization was the complex process for obtaining licenses to engage in external trade, on both the export and import sides. The delays inherent in licensing procedures were much less problematic prior to exchange rate policy liberalization, because most trade transactions outside the official system were carried out illegally anyway. As noted elsewhere in this PAAD Supplement, a recent assessment of the export licensing process revealed that 25 approvals and 13 fees were required to obtain an export license.

In August 1990, the Ministry of Commerce established new procedures on external trade licensing. Exporters will be able to apply to a "one-stop shop" in the Ministry of Commerce for an export license, good for six months, upon presentation of an application form containing information on his firm, on products to be exported, and on probable markets for those products. Prospective importers will have to present the same documentation to obtain a six-month import license, and in addition produce evidence that the previous year's taxes are paid up, as well as holding a valid trading license, business registration, and quotations from probable suppliers. To facilitate small-scale border trade, new regulations are soon to be published to enable small (less than $5,000) transactions to occur with a minimum of procedures. The new export licensing system is to take effect from September 1990, while the import licensing system will be placed into effect later in 1990.

While the Government of Uganda has gone a long way in streamlining its export licensing procedures, implementation has been spotty. What is needed is a simple, one-stop mechanism for providing licenses and an efficient process for measuring and monitoring actual exports. Interviewers suggest substantial improvements in procedures, but transactions costs are still too high. Progress on implementation of streamlined export procedures is also a conditionality of ANEPP II.

3. Petroleum Pricing Policy

Government pricing policies for petroleum products have resulted in inefficient use of petroleum products, both compared with other production inputs and among petroleum products themselves. A large implicit subsidy to the use of petroleum exists in that pricing is based on the overvalued official exchange rate. Although the GOU has apparently been able to satisfy demand at this excessively low price in the past, shortages are likely to occur in the near future simply because the GOU's foreign exchange position cannot finance sufficient supplies at the now much higher world price.

Although there is little that the GOU's domestic pricing policy on petroleum products can do to alter supply, given the dependence on Uganda's severely overstrained access to foreign exchange resources, Ugandan policy makers must give serious consideration to altering both the magnitude and the structure of domestic demand for petroleum products through pricing policy reform. There appears to be government resistance to allowing the domestic price to move high enough to reflect the opportunity cost of foreign exchange. Indeed, there is evidence that a portion of the assessed duties on petroleum products are rebated to oil importers when CIF Uganda prices increase, in an attempt to protect the consumer. Such measures not only hurt the government's revenue position, but also further encourage inefficient use of petroleum products.

Should the GOU be unable to make sufficient foreign exchange available to the petroleum companies to purchase petroleum at the current world market prices, petroleum imports could fall by 40 percent. The resulting impact on the transportation of goods could be severe. A disruption of this magnitude at a time when exporters are just beginning to get a foothold in European and Middle Eastern markets could be devastating and have a long-term detrimental effects on the development of nontraditional export markets. The effect will be particularly severe for markets that require an assured supply of reliable deliveries.

Therefore, it is essential that the Government move to rationalize petroleum importing and pricing policy. Currently, the GOU sets petroleum prices for petrol (gasoline), kerosene, and diesel fuels. Prices are set to cover costs for petroleum imports valued at the official exchange rate, transport costs, other operating costs for the petroleum companies, a margin over costs and a duty. If a devaluation of the official exchange rate or an increase in the world prices results in an increased cost to the oil companies, the duty is reduced through a rebate system to accommodate the changes and compensate the oil companies. Thus, the shilling value of the levied duty may vary considerably from the authorized rates, revenue collections will fluctuate, and prices may not reflect these cost changes.

The increase of the retail price for petroleum products may have an impact on the inflation rate as calculated in the Consumer Price Index (CPI), however, the magnitude of the impact may be far less than is sometimes suggested. The CPI for Kampala indicates that fuel and power represent 7.3 percent of the consumption bundle and transport costs represent 5.9 percent. Since power is supplied by hydro, it will not be directly affected by petroleum price increases. Therefore, the components of CPI that are directly related to petroleum range around 10 percent of the CPI. Additionally, there may be second-round effects as petroleum prices lead to increased costs for transport of other goods, however, since transport costs are only a small portion of total costs the effects will tend to be small.

Based on this estimate, a 50 percent increases in petroleum prices could produce an increase in the CPI of 5 percent. The June figures for the CPI shows the inflation rate from June 1989 to June 1990 was 25.6 percent. It has declined from 159.2 percent in 1988 and stood at 72.4 percent as recently as this January. Further declines have been forecasted and prior to petroleum price increases, it was projected that it would fall to 15 percent in the next year.

Combining these estimates, if the retail price of petroleum products is raised by 50 percent, the first-round impact would raise the rate of inflation by 5 percent. This increase would produce an inflation rate under 30 percent which could then decline over the next year to 20 percent.

To encourage efficient use of resources, prices for petroleum products must reflect the actual costs of imported petroleum. Additionally, there is the problem of the implicit subsidy due to importation at the overvalued official rate. Finally, the conversion from petrol to diesel is important for conservation, particularly where imported petroleum products use up scarce foreign exchange. The GOU already has a policy to apply a higher duty to petrol than diesel fuel. Consideration should be given to increasing the differential in the duties to offer further price incentives for conversion.

The conditionality and covenants set forth in ANEPP II will require that the GOU rationalize the pricing system for petroleum products. This rationalization will include regular periodic reviews of the retail price of petroleum products to ensure that they reflect the actual costs of imported oil at no less than the official exchange rate. Additionally, conditionality regarding moving the official exchange rate toward a market-clearing rate will effectively reduce the implicit subsidy for petroleum.

4. GOU Revenue Measures

Another potential policy constraint lies in duties and taxes that directly or indirectly affect nontraditional exports. Removal of these constraints are complicated by the fact that government revenues are already a very low share of GDP, and there is a need to raise this share, while ensuring that revenue measures do not discourage exports. The GOU with the assistance of the IMF is making an effort to rationalize tax collection.

Preliminary reforms are already underway. In his budget speech of June 1990, the Minister of Finance proposed a scheme for the refund of sales tax and excise duties paid on imported inputs used in the production of manufactured exports. A similar scheme for nontraditional agricultural export-related inputs is a necessary next step.

5. Uganda's Investment Code

The GOU is currently drafting a new investment code, to clarify rules and regulations governing domestic and foreign investment and replace the Foreign Investments (Protection) Act of 1964 and the Foreign Investment Decree of 1977. The transparency and credibility of an investment code is not only of use to Ugandans considering initial or expanded investment in the country, but is also critical to the decisions of potential foreign investors. The publication of a sound, clearly defined and transparent investment code is, of course, only the first step in the process of encouraging investment. Key to any of these actions will be the maintenance of a stable political economic environment and a positive investment climate. In addition, the best-framed investment code must be followed by government actions and statements that adhere to the content of the code.

The GOU is currently (i.e,, in August 1990) sharing the draft code with interested parties, including donor agencies, to ensure that on its publication the code truly reflects government's policy intentions with respect to investment and achieves the incentive effect which it desires. USAID expects to continue play a major role in the code's review.

B. Infrastructure Constraints

Analyses by EPADU, the impact evaluation team and USAID all indicate that as policy constraints (exchange rates, licensing procedures, etc.) are eased infrastructural constraints increase in significance. The major infrastructural constraint to nontraditional agricultural export (NTAE) growth in Uganda derives from the absence or deterioration of transportation and marketing infrastructure.

The conditions of Uganda's road system deteriorated substantially during the 1970s and early 1980s due to mismanagement and civil strife. Roads are severely eroded and approximately 25 percent are impassable in the rainy seasons. There are over 20,300 km of rural feeder roads and over 60 percent need rehabilitation. After this massive rehabilitation effort, an additional 10 percent will need to be rehabilitated on an annual basis and on-going maintenance will be required. The GOU has designed a strategy for rehabilitation and maintenance of rural feeder roads, however, constraints to financing are considerable. On average rehabilitation costs are $16,000/km. and total program costs would be $147 million. The GOU is committed to financing 100 percent of annual costs by the end of the 5 year period but has requested donor support for 80 percent of costs in the first year and a diminishing percentage of the total costs thereafter.

The rehabilitation program for Uganda's rural feeder roads offers large economic returns for the agricultural sector. Road access to urban markets is expected to lead to increases in cultivated area, improvements in crop yields and diversification into nontraditional crops. A feasibility study on rural feeder roads estimated that the potential benefits for the program for rehabilitation of rural feeder roads could add Ush. 33 billion in value added to the agricultural sector, a 14 percent increase in GDP of this sector.

Rolling stock does not appear to be a serious problem, although some refrigerated or otherwise specialized transport may be required.

Inadequate access and high tariff structures for irregular, low volume shipments remain significant stumbling blocks for many exporters, and potential exporters, of high-value fresh produce, fish and ornamentals. The shortage of flights or their indirect routings to Europe and the Middle-East, is compounded by the inadequacy of handling facilities at the airport. Additional competition among air carriers and expanding export volumes will help to bring costs down and improve service. USAID has received reports confirming that British Airways, Air France and a German air cargo firm are all planning to introduce service between Europe and Entebbe in 1991.

Airport facilities for handling cargo have deteriorated and are inadequate to meet present needs much less accommodate future growth. The African Development Bank is reviewing a GOU request for the rehabilitation/expansion of the airport. The Spanish Government has offered to provide financing for the development of private cold storage facilities in Entebbe.

Presently, there are inadequate facilities for collecting, storing, transporting, grading and packing and exporting fresh and/or processed fish, horticultural products and ornamentals. Outside of a few parastatals, very limited facilities exist in the country.

USAID anticipates that as the volume of NTAEs handled by exporters expands they will need and demand better public infrastructure (improved roads, reliable electrical power and telecommunications, etc.) and seek private investment in marketing infrastructure (handling and processing facilities). Initially, due to the relatively low production base, it appears that investors will establish simple facilities for collecting, storing, grading and packing produce for export at sites convenient to the production area. As the volume of traded goods expands, exporters and others in the marketing chain will undoubtedly monitor the demand and evaluate the need to expand facilities and/or increase their level of sophistication.

The Mission is committed to active private sector leadership in developing market infrastructure plans. Those whose livelihood and profits are at stake allocate resources more efficiently than those removed from risk/rewards.

As Ugandan exporters prove their capacity to supply quality products reliably, the demand for exports will increase. At this point exporters and others will want to invest in marketing infrastructure and we expect that access to capital may, in reality, become the constraint. With EPADU's encouragement, USAID has already proposed, and AID/Washington has approved, a fourth alternative payment procedure (3 year credit) for the ANEPP CIP. In addition, EPADU and USAID will continue to monitor this constraint and, if the credit is not sufficient to ameliorate it, USAID may consider jointly programming some of the local currency generations into some sort of a credit fund for the private construction of essential market infrastructure. If through our monitoring the lack of technical knowledge or managerial capacity emerges as a constraint, these can be addressed through the complementary technical assistance project.

C. Financial Intermediation as a Constraint

Critical to all exporters, not only those with import requirements, is a banking system that provides medium-term credit for working capital. At the same time, importers who are faced with long periods between ordering from suppliers and selling these imports also require credit. Finally, individuals who are importing capital equipment will generally require some form of term credit until this equipment produces sufficiently to cover amortization costs. Uganda's relatively underdeveloped financial system, compounded by the necessity to adhere to credit ceilings in pursuit of price stability, poses problems for exporters and importers alike.

Uganda is by no means a special case in this regard: poor financial intermediation is pervasive throughout Africa. In addition, this constraint to export development does not emerge until more binding policy and regulatory constraints on the foreign exchange side are reduced, as they recently have been in Uganda. Unfortunately, financial system reform is generally a complicated matter which cannot proceed at a rapid pace. In the short term, the GOU may be able, with donor approval, to relax (by extending) cash cover requirements for importers. This course must be carefully crafted, however, to ensure that subsequent-period spending of cash cover generations does not undermine price stability targets in subsequent periods. On the side of export credit for working capital requirements, in particular, as well as on the side of import credit, Uganda's banking system must alter the way it does business. An "attitude" change is required such that bankers begin to look seriously and carefully at prospective earning potential of borrowers, rather than solely at available collateral and at past experience with the borrower. This is, of course, not to say that these considerations are not important, but that they should not be overriding.

At this stage, ANEPP is in fact providing credit to importers by allowing them to delay full provision of their cash cover on ANEPP-funded CIP imports by up to 180 days (in the case of non-capital imports) and up to three years (in the case of capital imports). It will be important for EPADU to carry out an assessment of credit constraints to exporters having adequate working capital, and for EPADU to recommend to the GOU a remedial course of action if such credit constraints are found to be serious.

D. Market Information Constraints

Since Uganda's non-coffee exports have become relatively insignificant in recent years, it has lost much of its previous expertise in meeting the exacting demands of the export market. Farmers wishing to produce for export are extremely naive about the tastes and standards of their foreign customers. Exporters will assume part of the role of communicating market opportunities, tastes, etc. back to producers. Exporters struggling to re-establish marketing channels likewise find their naivete about the market, prices, contractual terms etc. quite costly.

This constraint will be addressed through needs analysis to confirm informational requirements of the various actors involved in the export of NTAEs. EPADU will not have to do a great deal of original market analysis, but may merely identify the appropriate subscription services relative to the needs of its clients. With technical assistance provided under the companion project, EPADU can initiate the development and dissemination of market information.

E. Current Programs for Addressing Constraints

To put the foregoing into perspective, one must remember that a scant 5 percent of Uganda's merchandise exports are nontraditional, and that even sustained, rapid expansion of that export subset will only have a small impact on the balance of payments in the medium term. On the other hand, given the current situation in the world coffee market and given the desirability of export portfolio diversification, nontraditional exports are critical to Uganda's future. Furthermore, the foregoing litany of constraints to Uganda's sustained expansion of nontraditional exports suggests that there are many constraints which may profitably be addressed.

Within this listing of constraints, we have tried to give some flavor of the relative importance of the various types of constraints. The policy/regulatory constraints have been among the first with which the GOU has dealt, and in addition these constraints act on other elements of the macroeconomy. Thus, given stabilization goals of the GOU, and given the conventional development wisdom that stabilization should precede structural adjustment, this early attention was appropriate. As noted in the earlier discussion, the GOU has made inroads against several constraints, but much more remains to be done in this regard, and this continues to be a GOU priority, with the assistance and advice of the multilaterals and A.I.D.

As to financial intermediation constraints, we have noted that they are beginning to become binding as the policy framework improves. Dealing with these constraints will require a combination of technical assistance, dialogue, and banking system confidence in the economic stability of Uganda. Although there is undoubtedly a valid objection to creating myriad credit programs within one country (similar to the objection to the coexistence of myriad foreign exchange allocation schemes), one approach to improving financial intermediation is to provide specific credit programs of various types. If these are carefully conceived, they can serve a demonstration effect as the larger banking system begins to develop expanded services. It is intended that EPADU will carry out an examination of these constraints.

The GOU has paid a good deal of attention to certain aspects of infrastructure constraints over the past two years, especially on the transport infrastructure side. It will be important for Uganda to catch up and stay ahead of transport requirements so that this does not become a binding constraint to nontraditional export development. The primary emphasis of this legitimate public sector interest in improving the transport system has been in the modern sector. Given the fact that the source of most nontraditional exports is likely to be the rural areas, the GOU should ensure that it does not ignore that aspect of the transport system. Indeed, local currency generations under ANEPP will be programmed, inter alia, to support feeder road improvement efforts.

Market information constraints also need to be addressed. On the one hand, such activity will in the medium term logically be taken up by the private sector, if there is merit to the activity and if providers can effectively seek reimbursement for their efforts. However, in the immediate future there is a strong argument for the public sector to provide appropriate assistance in this regard. The problem with such public sector involvement is to guard carefully against providing anything but the most neutral information and anything but the most neutral dissemination of that information. Otherwise, there is a danger of introducing substantial inefficiency into the nontraditional export subsector. Efforts to deal with marketing and information constraints are still nascent in Uganda, and are a new focus of EPADU work using A.I.D. funding.

IV. PROGRAM ELEMENTS

The elements of the ANEPP II program laid out in the preceding section lead conveniently into a discussion of how ANEPP II will deal with each of these specifically. Components of ANEPP II will include: (1) conditionality under the program, including conditions precedent to disbursement and covenants, to improve and consolidate the policy and regulatory environment in which nontraditional exporters operate; (2) the provision of foreign exchange for petroleum imports, for other private sector imports, and for debt service; (3) the indirect provision of short- and medium-term credit by the GOU to enable importers to meet local currency cash cover requirements to purchase foreign exchange; and (4) joint programming of that local currency by A.I.D. and the GOU.

A. Improving the Policy and Regulatory Environment

The constraints analysis suggested a number of areas that require further GOU efforts, even given significant improvement during the ANEPP I period, if efficient production and marketing of nontraditional exports are to be encouraged. The following, outlines how various elements of the ANEPP II program will assist Uganda in constraint amelioration. Exchange rate policy, the promulgation of an investment code, petroleum price policy, and progress on implementing trade reforms will be the subject of conditions precedent to disbursement. The implementation of improvements in the foreign trade regulatory system, various other GOU actions, and regular GOU-USAID consultations will be the subject of covenants under this program.

1. Exchange Rate Policy

Conditionality under this program will require that the GOU adhere to its agreements with the multilateral agencies on exchange rate policy, as expressed in various PFPs (policy framework papers). We believe that suitable exchange rate policy is critical to expansion of nontraditional exports, the focus of ANEPP II. USAID/Uganda will be responsible for monitoring GOU progress both in preventing real effective appreciation of the official exchange rate, as well as in moving the official exchange rate in discrete steps such that a market-clearing rate is attained by year-end 1991, per agreement in the PFP.

2. Uganda's Investment Code

A.I.D., as one of the donors with whom the GOU is discussing successive drafts of the investment code, will encourage that the code is in fact promulgated within the next six months according to GOU plans, and that the code is satisfactory, especially as it impinges on decisions to invest in nontraditional export capacity.

3. Petroleum Pricing Policy

As discussed earlier in the constraints section, domestic prices contain a large implicit subsidy due to procurement of petroleum imports at the overvalued official exchange rate. Moreover, unless retail prices are adjusted regularly, they may not fully reflect the costs of imported petroleum and devaluations that occur. Finally, duties applied to petrol and diesel may not sufficiently encourage the conversion to diesel fuel. Policy changes in these areas will be the subject of conditions precedent to disbursement and/or the covenants.

4. Regulations Governing Foreign Trade

The GOU is clearly proceeding apace with a streamlining of the foreign trade licensing system, as witnessed by the August 1990 announcement by the Ministry of Commerce discussed above. Experience suggests, however, that implementation of a streamlined system is more important than the announcement, and we should encourage the GOU to implement rapidly. A.I.D. should also be prepared to consider providing technical assistance to the implementation effort if that appears a critical need. In addition, to the extent possible, A.I.D. should present the GOU with credible arguments in favor of even greater streamlining and perhaps even removal of the licensing requirements in future. A covenant under the program will deal with this policy aspect.

5. Export Promotion Activities of EPADU

As noted earlier, EPADU has been established and has focused its activities to date primarily on export policy analysis and recommendations. However, at this stage an active promotion of exports has begun to assume at least equal importance. A covenant under the program will require that the GOU provide evidence that EPADU is proceeding according to plan on its export promotion activities.

6. Monitoring, Evaluation, and Consultations

In order to ensure that adequate justification for reforms is documented and to judge whether the program impact on beneficiaries in fact occurs, regular monitoring and evaluation, including the development of a baseline survey, are critical. A covenant will ensure that monitoring and evaluation are carried out by the GOU, and that the GOU and USAID meet no less frequently than bimonthly to discuss implementation of the policy agenda affecting nontraditional exports.

B. Provision of Foreign Exchange Resources

Foreign exchange resources under ANEPP I were provided through a CIP (commodity import program) mechanism, in support of imports of inputs to production and marketing processes involving exports of nontraditional products. According to Mission estimates, funds remaining under ANEPP I, including an additional $5.0 million contribution to the CIP from the GOU's own foreign exchange resources, would carry the program into the third quarter of FY 1991. Thus, there appears to be no requirement at this stage that these resources be increased from ANEPP II funds.

Currently the GOU has other serious balance of payments problems requiring foreign exchange. First, recent increases in the international prices of petroleum products have added substantially to the CIF Uganda price of petroleum products. Second, slower-than-anticipated delivery of donor-pledged balance of payments support, coupled with lower-than-expected coffee prices have put a further squeeze on the balance of payments. Consequently, the foreign exchange made available under ANEPP II will be provided as cash disbursements to support petroleum imports, private sector imports related to production and marketing of non-coffee exports, and official debt service.

Funds under ANEPP II will be disbursed in three tranches into a separate interest bearing account in the name of Bank of Uganda in a commercial bank in the United States. The first, expected to be disbursed in October 1990 in an amount of $8.0 million, will be used by the GOU to finance imports of petroleum products. The second and third, in equal amounts of $6.0 million, are to be disbursed in January and April 1991, and will be used for petroleum imports, private sector imports of export-related commodities, or debt service. USAID/Uganda has not sought a waiver of Section 592(B)(1) of the FY 1990 appropriations legislation, inasmuch as although there have been distinct improvements in the foreign exchange allocation system in Uganda over the past eighteen months, the allocation system is still heavily controlled. Consequently, the USAID

Controller will certify that dollar tracking mechanisms are adequate to safeguard funds provided under the cash disbursement mechanism employed for ANEPP II.

Following the signing of this agreement and the GOU's presentation of evidence that it has met the conditions precedent to the disbursement of the first tranche, USAID will notify the GOU that the conditionality has been met and request disbursement from the U.S. Treasury. The U.S. Treasury will transfer the first $8.0 million tranche to the Federal Reserve Bank of New York with instructions to transfer it into a special account in the BOU's correspondent bank (Citibank). This will be a special account with a single payor (Federal Reserve Bank of New York) established for the sole purpose of receiving the $20.0 million authorized by this PAAD Supplement.

For the first tranche, upon confirmation of credit for the deposit at Citibank, the BOU will advise the petroleum companies and their commercial banks of the availability of FX and confirm its reservation against outstanding, approved pro-formas. The commercial banks will then confirm to the BOU the availability of sufficient local cover, through the submission of Form "E", the BOU's FX application. The BOU will process the approved petroleum company(ies)'s application for FX. Upon notification from the BOU that the FX purchase has been effected, the commercial bank will open a Letter of Credit (L/C).

Simultaneously the BOU reduces the commercial bank's account by the Uganda Shilling equivalent (local cover) of the foreign exchange (and the commercial bank reduces the petroleum company's account by the same amount) and deposits these shillings into a special (ANEPP) account established in the BOU's Development Finance Department.

The BOU will either provide importers with the special account number and authorize direct disbursement from the special account to the importers, upon presentation of an executed L/C, or treat it as a routine commercial transaction completed between the BOU and commercial banks following which BOU will replenish its commercial FX account from the special account subsequent to authorized drawdowns.

Basically, the same procedures outlined above for petroleum procurement will apply for the second and third tranches. In addition, USAID will establish, through an Implementation Letter, criteria for the application of the available FX. This Implementation Letter will specify program guidelines and make allowance for post-audit disallowances in the case of deviance from those guidelines.

The BOU will document every withdrawal from the special account and track and advise USAID on their movements through to their final disbursement. USAID has reviewed the GOU proposed system for disbursement of the first tranche and found it adequate. The system basically entails direct disbursements to the private importers out of the special account to be established at BOU's correspondent bank in New York (Citibank). USAID anticipates following similar procedures for the second and third tranches. These procedures will be defined more clearly in subsequent Implementation Letters.

The Grant Agreement Amendment covering ANEPP II funds shall provide the requisite assurances that to the extent possible the funds are used to purchase imports from the U.S. At present, given historical levels of activity, it is anticipated that the level of general imports from the United States will not rapidly draw down grant dollar proceeds in the separate account. This may be especially true if, for reasons of efficiency of special account administration, smaller import transactions are not financed from the separate account or if Uganda's petroleum requirements continue to be compelling. Dollar proceeds may also be used for settlement of official Uganda Government debt owed to U.S. Government agencies or to multilateral financial institutions such as the World Bank, the IMF, or the African Development Bank.

C. <u>Joint Programming of Local Currency Generations</u>

Following the BOU's transfer of FX to the commercial bank's account, the local currency proceeds of this sale will be deposited into a special account. USAID and the GOU will jointly program the estimated Ush. 9.6 billion which will be generated by this transaction. (Note that pursuant to a waiver of A.I.D. exchange rate policy approved by the Acting AA/AFR on July 16, 1990, local currency will be counter deposited at the official rather than the "highest rate not unlawful", presently the parallel rate.)

All importers utilizing this USAID CIP will be required to deposit into the special account (maintained by the Bank of Uganda) the shilling equivalent of the CIF (Kampala) dollar value of the items to be imported prior to the establishment of the L/C. The schedule of deposits is subject to agreement between USAID and the GOU. The Bank of Uganda will submit monthly statements on the special account to USAID and the Ministry of Planning and Economic Development who will mutually program the use of these local currency generations.

A number of GOU institutions and programs central to transformation of the nontraditional exports sector are candidate recipients of separate account local currency. Among others these may include feeder road rehabilitation and development, surface communications and telecommunications improvements. With reference to the 1987 A.I.D. guidance on programming of local currency, the mission is considering programming local currency deposits for program budget support for GOU ministries, agencies, and programs in addition to support of specific projects. As under the ANEPP I CIP, a portion of the local currency deposits will be designated for use as trust funds in support of the A.I.D. Mission in Uganda.

Prior to final joint programming decisions on use of local currencies, USAID and the GOU will consider the following allocation criteria for candidate programs and ministries:

- EPADU's requirement to support its policy analysis export promotion, market information dissemination, etc. activities.

- Evidence that such programs or activities have been designed in accordance with sound technical, financial, and environmental practices, that implementation and monitoring capabilities of the implementing entities are adequate, and the periodic audits of relevant activities will be undertaken. Those programs which require a minimum of A.I.D. monitoring by virtue of their soundness of design and management will be favored.

It should be emphasized that in cases where local currency is used for GOU program budget and support, USAID does not anticipate tracing local currency funds to specific budgetary line items or end-uses since A.I.D.'s development goal in such a program would be a level of overall financial support to programs or institutions advancing nontraditional export sector development objectives. Indeed, depending on GOU budget allocation, accounting and cash management procedures, separate account local currency funds might be commingled at the central Treasury level, under the Development Fund, or at the ministry or program level. The key element in such releases from the separate account will be financial processes which assure timely, expendable budgetary resources for target programs and ministries.

On at least an annual basis, the mission will review program performance to determine whether continued allocations of separate account funds are warranted and overall program purposes are being met. Periodic audits of local currency uses, and GOU reports on supported programs, will be stipulated in Implementation Letters, as discussed in Section VIII of this PAAD Supplement.

D. Negotiating Status

Preliminary negotiations have been held with senior government officials and conditions precedents and covenants identified in Section V below. Although there likely will be some further modifiations, agreement in principle has been reached with the points set forth in this section. We anticipate the GOU signing the Project Agreement very shortly after the PAAD Supplement is authorized.

V. TRANCHING AND CONDITIONALITY

We recommend that funds proposed by this PAAD Supplement be made available in three tranches. Generally speaking, conditions precedent for the three tranches will be parallel. The first tranche, $8.0 million, will be released as soon after signing of the Grant Agreement Amendment as conditions precedent are met. We expect that this will occur within no more than a month following the late-September signing of the Amendment. The second tranche, $6.0 million, is planned for January 1991, and will be released when conditions precedent are met. In a similar manner, the final tranche of $6.0 million will be released during April, assuming that conditions precedent are met.

A. Conditions Precedent to Release of First Tranche

In addition to any standard CPs required for a Grant Agreement Amendment, the following are CPs to first tranche disbursement.

1. The GOU shall provide to A.I.D. in writing, in form and substance satisfactory to A.I.D., a discussion of the status of implementation of significant reform actions taken since June 1990, including those on devaluation, legalization of the parallel foreign exchange market, establishment of foreign exchange bureaus, streamlining of export and import licensing procedures, and refund of sales taxes and excise duties on imported inputs for the production of manufactured exports. A key element of this discussion shall be the extent to which progress has been made with respect to implementing the June initiatives on foreign exchange markets.

2. The GOU shall provide A.I.D. with evidence, in form and substance satisfactory to A.I.D., that it continues to adhere to agreements between the GOU and the multilateral agencies (the IMF and IBRD), particularly those regarding exchange rate management, including (a) regular and frequent adjustment of the official exchange rate to ensure that this rate is not allowed to appreciate in real effective terms over time, and (b) periodic examination of the official exchange rate with the intention to effect real effective devaluations such that the official exchange rate is market-clearing by year-end 1991.

3. The GOU shall provide A.I.D. with evidence, in form and substance satisfactory to A.I.D., that it continues to confer with all relevant parties (including relevant GOU agencies and Uganda's private sector) as it considers the new investment code.

B. <u>Conditions Precedent to Release of Second Tranche</u>

1. The GOU shall provide to A.I.D. in writing, in form and substance satisfactory to A.I.D., a discussion of the status of implementation of significant reform actions taken since disbursement of the first tranche, including those on devaluation, legalization of the parallel foreign exchange market, establishment of foreign exchange bureaus, streamlining of export and import licensing procedures, and refund of sales taxes and excise duties on imported inputs for the production of manufactured exports. A key element of this discussion shall be the extent to which continued progress has been made with respect to implementing the June initiatives on foreign exchange markets.

2. The GOU shall provide A.I.D. with evidence, in form and substance satisfactory to A.I.D., that it continues to adhere to agreements between the GOU and the multilateral agencies (the IMF and IBRD), particularly those regarding exchange rate management, including (a) regular and frequent adjustment of the official exchange rate to ensure that this rate is not allowed to appreciate in real effective terms over time, and (b) periodic examination of the official exchange rate with an eye to effecting real effective devaluations such that the official exchange rate is market-clearing by year-end 1991.

3. The GOU shall provide A.I.D. with evidence, in form and substance satisfactory to A.I.D., that it continues to confer with all relevant parties (including relevant GOU agencies and Uganda's private sector) as it considers the new investment code.

4. The GOU shall provide A.I.D. with evidence, in form and substance satisfactory to A.I.D., that, in the period since disbursement of the first tranche, it has regularly carried out changes in

pricing policy for domestic sales of petroleum products such that the retail price of petroleum products fully reflects the CIF Uganda cost (at no less than the official exchange rate) plus delivery costs within Uganda, plus government taxes.

C. Conditions Precedent to Release of Third Tranche

1. The GOU shall provide to A.I.D. in writing, in form and substance satisfactory to A.I.D., a discussion of the status of implementation of significant reform actions taken since disbursement of the second tranche, including those on devaluation, legalization of the parallel foreign exchange market, establishment of foreign exchange bureaus, streamlining of export and import licensing procedures, and refund of sales taxes and excise duties on imported inputs for the production of manufactured exports. A key element of this discussion shall be the extent to which continued progress has been made with respect to implementing the June initiatives on foreign exchange markets.

2. The GOU shall provide A.I.D. with evidence, in form and substance satisfactory to A.I.D., that it continues to adhere to agreements between the GOU and the multilateral agencies (the IMF and IBRD), particularly those regarding exchange rate management, including (a) regular and frequent adjustment of the official exchange rate to ensure that this rate is not allowed to appreciate in real effective terms over time, and (b) periodic examination of the official exchange rate with an eye to effecting real effective devaluations such that the official exchange rate is market-clearing by year-end 1991.

3. The GOU shall provide A.I.D. with evidence, in form and substance satisfactory to A.I.D., that it has enacted the new investment code to A.I.D.

4. The GOU shall provide A.I.D. with evidence, in form and substance satisfactory to A.I.D., that, in the period since disbursement of the second tranche, it has regularly carried out changes in pricing policy for domestic sales of petroleum products such that the retail price of petroleum products fully reflects the CIF Uganda cost (at no less than the official exchange rate) plus delivery costs within Uganda, plus government taxes.

D. Covenants Under the Program

1. The GOU shall covenant that regular consultations between the GOU and USAID shall occur on (a) progress to date on, and future intentions with respect to, the overall economic reform program, and (b) success to date in, and future intentions with respect to, reducing constraints to efficient nontraditional export production and marketing. Such consultations shall occur no less frequently than bimonthly.

2. The GOU shall covenant that EPADU shall expand its export promotion activities.

3. The GOU shall covenant that it shall refine its monitoring system to establish a baseline for, and a regular updating system for, assessing progress and impact under the GOU's trade liberalization program. In this regard, special reference is made both to changes in nontraditional exports and to impact of the liberalization measures on relevant groups of actors in the economy.

4. The GOU shall covenant that there will be continued progress on economic liberalization moves, especially with regard to policies and regulations affecting nontraditional export production and marketing, and most especially with regard to changes made in conjunction with the overall ANEPP program.

5. The GOU shall establish a regular review process for the price of petroleum imports to ensure that the retail prices are cost-based and that the structure of duties on petroleum products reflects the GOU's priorities with respect to the appropriate consumption mix between petrol and diesel fuel.

VI. PROGRAM IMPLEMENTATION

This section outlines the implementation responsibilities of those involved in ANEPP II and a schedule of implementation actions.

A. Implementation Responsibilities

1. Government of Uganda

The GOU responsibilities set out in the original PAAD remain essentially unchanged. The Bank of Uganda (BOU) will continue as the coordinating agency for the Commodity Import Program (CIP) portion of the activity. The BOU has primary responsibility for transaction data collection, analysis, and reporting. As the entity with oversight and monitoring responsibility, it is a logical choice for collecting data and monitoring records on the CIP utilization program. Thus the Bank will also be responsible for the implementation of the cash disbursement component of the program. Specific procedures for the cash transfer element are outlined elsewhere in this PAAD Supplement.

As discussed earlier, USAID assumes primary responsibility for the establishment of baseline data and a system for measuring overall program impact. This will be complemented by EPADU's own surveys.

2. USAID/Uganda

ANEPP will be implemented under the overall supervision of the Chief, Agriculture and Natural Resources Office, while the day-to-day implementation and monitoring will be the responsibility a designated USDH project manager. After extensive involvement during the initial implementation phase, USAID anticipates reducing its direct involvement in some parts of the management of the cash disbursement. The Mission will initially focus on developing the procedures and the terms, and will consult frequently with the BOU. This will ensure compliance with the objectives of the program, i.e., fostering exports of nontraditional agricultural products. In addition, the Mission will actively monitor the program to ensure that the institutional contractor is providing, on a timely basis, the technical services required.

The USAID Program Evaluation Officer and Economist have primary responsibility for specifying baseline data and means of measuring program impact.

3. Technical Assistance Project Component

The technical assistance requirements are essentially the same as envisioned in the original ANEPP PAAD.

B. Schedule of Implementation Actions

1. Technical Assistance

In July 1990, USAID amended the Project Agreement for the technical assistance, which obligates an additional $1.5 million to the technical assistance activity. Following the recent impact evaluation and its recommendations, the Mission is reviewing the need and the proposed terms of reference for a second long-term technical advisor. By October 1990 a decision will be made as to whether to seek a waiver to amend the existing technical services contract or prepare a solicitation for technical assistance that would extend into the ANEPP II phase.

2. Foreign Exchange

The $20.0 million FX component will be disbursed to the GOU in three tranches, the first being $8.0 million, specifically for petroleum procurement, and the second and third being $6.0 million each. In order to obtain the disbursement of the first tranche, the GOU must meet the conditions precedent identified in section V.A.1, 2 and 3 above. USAID expects that these conditions will be met within three weeks.

The USAID project manager will work closely with counterparts in relevant GOU entities to ensure that the conditions are met in a timely fashion and that disbursement proceeds rapidly.

3. Local Currency

- The exchange rate used for the local currency deposits will be the official rate as long as the appropriate waiver is in force.

- The local currency will be deposited into a special ANEPP Account, and will be jointly programmed by USAID and the GOU.

The GOU and USAID agree to program $3.2 million (16 percent of $20.0 million) of the Ugandan Shillings generated for the support of USAID's local operating expenses. These funds will be disbursed in an agreed upon schedule established by an Implementation Letter.

The balance of the shillings generated will be programmed to assist with agreed upon activities which support agricultural development, primarily nontraditional exports.

VII. PROJECTING AND MEASURING PROGRAM IMPACT

A. Program Impact

Program impact in this near term focuses on policy adjustments associated with meeting the Conditions Precedent to disbursement. Beyond the immediate impact of these policy initiatives, USAID and the GOU anticipate these measures will contribute to the creation of generally more favorable business climate which in the medium to longer term, will encourage producers, marketing agents, exporters, etc. to expand the production and exportation of NTAEs. By 1993, USAID projects that this program will already have assisted Uganda with the diversification and expansion of its foreign exchange-earning, NTAEs by over 100 percent.

B. Beneficiaries

Participants in the NTAE marketing chain, from producer through exporter, are the direct and immediate beneficiaries. Through the companion technical assistance project, USAID seeks to extend the benefits of participation in the NTAE sector to potential as well as present participants. This will be accomplished through continuing identification of constraints experienced by exporters, the generalization and dissemination of information gained and the negotiation of needed policy/administrative reforms identified. The expanded participation anticipated will be captured through EPADU's producer and exporter surveys. Local currency support for the GOU's Rural Feeder Roads (RFRs) program offers the opportunity to extend (geographically) the potential for beneficiaries to participate in production for export and, by reducing transport costs in an increasingly competitive market structure, should increase producer prices.

The realization of a market-clearing exchange rate will eliminate the implicit tax on coffee exports and contribute to the stabilization of coffee production and FX earnings at approximately 70 percent of 1988/89 levels. This will provide small scale farmers with a stable base income, thereby providing sufficient security to enable more small farmers to assume the risks associated with production of NTAEs.

Any FX used for the importation of capital equipment to assist NTAE's (cold storage, packaging production, processing capacity, etc.) will expand the capacity to handle and hence the demand for NTAEs thereby increasing their farmers' prices for them.

As noted in Section II, above, the evaluation team was able to discuss, subjective and qualitative terms. The impact of ANEPP I to date is described in the evaluation report (see Annex B). Not only was it difficult to assess impact on the various economic actors identified in the original PAAD, but currently no adequate baseline data exists against which to measure changed conditions. This is true with respect not only to purpose-level impact, but also to people-level impact.

In part, this information gap is attributable to the fact that EPADU was established only eight months ago and has been fully staffed for less than one month. USAID and EPADU agree that it is important to be able to quantify the gains from policy reform, in order to be able to persuade those opposed to policy changes of the merits and validity of a proposed reform course, and to assess the relative importance of the various constraints. Therefore USAID and EPADU are reviewing the data and reporting requirements in order to address issues identified by the impact evaluation team.

Unfortunately the limited time between USAID's receipt of the evaluation report (only a draft is available to incorporate as Annex B) and the Mission's preparation of this PAAD Supplement precludes a more thorough response in this document to the evaluation team's recommendation that the Mission establish specific, quantitative benchmarks for either goal/purpose-level attainment or people-level impact. Such a task will require additional analyses which USAID is committed to undertaking and now has the personnel and skill mix to address. Consequently, USAID will work directly with EPADU to ensure that such analysis and monitoring are carried out and that suitable baseline data are collected in the period immediately following the signing of the Amendment; and (2) on the basis of those baseline data, establish realistic targets and benchmarks on which to evaluate ANEPP impact by the end of the activity.

The foregoing said, the Mission wants to restate its strong commitment to this impact evaluation task. The discussion of expected impacts of the program were discussed in detail in the original PAAD, and the belief in the soundness of that original discussion has not altered. The Mission accepts responsibility for ensuring adequate data collection and analysis to establish a baseline and a basis for measuring change.

VIII. EVALUATION

A. System

USAID is taking an assertive position on the establishment of an evaluation system for this program, both internally and in the Government's own analytic and program apparatus. EPADU has assumed responsibility for establishing and maintaining certain baseline data which will be used to measure the impact of this activity on producers, marketing agents and exporters participating in the production and marketing of nontraditional exports.

USAID, in conjunction with EPADU will commission a series of studies over the next six months which will be used to further clarify the current situation in the nontraditional export sector. The information obtained from these studies will be periodically updated to determine progress, identify problems and suggest solutions. These studies will focus on the structure, conduct and performance in markets for non-traditional exports such as maize, beans, hides and skins, fish products, etc. The studies will:

1. Describe the current marketing structure (number and size of exporters, number and size of middlemen, number and size of producers;

2. Estimate the profitability along the marketing chain;

3. Determine the number of employees, income, gender, benefit packages and other employment arrangements at each level of the chain;

4. Determine the effect of the export sector on local markets;

5. Determine significant policy, regulatory, infrastructural, financial, information, technological, etc., constraints to business expansion; and

6. Attempt to determine the changes that have taken place and the plans for future changes.

In addition to meeting the program's monitoring and evaluation needs, the information from the studies discussed above as well as the ongoing analytical work at EPADU is critical because:

1. It is important to broaden the consensus in the Government for the policy reform initiatives which will be required as the knowledge about the sector is enhanced;

2. The sector is in its infancy, new problems will emerge as old constraints are removed. In order for the Mission and the Government to respond effectively, it is critical to keep abreast of the changes and to have plans for dealing with them;

3. There are substantial opportunities for monopolistic/oligopolistic structures, and therefore for narrowing the benefit incidence. It will be important to continuously monitor the structure of the market to assure that necessary policy revisions are made to ensure that the benefits reach the smallholders.

The exporter surveys undertaken earlier by EPADU will provide some data on what has taken place at the export and marketing levels of this project. Based upon the results of their survey, the Mission will be working with EPADU to develop and implement a survey of the producers participating in the project. This will be completed by the end of the current calendar year.

Initially USAID will work with the information developed by EPADU and establish a baseline survey of all the key actors in the production and marketing chain. Any deficiencies relative to USAID's specific needs will be subsequently addressed by the Mission. This will be completed by the end of February 1990. Although the baseline survey will not capture the conditions prior to policy reform and the past two years of production under the program, it will provide USAID and EPADU with a clear base from which to measure impact over the next two years.

With the objective of measuring the impact of the program on 1) export value and volume; 2) employment; 3) changes in production choices 4) volume of output at the producer level; 5) consumption patterns; and to the extent possible, 6) changes in income; the survey and monitoring process will be vigorously implemented over the next two years.

B. Benchmarks

The following preliminary targets and benchmarks have been established and will be refined as the baseline survey is completed.

The mission will use the baseline analysis to amend and further refine the following benchmarks proposed for evaluating program impact.

- By 1993, a 10 percent increase in employment in the NTAE subsector. Data differentiated by gender will be collected on the number of personnel employed, hours worked and the total wage bill.

- Private Ugandan exporters' FX earnings from NTAEs will grow by over 100 percent by 1993.

- The barriers to entry into export marketing and access to FX will have been sufficiently eased to stimulate new entries, increase competition and pass a portion of the economies achieved back to producers in the form of higher product prices which will encourage increased production for export. This will be measured by evaluating, (1) the number of export licenses issued and used, (2) the change in prices farmers receive for their produce entering the export market, and (3) the growth in production of NTAEs.

To further refine our internal evaluation program, the Mission is considering using the rapid rural appraisal methodology to measure program impact and, as a result the targets and benchmarks may change. Also, as part of the Assessment of Program Impact (API) exercise, the Mission will work directly with Management Systems International (MSI) to assure that the targets and benchmarks established for our overall program will accurately measure impact. The work with MSI will encompass a review of the data generated by EPADU as well as the identification of other data needs which will probably have to be generated by the Mission.

In addition to a continuous assessment of program impact as required for the annual submission of the API the evaluation schedule for the project is as follows:

Implementation Evaluation--12 months from the signing of the grant.

Impact Evaluation--90 days following the Terminal Date for Requesting Disbursement.

C. Audit

The program will make provision for an end-of-program audit. The Regional Inspector General/Audit (RIG/A) in Nairobi will arrange for a non-Federal audit to be carried out by an independent audit firm. If warranted, USAID may invite an independent auditor to examine any elements of the program relating to program expenditures.

UNITED STATES OF AMERICA

AGENCY FOR INTERNATIONAL DEVELOPMENT

U.S.A.I.D. MISSION TO UGANDA

UNITED STATES POSTAL ADDRESS
USAID/KAMPALA
AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON, D.C. 20520

INTERNATIONAL POSTAL ADDRESS
P.O. BOX 7007
KAMPALA, UGANDA

ACTION MEMORANDUM TO THE ACTING MISSION DIRECTOR

DATE : September 27, 1990

TO: : Stephen C. Ryner, Acting Mission Director

Norman L. Olsen

FROM : Norman L. Olsen, Program Officer

SUBJECT : Uganda Agricultural Non-Traditional Export Promotion Program PAAD Supplement 617-0113/617-T-601 Amendment I

PROBLEM : To approve the PAAD supplement for the Uganda Agricultural Non-Traditiona Export Promotion Program (ANEPP I)

DISCUSSION: ANEPP I has made significant progress since its beginning in FY 88. The trade regime has been significantly liberalized, market oriented private businesses have developed, and the economy has stabilized. What is needed now is continuation and institutionalization of the existing policy regime. Doing so carries a significant price for the Government of Uganda (GOU), a price that has become considerably higher with the current Middle East oil crisis.

To assist the GOU, AID/W has made available a cash grant of $30 million to extend the process begun with ANEPP I. This Amendment to the PAAD was drafted over the past 30 days to show how the funds would be used. A brief project description is attached outlining the total program.

The PAAD amendment was drafted by a multidisciplinary team from USAID/Uganda, REDSO/ESA and AID/W. REDSO/ESA was represented by the Regional Legal Advisor, a senior Economist and the Deputy Director. They concurred that the PAAD meets all relevant AID requirements. AID/W cabled its concurrence (State 324029). In addition, the document has been thoroughly reviewed within USAID/Uganda.

RECOMMENDATION: That you sign approving the PAAD amendment

Approved: ____________

Disapproved: ____________

Date: 9/28/90

Drafted:PRM:NLOlsen:arn:9/26/90 NLO 9/27/9
AS:EMartella [illegible] 9/27/90
PRM/ECON:[illegible] CC [illegible]
CONT:RRyle [illegible] 9/27/[illegible]

AGENCY FOR INTERNATIONAL DEVELOPMENT

PROJECT DATA SHEET

1. TRANSACTION CODE: A = Add, C = Change, D = Delete — Amendment Number: 1 — DOCUMENT CODE: 3

2. COUNTRY/ENTITY: Uganda

3. PROJECT NUMBER: 617-0113/617-T-601

4. BUREAU/OFFICE: USAID/Uganda — 6

5. PROJECT TITLE (maximum 40 characters): Agricultural Non-Traditional Export Promotion Program

6. PROJECT ASSISTANCE COMPLETION DATE (PACD): MM DD YY — 03 30 93

7. ESTIMATED DATE OF OBLIGATION (Under "B." below, enter 1, 2, 3, or 4)

A. Initial FY 90 — B. Quarter — C. Final FY 90

8. COSTS ($000 OR EQUIVALENT $1 =)

A. FUNDING SOURCE	FIRST FY 90 B. FX	C. L/C	D. Total	LIFE OF PROJECT E. FX	F. L/C	G. Total
AID Appropriated Total						
(Grant)	(20,000)	(-)	(20,000)	(35,500)	(-)	([illegible])
(Loan)	(-)	(-)	(-)	(-)	(-)	(-)
Other U.S. 1.						
Other U.S. 2.						
Host Country		6,800	6,800	5,000	6,800	11,800
Other Donor(s)						
TOTALS	20,000	6,800	26,800	40,500	6,800	47,300

9. SCHEDULE OF AID FUNDING ($000)

A. APPROPRIATION	B. PRIMARY PURPOSE CODE	C. PRIMARY TECH. CODE 1. Grant	2. Loan	D. OBLIGATIONS TO DATE 1. Grant	2. Loan	E. AMOUNT APPROVED THIS ACTION 1. Grant	2. Loan	F. LIFE OF PROJECT 1. Grant	2. Loan
(1)	3224	840		-	-	20,000	-	35,500	-
(2)	3724	-	-	-	-	-			
(3)									
(4)									
TOTALS						20,000		35,500	

10. SECONDARY TECHNICAL CODES (maximum 6 codes of 3 positions each)

11. SECONDARY PURPOSE CODE

12. SPECIAL CONCERNS CODES (maximum 7 codes of 4 positions each)

A. Code	BR						
B. Amount							

13. PROJECT PURPOSE (maximum 480 characters)

To increase rural incomes by overcoming short-term constraints to exporting non-traditional agricultural products by assisting the Government of Uganda (GOU) in developing and implementing a program for promoting and exporting non-traditional agricultural exports.

14. SCHEDULED EVALUATIONS: Interim MM YY 09 91 — MM YY — Final MM YY 01 93

15. SOURCE/ORIGIN OF GOODS AND SERVICES: 000 — 941 — Local — Other (Specify) 935

16. AMENDMENTS/NATURE OF CHANGE PROPOSED (This is page 1 of a 1 page PP Amendment.)

This is a PAAD amendment one adding $20,000,000 to the original project/program.

17. APPROVED BY — Signature: Stephen C. Ryner — Title: Acting Mission Director USAID/Uganda — Date Signed MM DD YY 09 28 90

18. DATE DOCUMENT RECEIVED IN AID/W, OR FOR AID/W DOCUMENTS, DATE OF DISTRIBUTION: MM DD YY

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46

D-ABP-632-A
95268

This is a draft form. The revised form will be issued when available.

CLASSIFICATION: Att 1 to App 3B, Ch 3, HB 4 (TM 4:11)

AID 1120-1

AGENCY FOR INTERNATIONAL DEVELOPMENT

PAAD — **PROGRAM ASSISTANCE APPROVAL DOCUMENT**

1. PAAD NO: 617-0113/617-T-601 Amendment 1
2. COUNTRY: Uganda
3. CATEGORY: Uganda Agricultural Non-Traditional Export Promotion Program (ANEPP)
4. DATE: September 28, 1990
5. TO:
6. OYB CHANGE NO:
7. FROM: Stephen C. Ryner, Acting Mission Director/USAID/U
8. OYB INCREASE: $20,000,000
   TO BE TAKEN FROM:
9. APPROVAL REQUESTED FOR COMMITMENT OF: $20,000,000
10. APPROPRIATION - BUDGET PLAN CODE
11. TYPE FUNDING: ☐ LOAN ☐ GRANT
12. LOCAL CURRENCY ARRANGEMENT: ☐ INFORMAL ☐ FORMAL ☐ NONE
13. ESTIMATED DELIVERY PERIOD
14. TRANSACTION ELIGIBILITY DATE
15. COMMODITIES FINANCED

16. PERMITTED SOURCE		17. ESTIMATED SOURCE	
U.S. only:		U.S.:	
Limited F.W.:		Industrialized Countries:	
Free World:	$20,000,000	Local:	
Cash:		Other:	

18. SUMMARY DESCRIPTION

Summary Description is attached.

19. CLEARANCES	DATE
REDSO/ESA:RLA (INDRAFT)	
AE:EMartella	9/28/90
CONT:RRyely	9/28/90
PRM:NLOlsen	9/27/90
PRM/ECON:CCarolus CC	9/28/90

20. ACTION

☒ APPROVED ☐ DISAPPROVED

Stephen C. Ryner — 9/28/90
AUTHORIZED SIGNATURE — DATE

Acting Mission Director
TITLE

CLASSIFICATION:

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SUMMARY DESCRIPTION

The attached PAAD Supplement contains justification for, and this facesheet approves a $20,000,000 addition to the program to be provided with preference being a cash disbursement. Funds previously authorized and obligated will continue to be disbursed as a Commodity Import Program (CIP). While this Supplement is a continuation of the Agricultural Nontraditional Export Promotion Program, the term "ANEPP II" refers to the component authorized hereby; the term "ANEPP I" refers to the originally authorized CIP component.

The purpose of the program remains the same: to increase rural incomes by overcoming short-term constraints to exporting nontraditional agricultural exports. The specific objectives of ANEPP II will be to provide foreign exchange to, among other things, alleviate the immediate constraint to transport created by the scarcity of petroleum imports. ANEPP also will provide foreign exchange to private sector importers for inputs and equipment related to production, processing and marketing of nontraditional exports and will continue to support the various policy reforms concerned with nontraditional exports. These will include: 1) exchange rate policy; 2) licensing regulations governing exports and imports; 3) tariffs and taxes affecting nontraditional exports; 4) promulgation of a new liberalized Investment Code, and 5) pricing policy with respect to petroleum imports. Additional assistance to the GOU will be provided through the provision of local currencies to support, among other things, improvement of farm to market roads and the Export Policy Analysis and Development Unit ("EPADU") of the Ministry of Planning and Economic Development.

Pursuant to provisions in the appropriation heading "Sub-Saharan Africa, Development Assistance" contained in the Foreign Operations, Export Financing, and Related Programs Appropriations Act, 1990 [e.g., D.F.A.], I hereby approve and authorize the $20,000,000 cash disbursement component described herein.

The First Amendment to the Program Grant Agreement ("First Amendment") will contain the following essential terms, conditions and covenants, together with such other terms and conditions as the A.I.D. officer executing such Agreement may deem appropriate:

Disbursement in Tranches

After satisfaction of the conditions precedent specified below, and following the written request of the Grantee for each disbursement, A.I.D. will disburse the additional funds authorized hereby in three separate tranches: $8,000,000 not sooner than October 1990; $6,000,000 not sooner than January 1991 and $6,000,000 not sooner than April, 1990. Disbursements will be made into a separate dollar account to be established by the Grantee pursuant to the First Amendment to the Program Grant Agreement dated August 26, 1988.

Conditions Precedent to Disbursement

Section 5.1. Conditions Precedent to Initial Disbursement

Prior to the first disbursement of the additional funds granted by this First Amendment, or to the issuance by A.I.D. of documentation pursuant to which disbursement will be made, the Grantee will, except as the Parties may otherwise agree in writing, furnish to A.I.D. in form and substance satisfactory to A.I.D.:

5.1.1 Documentation evidencing that the Grantee has established a separate, non-commingled dollar account as required by Article 7 of this First Amendment.

5.1.2 A discussion of the status of implementation of significant reform actions taken since June 1990, including those on devaluation, legalization of the parallel foreign exchange market, establishment of foreign exchange bureaus, streamlining of export and import licensing procedures, and refund of sales taxes and customs tariffs on imported inputs for the production of manufactured exports. A key element of this discussion shall be the extent to which progress has been made with respect to implementing the June initiatives on foreign exchange markets.

5.1.3 Evidence that the Grantee continues to adhere to agreements between itself and the multilateral agencies (the IMF and IDA), particularly those regarding exchange rate management, including (a) regular and frequent adjustment of the official exchange rate to ensure that this rate is not allowed to appreciate in real effective terms over time, and (b) periodic examination of the official exchange rate with a view to effecting real effective devaluations such that the official exchange rate is market-clearing by year-end 1991.

Section 5.2. Conditions Precedent to Second Disbursement

Prior to the second disbursement of the additional funds granted by this First Amendment, or to the issuance by A.I.D. of documentation pursuant to which disbursement will be made, the Grantee will, except as the Parties may otherwise agree in writing, furnish to A.I.D. in form and substance satisfactory to A.I.D.;

5.2.1 A discussion of the status of implementation of significant reform actions taken since disbursement of the first tranche, including those on devaluation, legalization of the parallel foreign exchange market, establishment of foreign exchange bureaus, streamlining of export and import licensing procedures, and refund of sales taxes and customs tariffs on imported inputs for the production of manufactured exports. A key element of this discussion shall be the extent to which progress has been made with respect to implementing the June initiatives of foreign exchange markets.

5.2.2. Evidence that Grantee continues to adhere to agreements between itself and the multilateral agencies (the IMF and IDA), particularly those regarding exchange rate management, including (a) regular and frequent adjustment of the official exchange rate to ensure that this rate is not allowed to appreciate in real effective terms over time, and (b) periodic examination of the official exchange rate with a view to effecting real effective devaluations such that the official exchange rate is market-clearing by year-end 1991.

5.2.3. Evidence that the Grantee has brought the draft Investment code before the National Resistance Council (parliament) for full and open debate with a view to its enactment.

5.2.4. Evidence that, in the period since disbursement of the first tranche, the Grantee has regularly carried out changes in pricing for domestic sales of petroleum products such that the retail price of petroleum products fully reflects the CIF Uganda cost (at no less than the official exchange rate) plus delivery costs within Uganda, plus government taxes.

Section 5.3 Conditions Precedent to Third Disbursement

Prior to the third disbursement of the additional funds granted by this First Amendment, or to the issuance by A.I.D. of documentation pursuant to which disbursement will be made, the Grantee will, except as the Parties may otherwise agree in writing, furnish to A.I.D. in form and substance satisfactory to A.I.D.:

5.3.1 A discussion of the status of implementation of significant reform actions taken since disbursement of the second tranche, including those on devaluation, legalization of the parallel foreign exchange market, establishment of foreign exchange bureaus, streamlining of export and import licensing procedures, and refund of sales taxes and customs tariffs on imported inputs for the production of manufactured exports. A key element of this discussion shall be the extent to which progress has been made with respect to implementing the June initiatives on foreign exchange markets.

5.3.2 Evidence that the Grantee continues to adhere to agreements between itself and the multilateral agencies (the IMF and I.D.A), particularly those regarding exchange rate management, including (a) regular and frequent adjustment of the official exchange rate to ensure that this rate is not allowed to appreciate in real effective terms over time, and (b) periodic examination of the official exchange rate with view to effecting real effective evaluations such that the official exchange rate is market-clearing by year-end 1991.

5.3.3 Evidence that, in the period since disbursement of the second tranche, the Grantee has regularly carried out changes in pricing for domestic sales of petroleum products such that the retail price of petroleum products fully reflects the CIF Uganda cost (at no less than the official exchange rate) plus delivery costs within Uganda, plus government taxes.

Section 5.4. Notification. When A.I.D. has determined that each of the conditions precedent specified above have been met, it will promptly so notify the Grantee by Implementation Letter issued pursuant to Section 9.1 of the original Program Agreement.

Section 5.5. Terminal Dates for Meeting Conditions Precedent.

(a) Tranche Number One: If all the conditions precedent specified in Section 5.1 of this First Amendment have not been met by January 31, 1991, or such later date as A.I.D. may agree to in writing for any or all such conditions precedent or parts thereof, A.I.D. at its option, may terminate this Agreement in whole or in part by written notice to the Grantee.

(b) Tranche Number Two: If all the conditions precedent specified in Section 5.2 of this First Amendment, have not been met by April 30, 1991, or such later date as A.I.D. may agree to in writing for any or all such conditions precedent or parts thereof, A.I.D. at its option, may terminate this Agreement in whole or in part by written notice to the Grantee.

(c) Tranche Number Three: If all the conditions precedent specified in Section 5.3 of this First Amendment have not been met by July 31, 1991, or such later date as A.I.D. may agree to in writing for any or all such conditions precedent or parts thereof, A.I.D. at its option, may terminate this Agreement in whole or in part by written notice to the Grantee.

ANNEX A

Narrative Summary	Objective Verifiable Indicators	Means of Verification	Important Assumption
Goal			
To increase rural production and employment	By 1993, Employment in the NTAE sector measured by numbers employed hours worked, and total wage bill will increase by 10%	- GOU - BOU Reports	- Peace and Stability are maintained - Economic reforms are continued and new ones implemented - External factors (access to markets) are favorable - Recent oil price increases are a temporary phenomenon - Industrialized countries' economies will continue to experience healthy growth
Purpose	**EOPS**		
To increase the range and volume of non-traditional exports	Over a 100% increase in value of recorded NTAEs by 1993	- Evaluation - Observation - Monitoring - BOU reports - ICI financial reports - Customs report	- BOU is able to deliver services - Importers are able to deliver appropriate commodities/equipment - Exporters are able to export non-traditional Agricultural Products - Commodity prices are stable
Outputs	**Magnitude of Outputs**		
- Maintenance & expansion of economic policy reforms - ensure access to FX by private sector importers/exporters to support expansion of NTAEs - Improved infrastructure to support export marketing	1) Official exchange rate rises to a market clearing rate by 12/91 2) Time and uncertainity reduced re: export licensing - exporters confident licenses will be issued within 2 weeks of application 3) Evidence that the private sector has adequate access to FX resources provided through the program, NLT 50%	- Evaluation - Observation - BOU Reports - Monitoring - EPADU Reports- Customs Report	- Local currency available - Successful implementation of the CIP
Inputs	**Magnitude of Inputs**		
1) Non-Project Assistance 2) GOU Total	$20,000,000 2,250,000 $22,250,000	- Review of AID financial reports - BOU records	- GOU meets conditionality - Local currency available - Non-project assistance is disbursed and tracked

ELTRA5 (RY)

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Agency for International Development
Washington, D.C. 20523

SEP 12 1993

TO: See Distribution

FROM: Jay Smith, AFR/DP/PAR
Joe Lieberson, PPC/CDIE/PPE for JL

SUBJECT: Review of Draft AEPRP Impact Evaluation--Uganda Agricultural Non-Traditional Export Promotion Program

Attached please find for your review and comment the latest draft of the subject evaluation report. This is the sixth in a series of impact evaluation reports carried out by PPC/CDIE and the Africa Bureau during fiscal year 1990 with significant participation as well from officers in ANE and LAC bureaus. African Economic Policy Reform programs were evaluated in Senegal, the Gambia, Mali, Malawi, Cameroon and Uganda.

We would appreciate receiving any comments you care to make by October 1. Following this review, the report will be edited and published in the CDIE series of impact evaluations.

Attachment: a/s

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UGANDA: THE AGRICULTURAL NON-TRADITIONAL EXPORT PROMOTION PROGRAM

A.I.D. PROGRAM IMPACT EVALUATION REPORT NO.

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U.S. Agency for International Development

Joseph Lieberson, Economist
U.S. Agency for International Development

August 1990

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PROGRAM DATA SHEET

1. COUNTRY: Uganda

2. PROGRAM TITLE: Agricultural Non-traditional Export Promotion Program (ANEPP)

3. PROGRAM NUMBER: 617-0113/617-T-601, C.I.P. Grant
   617-0113, Technical Assistance Grant

4. A.I.D. FUNDING: $12.5 million, Policy Reform, C.I.P. Grant
   $ 1.5 million, Technical Assistance Grant

5. PROGRAM IMPLEMENTATION:
   Authorization date: August 15, 1988
   Planned completion date: March 30, 1990
   Estimated completion date: December 31, 1990

6. PROGRAM PURPOSE: To increase Uganda's nontraditional exports over the long term.

7. RESPONSIBLE USAID MISSION OFFICIALS:

   Mission Director: Richard Podol/Keith Sherper

   Assistant Director: Fred E. Winch (1987-90)

   Deputy Director: Stephen Ryner (1990)

   Project Officers: Edward Smith/Alan Lessik

GLOSSARY

A.I.D.	U.S. Agency for International Development
ANEPP	Agricultural Non-Traditional Export Promotion Program
BOU	Bank of Uganda
C.I.F.	Cost, insurance and freight
C.I.P.	Commodity Import Program
EPADU	Export Policy Analysis and Development Unit
GDP	Gross domestic product
GOU	Government of Uganda
IMF	International Monetary Fund
MPED	Ministry of Planning and Economic Development
MOC	Ministry of Commerce
NTE	Nontraditional export
P.L. 480	Public Law 480 (U.S.)
PMB	Produce Marketing Board
SOE	State-owned enterprise
USAID/Kampala	U.S. Agency for International Development Mission to Uganda

1. INTRODUCTION

In 1988, the U.S. Agency for International Development (A.I.D.) obligated $14 million for the Uganda Agricultural Nontraditional Export Promotion Program (ANEPP). This program was designed to move the economy away from reliance on a single commodity, coffee, which generated almost all foreign exchange earnings by 1987. As indicated by its performance up to the mid-1970s, Uganda has great potential for a diversified agricultural export base. The A.I.D. Mission in Uganda (USAID/Kampala) wished to support a set of policy initiatives that would provide incentives to the private sector to take a lead role in expanding foreign exchange earnings through the promotion of agricultural nontraditional exports (NTEs). This program would have the benefit of immediately raising earnings and the longer-term effect of demonstrating the efficiency of private sector-led growth. The purposes of the impact evaluation were to assess the impacts to date, to draw lessons learned from the performance of the program, and to make recommendations that will assist the Mission in its proposed extension of the ANEPP.

A four-person evaluation team visited Uganda in August 1990 to investigate and assess the impact of the ANEPP after two years of implementation. The team formulated hypotheses based on the program design document, and sought appropriate data sources to field-test those hypotheses. A variety of information sources were used, including interviews with numerous private exporters, users of the commodity import program (C.I.P.), key Government of Uganda (GOU) officials, beneficiaries of the technical assistance activity, Mission personnel, other donors and a few nontraditional export producers; program files; GOU documents and site visits. Time, and security considerations in certain areas, did not permit extensive field visits for producer interviews, and, after only two years of operation (one planting season in some areas, and two in others), impact would be difficult to ascertain. Instead, the team focused its efforts on assessing the impact on the program's direct beneficiaries: the exporters and importers, and its impact on the economy. Quantitative data were particularly scarce and unreliable, so the team examined trends and perceptions of key actors as its main means of assessing program performance.

2. SETTING

2.1. General Description and History

The Republic of Uganda, a landlocked nation of about 16.9 million people, is a country of abundant land and water resources about the size of the state of Oregon. Historically Uganda's people have been able to feed themselves and generate sufficient surplus to engage in lively commercial activities. The major food crops

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grown include bananas, matooke (plantain), beans, maize, cassava, sweet potatoes, groundnuts, sorghum, and millet. Livestock yields milk, meat, horns, hides and skins. Virtually all of these commodities are traded in both local and regional markets within Uganda, as well as across Uganda's borders into neighboring countries. Food crops dominate agriculture, with about 90 percent of the arable land that is under cultivation being devoted to them, and the remaining 10 percent given to export crops. The traditional export crops cultivated include coffee, tea, cotton and small amounts of cocoa, nuts and spices. Formerly, small amounts of sugar and tobacco were also exported but now these crops are used in local agroprocessing industries to meet domestic demand. All of the commodities discussed above except coffee are now considered nontraditional exports.

Agriculture accounts for over two-thirds of Uganda's Gross Domestic Product (GDP), 99 percent of export earnings, 80 percent of employment and 60 percent of government revenues. Most farms (average size 2.5 hectares) are held by small-scale producers. Except for tea and sugar, which are grown on estates (with some outgrowers), all production for export, as well as for domestic consumption, is produced on smallholdings.

During much of its recent past, Uganda has depended primarily upon coffee to generate foreign exchange earnings, with over 95 percent of export revenue accruing from coffee exports. Taxes on coffee exports have also been an important source of government revenue, though this has declined in the past six years from 46 percent in 1983/84 to 14 percent in 1989/90. Still, the 1989 collapse of the International Coffee Agreement and the precipitous fall in world coffee prices created a severe economic hardship for the Ugandan Government.

Severe deterioration in the economic situation began after Idi Amin seized power in January, 1971. Real GDP declined by about 20 percent during the 1970s. Many of Uganda's most talented citizens either fled into voluntary exile (estimates range from 500,000 to over 1 million people), or were forced to leave, as in the mass expulsion of the Asians in 1972. The Obote Government in early 1981 initiated a recovery program with considerable assistance from the donor community. Despite some recovery in the early 1980s, with increased political and military instability beginning in 1984, expenditures escalated, inflation accelerated, the exchange rate became overvalued, and GDP declined in absolute terms. A military coup, followed by a civil war, inflicted further destruction on infrastructure, and brought the economy to a virtual standstill.

2.2 The Nature of the Problem

The Museveni Government inherited an extremely difficult situation when it came to power in January 1986. A greater part

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of the major trunk roads had deteriorated, large proportions of the nation's vehicle fleet were either destroyed or stolen, most manufacturing plants had closed down, and productive agricultural areas had been ravaged. The new Government also inherited a considerable external debt burden.

In January 1987, the Government approached the donor community for financial support to arrest the economic decline and set the basis for sustained development. The IMF and World Bank initiated sizable stabilization and structural adjustment programs. Recognizing the need to reduce Uganda's extreme dependence on coffee, A.I.D. concentrated on nontraditional export promotion supported by an active policy dialogue.

At that time the economy faced a number of problems:

- the private sector was not permitted to formally export most commodities;
- the official exchange rate was grossly overvalued;
- the GOU was heavily involved in barter trade, for which the terms of trade were against Uganda;
- there were severe shortages of foreign exchange, with the BOU allocating only small amounts to the private sector. Imports financed by official foreign exchange, especially for consumer goods and productive inputs, declined;
- inflation was very high; as the banking system was operating with negative real interest rates, savings rates were meager and therefore domestic resource mobilization was unable to finance the required private investment in productive capacity.

2.3. The Government of Uganda's Response

Beginning in 1987, and with broad support from the donor community, the GOU initiated a substantial series of policy reforms. Many of the reforms related to changes in the trade, payments, and tax regimes that affect production incentives for both exports and import-competing industries. Critical reforms included:

- Exchange rate adjustment: In May 1987 the GOU devalued the Shilling by 70 percent followed in mid-1988 by an IMF supported policy of periodic devaluations - two in 1988, four in 1989 and five thus far in 1990. The stated intention is to merge the official and parallel rates sometime in 1991.

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- Simultaneous export/import licensing: As an interim measure to encourage exports, in 1988 an A.I.D. condition required the Government to provide exporters of nontraditional crops with an import license equal to the value of their exports. Any disadvantage suffered from exporting at the official exchange rate was balanced by the ability to import scarce goods that could be sold at a large profit at open market (i.e., parallel exchange rate) prices. This reform was the first official recognition that the exchange rate was overvalued, and that exporters should have access to the parallel market rate. In effect, the GOU removed itself completely from regulating exchange rates for those participating in the dual licensing program.

- Foreign exchange retention account: This option, in response to shortcomings in the simultaneous import/export scheme offered exporters several choices: holding the foreign exchange, using the foreign exchange to import goods or selling the foreign exchange initially to the GOU and later (see below) on the parallel market, and receiving the premium rate from that market.

- Parastatal control of the export trade: The Government ended the Produce Marketing Board's (PMB) monopoly on the export of non-traditional crops (beans, sesame seed, maize and groundnuts). The PMB could still export those crops but it would now have to compete with the private sector. From 1988 to mid-1990 the Government steadily abolished parastatal export monopolies on all crops, except cotton and coffee.

- Trade regulations and procedures: A.I.D. conditionality called for a reduction in the bureaucratic procedures and costs for both export and import licenses. For exports, the Government established a streamlined, "one-stop" window and also reduced the number of forms and required approvals. Instead of requiring an export licence for each and every shipment, a system is being put in place for a six-month certificate with no volume limits. As a result of these reforms, exporters now face much lower costs and a reduced processing timeframe.

- Export of horticulture crops: Uganda is a low-cost producer of a large variety of fruits and vegetables that could be exported by air freight to European markets. In order to encourage such exports, the 1990 P.L. 480 agreement include these conditions: a two-thirds reduction in the airport handling fee, the elimination of royalties paid by private carriers to Uganda Airlines, a commitment from the Government to bring in additional air carriers, and a commitment by the Government to encourage private firms to invest in cold storage facilities at the airport.

- No FOREX Imports: Under the current government, an importer who has access to foreign exchange abroad has been allowed to use that foreign exchange for imports. He/she does not have to show where the foreign exchange was kept or whether it was obtained legally. This is an effective policy that allows flight capital and "informal" foreign exchange earnings to return to Uganda. In 1989 there were approximately $100 million of "no FOREX" imports.

- Parallel Foreign Exchange Market: The Government condoned the emergence of, and then officially recognized, the parallel or kibanda market, wherein foreign exchange is traded freely at a rate that was much higher than the official rate. In July 1990 the Government moved all exports except coffee to the kibanda rate. By formalizing and expanding the kibanda market, the government has introduced effective market pricing and incentives which is likely to boost nontraditional exports and the level of private sector imports. This represents the final step in the adoption of a market-determined exchange rate policy applicable to nontraditional exports. Only the coffee sector and selected other inflows remain subject to exchange controls.

3. THE A.I.D. RESPONSE

The A.I.D. policy reform program was designed to increase non-traditional exports over the long-term through a three pronged approach of: 1) improving export incentives; 2) providing imports needed by NTE exporters and producers; and 3) building capacity to continue the policy reform process and to provide assistance to private exporters. These efforts would demonstrate to the GOU that the private sector was critical to Uganda's development efforts.

3.1. Policy Reform and Policy Dialogue

The GOU had established two major objectives in its policy reform program: stabilization and restructuring toward demand restraint and increased foreign exchange earnings from exports, particularly nontraditional ones, to address its chronic balance of payments problems. A.I.D. macroeconomic policy reforms supported the IMF stabilization program, which was designed to restore price stability and to adjust the foreign exchange rate to a more market oriented level. In addition, A.I.D. policy reform conditionality (under ANEPP and P.L. 480) included a number of reforms designed to encourage private sector, non-traditional exports. These included policy reforms and implementation procedures designed to:

- maintain the exchange rate policy agreed to in consultations between the GOU and the IMF;
- streamline the export/import license application and approval process; and
- establish a USAID commodity import program within the BOU to

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finance imported agricultural inputs for the production of NTEs and to streamline the GOU application and approval process for that program.

Throughout the course of program implementation, extensive policy dialogue took place at a relatively high level within the GOU and A.I.D. regarding the appropriate macroeconomic and trade policy environments for accelerated private sector-led growth.

3.2. The Commodity Import Program

With a severely depressed economy and a shortage of imports, many exporters lacked key inputs that were vital to their export efforts. The ANEPP included a C.I.P. component that financed the import of seed, fertilizer, raw materials for the manufacture of farm implements, and packing materials and bags for export commodities. During 1989, the list of eligible items was expanded to all those that could be shown to contribute to ANEPP's purpose. The dollars were purchased by private importers at the official rate, which was substantially below the parallel market rate. The local currency C.I.P. counterpart supported non-traditional exports by funding programs designed to improve marketing, training, research and technical assistance.

3.3. The Technical Assistance Activity

A.I.D.'s support of policy reforms and the funding of CIP inputs was clearly needed to solve the immediate problem, but it would not address Uganda's longer-term need for a capacity to continue economic monitoring and new policy formulation. The Uganda Government needed the capacity to analyze data and to examine issues in order to develop a continuing series of policy reforms, and the A.I.D. Mission needed a means of monitoring the performance of its program.

To solve these problems, an A.I.D. technical assistance component provided support for three functions: trade policy analysis, export promotion, and ANEPP monitoring. A covenant stipulated the establishment of a unit for trade policy analysis and program monitoring, later named the Export Policy Analysis and Development Unit (EPADU), in the Ministry of Planning and Economic Development. A.I.D. provided EPADU with expert advisors, consultants, equipment, training and CIP local currency support. By the end of the program EPADU was to have the capacity to analyze and develop policy options for the Government. The Government was also to have expanded capability to provide direct support and services to non-traditional exporters by the project's end.

3.4. The P.L. 480 Agreement

As one if its first contributions, EPADU produced a position paper on constraints to air cargo shipment and provided staff time to a commission investigating air cargo constraints. EPADU's analysis brought to A.I.D.'s attention that the small numbers of flights and overregulation of air cargo arrangements through Uganda's major airport at Entebbe was significantly impeding its NTE promotion efforts. Therefore, it included in the self-help measures of the 1990 P.L. 480 Agreement two policy elements

- permission for at least two private air cargo carriers to operate at the airport, institution of internationally competitive airport charges and fees to private carriers and the abolition of royalties charged by the national carrier for NTEs; and

- encouragement for at least two private firms to invest in and operate cold storage and warehousing facilities at or near Entebbe Airport.

4. <u>THE IMPACT OF THE AGRICULTURAL NONTRADITIONAL EXPORT PROMOTION PROGRAM</u>

<u>4.1. Macroeconomic Impacts</u>

The content and thrust of the policy reforms discussed in Sections 2.3 were influenced and supported by several key actors, including the IMF, the World Bank, A.I.D. other bilateral donors and, of course, the government itself. Because many of the reforms were interrelated and mutually reinforcing it is not always possible to pinpoint the precise impact of the measures supported by a given donor. Further, the GOU's reform efforts represent a <u>process</u> whereby one measure leads to or paves the way for follow-on reforms. Thus, the impact of one reform typically is overtaken by the effects of the next reform. Nonetheless, there is broad agreement that the GOU's policy reform program was a resounding success. Two major macroeconomic impacts can be highlighted:

- The economy grew at more than 6 percent per year between 1987 and 1989, and,

- Inflation has been brought under control, falling from over 200 percent in mid-1988 to 26 percent by June 1990.

The GOU learned two important lessons from its experiences since 1987 which are shaping its policy agenda for the 1990s:

- The root cause of inflation is excessive government spending and, without disciplined budgeting, inflation will continue; and

- An overvalued exchange rate creates imbalances. Therefore,

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the exchange rate must reflect market prices so that Uganda's exports can be competitive in world markets.

4.2. Impacts on Nontraditional Exports

4.2.1. Value and Volume of NTEs

It is difficult to measure the impact of the ANEPP on actual growth in volume or value of nontraditional exports because the program is only a little over two years old. Although the GOU liberalized trade and opened marketing of most nontraditional exports to the private sector, during the first two years of the ANEPP, some state-owned enterprises still exerted an important and even monopolistic role over a few key commodities. Moreover, effective agricultural marketing systems require not only a policy and regulatory environment that offers incentives to producers and marketing agents, but also a strong infrastructural base with reliable services, and this is still lacking in Uganda.

4.2.1.1. Actual Exports

It is also difficult to measure ANEPP's impact on nontraditional exports because of the dearth of accurate data. Much of the data available from various GOU agencies is incomplete and contradictory. The most reliable data at the time of this evaluation came from the Customs Department. The team had access to information from the Customs collection point at Entebbe (predominantly airfreight shipments) and from its inspection and certification office in Kampala (predominantly overland shipments). Together it is estimated that these two points comprise the sources for information on at least 75 percent of NTEs. (It should also be noted that the Customs Department has not published any reports in more than 15 years, so no trend data prior to the ANEPP was available.)

The Customs data from these two stations indicate that the value of nontraditional exports has more than doubled between 1988 and 1990. The total values of nontraditional exports passing through Entebbe and certified at Kampala were: $5.5 million in 1988, $8.6 million in 1989, and had already reached nearly $6 million by July of 1990.

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Table 1

Customs Data: ENTEBBE
(Value in US Dollars)

COMMODITY	1988	1989	1990 (Jan-July only)
Pineapples	494,473	252,106	89,466
Bananas	25,303	120,668	28,158
Fresh Fish	4,339	23,213	38,002
Fresh Ginger	1,850	72,547	6,256
Mixed Fruits	5,796	37,339	20,785
Processed Tea	0	0	132,875
Maize	0	0	95,139
Others	60,833	52,575	83,197
TOTAL:	592,594	558,448	493,876

Table 2

Customs Data: KAMPALA
(Value in US Dollars)

COMMODITY	1988	1989	1990 (Jan-May only)
Hides & Skins	4,083,421	6,098,360	1,924,797
Dry Fish	6,000	34,333	12,657
Beans	0	427,941	32,127
Timber	330,031	168,180	86,777
Sesame	0	1,012,148	2,399,449
Maize	263,542	60,202	545,951
Cocoa Beans	0	0	307,151
Others:	211,305	231,115	0
TOTAL:	4,894,299	8,032,279	5,308,908
GRAND TOTAL:	5,486,893	8,590,727	5,802,784

4.2.1.2. Licenses to Export

The above statistics confirm the trends that emerge from analyzing the other two sources of data. One source is the Ministry of Commerce which maintains a list of export licenses taken out by exporters.

The total value of nontraditional commodities which were licensed for export by the Ministry of Commerce from June, 1988 through March 31, 1990 is $88.1 million. This figure more than four times greater than available Customs data suggest for the same period. Even if just one-fourth ($22.0 million) of the exports licensed during this period were actually made, nontraditional exports would have increased significantly during the first two years of the ANEPP.

Ministry of Commerce data for nontraditional agricultural export licenses granted during the ANEPP to date are given below. The table below includes those five commodities for which the most licenses were granted, and the seven commodities with the higherst aggregate face value of licenses.

Table 3

Selected License Data: Ministry of Commerce

COMMODITY (US$)	1988	1989	1990*	TOTAL	VALUE
Fish	21	57	37	115	4.9 m
Beans	15	36	57	108	13.9 m
Hides & Skins	14	53	15	82	20.2 m
Timber	42	11	15	68	7.6 m
Tea	9	35	12	56	12.5 m
Sesame	3	14	21	38	7.0 m
Maize	10	3	11	24	10.4 m
TOTALS:	114	209	168	491	76.5 m

*The data for 1990 only cover the period January 1 - March 31.

While this data must be used with caution, it confirms the trends that emerge from the Customs Deptartment statistics and from interviews with exporters. That is:

- Hides and skins are the leading non-traditional export commodity;
- Sesame is growing rapidly in importance;
- Foodstuffs (e.g. maize, beans and smoked/fresh fish) are nontraditional exports of significant value; and,
- Perishable fruits and vegetables depend heavily upon air cargo and the loss of Uganda Airlines' air cargo capacity has affected the export of those items.

4.2.2. Private Sector Participation in Nontraditional Export Marketing

Exporters noted in interviews that an export license is frequently not used. Interviews with 18 well-established exporters of nontraditional crops indicate that they used about 70 percent of the licenses which they took out. In contrast,

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some traders (businesses engaged in any kind of buying and selling, not primarily in the export business) have also taken out licenses for speculative purposes and never used them. (Currently, many traders are speculating by taking out sesame export licenses.) These speculators are able to do this because the export license fee is relatively low (one percent of the C.I.F. value of the export shipment) and not payable until the exports are actually ready for shipment. The team was unable to ascertain the precise percentage of licenses taken out on speculation and not used. Best estimates made by GOU officials are that no more than 50 percent of all licenses issued have been used; but given the Customs data above, even that estimate may be too high.

The export license data is, however, indicative of the private sector response to the growth in opportunities to engage in nontraditional exports during the period of the ANEPP. Indeed, the velocity of licenses being taken out for most nontraditional exports is increasing, which indicates that new marketing channels are being established by the private sector. During the period under review, the role of state-owned enterprises in nontradtional exports was evolving. Major changes for those of greatest importance included:

- <u>Hides & Skins:</u> the Uganda Leather and Tanning Industry monopolized raw exports until November, 1988, and it still controls exports of treated hides and skins by virture of its ownership of the only processing facility in the country;

- <u>Tea:</u> the Uganda Tea Authority monopolized exports until July, 1990 when the first few private traders and cooperatives were allowed to enter the market;

- <u>Timber:</u> Uganda Hardwares Ltd. monopolized exports until June, 1989, thus permitting private sector involvement until March, 1990, when the GOU suspended further timber export licenses until an assessment of forestry resources could be made.

An analysis of the Customs Deptartment statistics, export licenses data, and interviews with exporters indicates that:

- The policy reforms supported by the ANEP Program did provide incentives to exporters to commence or accelerate purchases from NTE producers. This led to an increase in the volume of nontraditional exports.

- Increases in the volume of exports came from increases in production of commodities that were fairly easy to achieve because the commodities were ones which many Ugandans are already harvesting, they do not require

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special farming and husbandry practices and markets exist within the region for them. Indeed, most staple foods licensed for export were sold to neighboring countries and could easily be transported to markets by truck. Hides and skins, although exported to Europe and the Middle East, are also transported overland and then by sea. While not a food crop, these points also apply to timber.

- The dramatic improvement in the main highways within Uganda during the past three years greatly facilitated the increase in marketing of commodities both within Uganda and for nontraditional exports to neighboring countries.

- Some nontraditional commodities, especially exotic fruits and vegetables, did not experience the same dramatic growth in export volumes because of their special production and marketing requirements. These commodities are highly perishable and require refrigeration from point of harvest to point of sale. Most require air cargo shipment to reach their ultimate market while still fresh. (Hence, the loss of aircraft by Uganda Airlines adversely affected pineapple exports, for example.) Moreover, attractive and appropriate packaging is required for them because of the highly competitive markets for which they are destined (primarily Europe and the Middle East). Unfortunately, the marketing infrastructure required for these commodities has been almost totally lacking for the past two years.

Finally, it should be emphasized that marketing arrangements for all nontraditional exports are fragile; most marketing has been conducted on an ad hoc basis. Lack of infrastructure and the absence of relationships of trust between most producers, buying agents and exporters has limited the growth of effective marketing systems in response to the policy reforms supported by the ANEPP.

4.3 Impacts on Key Economic Actors

4.3.1. Benefit Incidence Among Target Groups

The design document identified five principal categories of beneficiaries. These were: NTE exporters, C.I.P. importers and their clientele, producers of NTE commodities, buying agents in the marketing process for various commodities and users of imported commodities brought in under the import half of the dual licensing scheme.

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Exporter incomes do appear to have risen, though largely from the import trading margin and not their export earnings as expected under the dual licensing scheme. Those who were also C.I.P. beneficiaries imported bags and other items they had previously been unable to obtain in the quantity and quality needed for export. Through the C.I.P. they received the bags they needed at a price that was at least 50 percent below the local market price in contrast to other importers of bags who only had access to foreign exchange at the parallel market rate.

Importers and Users of C.I.P. Commodities: Under the C.I.P. to date, the following commodities directly related to production and marketing have been imported:

Table 4

C.I.P. Commodities under ANEPP

COMMODITY	QUANTITY	VALUE ($)
Gunny bags	4,530,400	2,830,980
Fishnets	66,300	512,668
Fertilizer	1,000 m.t.	441,500
Denier bags	525,200	300,000
Improved seeds	not available	187,853
Panga materials	not available	93,519
Pineapple/Vegetable Cartons	206,000	180,440

In some instances, the quantities of these commodities suggest that benefit incidence has been relatively narrow. Few seeds have actually been imported, and the amount of fertilizer is negligible. Thus, the evidence that farmers directly benefitted on any broad scale is scanty. C.I.P. importers benefitted extensively, due to the windfall realized by the foreign exchange rate differential. Those who were also exporters benefitted from obtaining the necessary packaging materials to permit them to realize income gains on their exports.

The importer of fishing nets and outboard motors sold those products to individual fishermen, mainly near Lake Victoria. The fishing industry is growing. Traders report that there has been an increase in the number of fishing boats, there are three new fish packing plants and a number of small, informal processors have expanded their operations. These plants reflect major capital investments by donors and other private sector donor guarantee programs, but are premised on the greater and more reliable supply of fish generated in part by the imported nets and motors.

The firm that imported steel, manufactured 52,200 pangas, a small number relative to the potential market of 2 million rural

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households. A panga is the East African machete which is one of the major farm implements of small-scale farmers (the other being the hoe). Almost all of these pangas have been sold and are being used by farmers and others in rural areas.

Marketing systems, outside of outgrower schemes (many of which pre-dated the ANEPP) are so weak that it unlikely that consistent price signals are being sent to producers of nontraditional export commodities as yet. Although for certain commodities, such as hides and skins, beans and sesame, price incentives have affected the availability of marketable surplus, there is less certainty that actual changes in on-farm resource allocation toward NTEs has occurred. Counter examples, such as the crest and crash of maize prices, suggest that producers will continue to rationally diversify their risk across a number of commodities.

There is also anecdotal evidence that non-price factors influence producer decisions. The civil disruption had returned certain communities to barter trade, but now traders are purchasing for the export market, which has reintroduced cash to the rural economy. Lack of immediate payment has been an issue in the coffee sector, causing many producers to minimize their investments in coffee production. Buyers of NTEs have been paying cash on the spot, thus providing an additional producer benefit. In a few instances, exporters or marketing cooperatives have been providing difficult-to-obtain inputs (such as soybean seed) to farmers, easing another non-price constraint. Information on the benefit incidence of these other factors is extremely spotty, however, and requires additional verification and quantification.

Others in the Marketing and Processing Systems: Many of the buying agents live in Kampala. Some are put on very limited contracts by the exporters; others are full time employees. The system is, as yet, not generating large amounts of employment. There may be some employment being generated in rural areas in guarding storage sites and, on a sporadic basis, in handling. However, these income gains cannot be considered significant, or widely distributed at present. Furthermore, many processing facilities lack adequate supplies, or have recently been put on a competitive footing, and are thus not operating at full capacity, or are actually reducing employment to realize efficiency gains.

The volume of imports under the dual licensing scheme has been small, so benefit incidence to end-users of imports under the export/import scheme was probably also relatively low. Moreover, these benefits are indirect and very difficult to trace.

4.3.2. Geographic Distribution of Benefits

It is noteworthy that an unintended benefit of the ANEPP's

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reduction in emphasis on coffee as a major export earner, and the consequent emergence of crops such as sesame, beans and hides and skins as significant NTEs, shifts the locus of benefits away from the "fertile crescent (Buganda, Busoga and Bugisu)" and toward some of the less well-endowed regions, which have, at least since the colonial era, been the have-nots in Ugandan society. Sesame is grown in the drier northern regions, livestock are raised in the west and the northeast and beans are produced in the populous far south. The significance of this distribution of NTE benefits should not be underestimated in terms of its political impacts, especially if the development of infrastructure and market information systems follows these lines as well as the glitzier horticulture subsector.

5. FACTORS INFLUENCING PERFORMANCE AND IMPACT

5.1. Macro and Sectoral Economic Factors

The ANEPP CIP was obligated in August 1988. By January 1989 a $7.5 million Letter of Commitment had been established for the first tranche of funding. By June 1989 the CIP application process was moving along smoothly -- A.I.D. had received 27 import applications and had approved transactions valued at approximately $2 million. A problem developed with the exchange rate. The official exchange rate was USh 200 = $1, the parallel rate was over 400 and the Government's Special Import Program used a rate of USh 400 = $1. The Bank of Uganda wanted the A.I.D. CIP to move at the 200 rate while A.I.D. wanted to use the 400 rate in order to eliminate windfall profits. There was an impasse and CIP disbursements ground to a halt. By March 1990 the official rate had been raised to nearly 400, which was by then close to the parallel rate. At least nine months passed with no C.I.P. disbursements before the problem was solved. The delay in CIP disbursements also meant that local currency was not being generated. The limited amounts of local currency available were programmed to support EPADU's operating costs and the USAID Mission's Trust Fund, but these were inadequate, and the Mission was forced to request from the GOU an advance of USh 248,000,000 on expected generations from the C.I.P. in order to meet its local operating expenses during the period.

The indigenous private sector is favorably viewed by policy makers, and, indeed, is seen as the prime mover of the economic revival. As one high-level GOU official remarked, "they are on a roll." However, the private sector is rebuilding from a shattered base and, remembering the lessons of history, extremely cautious. Thus, the supply response of the productive sectors may have been slower to date than the policy makers would like, and there is the risk that "reform fatigue" will set in and the government will back-pedal on policy reform. This points up the critical role that balance of payments support has had in sustaining a high level of imports, i.e., providing the inputs and the time to allow the productive sectors to accelerate output.

There are a few initial indicators of business confidence. A local banker reports that the ratio of term deposits (savings) to current deposits (checking) has doubled from 15 percent a year ago to 30 percent today. This is in response to a series of reform measures to control inflation and liberalize control over interest rates. Interest rates are now real and positive and individuals feel comfortable holding savings deposits as a store of wealth. Also, there is currently a private sector residential and commercial construction boom in Uganda in response to the generally improved business and security climate. The GOU has provided no foreign exchange for private sector building supplies and equipment and informed officials report that such imports were financed largely via the "no forex required" regime.

Until early 1988, state-owned enterprises dominated export and domestic marketing of the major agricultural commodities produced in Uganda. As part of its policy reform program, however, GOU policy makers decided in 1988 that the Government did not have the financial resources to sustain the marketing operations of inefficient state owned enterprises.

The lifting of monopoly rights to market specified commodities, combined with an end to the subsidization of the state owned enterprises has meant that the state owned enterprises have been directed to specialized marketing niches, such as barter trade, and the provision of grading and quality control assessment services. This has leveled the playing field considerably for private sector operators. Evidence from the licensing and export data indicates that private entrepreneurs are moving strongly into marketing of commodities formerly monopolized by the state owned enterprises.

5.2. The Physical and Institutional Infrastructure

The transport network -- road, rail and air -- provides the vital link between the farmer and the foreign consumer. In the last three years most of the trunk roads have been rebuilt and work on the feeder roads is just starting. Areas of the country that were completely cut-off can now ship goods in and out. Areas that took days to reach now can be reached in a matter of hours. A similar effort has been launched to upgrade the railroads. While in 1986 only 264,000 tons were carried by rail, the tonnage had increased to 912,000 tons in 1989. Air cargo facilities at Entebbe Airport are outdated and inadequate and have not been improved.

Marketing factors affecting exports: Increases in volume came from increases in production which were fairly easy to achieve for the major commodities mentioned above because they are crops

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that many Ugandans are already growing, they are familiar with their farming requirements, and the marketing of such commodities does not require sophisticated infrastructure nor specialized knowledge and skills that are not easily obtainable. The ANEPP helped to increase opportunities for marketing for bulk commodities that were already being produced but not marketed effectively.

On the other hand, some of the other non-traditional exports, especially fresh fish, spices (such as ginger) and exotic fruits and vegetables, do have special marketing requirements, especially in terms of the kind of infrastructure, institutions, services and skills and knowledge needed to produce and market them effectively. In addition to the air cargo problems exporters of fresh produce for the European and Middle Eastern markets have, there are other infrastructural and service-related problems for these commodities.

The lack of reliable, attractive packaging materials is another major constraint. In addition, production of these crops requires tight control over the quality, size and appearance (color, shape and lack of bruising) of the product. This will require closer coordination between exporters and buyers in overseas markets as well as between exporters and producers. Indeed, at this time, the most successful exporters of fresh produce are the farmers' organizations and businessmen and women who exert more quality control over the production and packaging of these commodities. Once produced, these commodities require careful handling from the farmgate to the point of export. There must be adequate and appropriate transport, especially cold storage trucks and warehouses at collection and shipment points. These facilities are virtually absent at the present time in the marketing system for horticulture.

A distinct difference in the effects of the improvements in the administrative system emerged in discussions with exporters. For large-scale operators, while the process is still cumbersome, the uncertainties and the long processing time has been greatly reduced. Non-traditional exporters are generally satisfied with the progress in streamlining the system and look forward to more promised improvements. For these exporters, there has been a clear reduction in export controls, regulations and processing time. Non-traditional exporters are encourage by these changes.

On the other hand, for firms with smaller value and volume, streamlining or simplifying the procedures for getting an export licenses does not seem to have taken full effect during the period under review. One woman exporter stated that last year it took her one month from the date of application to the date she received her export license; but this year it only took her two weeks. Implementation of this aspect of the reform for small-scale entrepreneurs is proceeding slowly.

Mission-GOU policy dialogue on the major issues of ANEPP (i.e., foreign exchange regime, reduction of bureaucratic controls on exports and greater involvement of the private sector in all phases of NTE production and marketing) was carried on at a senior level on both sides. The team was informed of this at the outset, when it was indicated that all of those able to discuss to reform program in detail were at the level of the Permanent Secretray or above (with the exception of one or two heads of departments within the BOU and the Director of EPADU). This approach to the policy dialogue had its strengths and weaknesses. On the one hand, it lent a great deal of credibility to decisions reached. On the other hand, it probably led to some slowness in policy implementation.

The Mission worked well with other donors, each of whom appears to have found a comfortable niche in the dialogue in Uganda. The Mission both provided information and served as a sounding board and source of support for market-oriented GOU proposals. Recently, the Mission contributed an economic background paper, Trade Policy and Investment Requirements to Facilitate Export Diversification, to the World Bank's Structural Adjustment Credit design, drafted by the Assistant Director. A.I.D.'s overall stance in policy dialogue can be characterized as positive, encouraging and collegial, and key to the realization of the export/import licensing scheme.

In regard to policy implementation, the kind of dialogue in which the Mission engaged was very effective for decisions that could be taken by and implemented by small numbers of people. So, for example, the decision to establish a dual licensing system was followed by effective implementation of that system.

Decisions that had to be implemented by large numbers of civil servants at lower levels in the bureaucracy were less successfully operationalized for a variety of reasons.

- Those responsible for implementation were sometimes simply ignorant of a change. The customs agents on the border with Kenya, for example, asserted that the dual licensing system requirement that earned foreign exchange be returned to the country in the form of goods was still the sole means by which an exporter could repatriate his or her earnings.

- Slowness in reform implementation often arises from the fact that the primary "losers" are those who must put the reform measure into practice. This was likely the case in respect to streamlining licensing procedures. The granting of official sanctions such as licenses often affords an oppórtunity to wield power legitimately (as well as affording magendo opportunities). The Deputy Minister of Commerce stated

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that his most difficult challenge was reorienting the MOC civil servants away from an enforcement mindset and toward a service orientation, and that this process had only just begun.

- Inadequate planning (i.e., a lack of clarity as to who will take action and what sequence of steps is to be followed) also cause implementation breakdowns. The regionalization of licenses, part of the package of streamlining, appears not to have occurred because the responsible entity at the district level had not been identified, and a series of steps actually transferring the function had never been outlined.

Equal credit for effective policy dialogue in Uganda must be given to the Government of Uganda policy reform process, and to an increasingly articulate and organized private sector. EPADU, in its six month of full operation, has made a significant contribution to strengthening the GOU in bringing empirical analysis to bear on policy problems. In fact, as far as trade policy is concerned, responsibility for analysis, whether for A.I.D. of for the GOU, has largely shifted to EPADU.

If the Mission's approach has any drawbacks, it is that there is heavy dependence on a few key players, who, on both U.S. and GOU sides, are vulnerable to replacement or repositioning at any time. It might also have provided more assistance in assuring that those in lower ranks responsible for implementing the policy had the knowledge and the will to act with all deliberate speed on the changes. The team did observe some rivalry and delays in implementing policy decisions which might have benefited from outside assistance.

In Uganda, the years of political turmoil and economic mismanagement have taken their toll on market relationships. Private businesses lack most of the basic conditions that are essential to any free market system: assured land use rights for commercial properties; a system that recognizes and enforces contracts; established and accepted responsibilities between buyers and sellers; information on markets and prices; and liaison and contacts in foreign markets. As a result, most enterprises are highly diversified against risk resulting in many short-term, ad hoc, "one-shot" transactions. The past political and economic situations also resulted in a lack of trust and confidence that have delayed the development of longer-term projects and business relationships, again because entrepreneurs remain risk-averse.

6. LESSONS LEARNED

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6.1. Policy Conditionality is the Critical Factor in An Effective Reform Program

The A.I.D. grant agreement and the P.L. 480 agreement for the ANEPP contained a number of conditions and covenants related to the exchange rate, monetary policy, export regulations and procedures, and incentives for non-traditional exports. The impact of the reforms was dependent upon the Government's ability to successfully adopt and implement the new policies. The assistance could have been in the form of a loan or a grant and it could have been provided as a cash transfer, a commodity import program (CIP), P.L. 480 commodities or even a project. The key factor was the quality and appropriateness of the policy reforms, not the A.I.D.- financed commodities. In fact, there was little relationship between the commodities financed and the reforms: e.g., PL 480 tallow for changes in air freight rates and air freight facilities; CIP gunny bags for changes in trade regulations and export incentives. <u>In policy reform programs well conceived and implemented policies are critical to success; the modality of assistance is not the critical factor.</u>

6.2. Physical Infrastructure is Critical

The years of political and economic turmoil had greatly damaged Uganda's transport system, and many regions were isolated. In the last 3 years most of the railroads and trunk roads have been rebuilt and work on the feeder roads is underway. Areas of the country that were completely cut off can now ship goods in and out. Areas that took days to reach now can be reached in a matter of hours.

Policies are important but if the physical infrastructure is lacking, the results will be minimal. The road and rail rebuilding program has been a major reason behind the growth in non-traditional exports. <u>Good infrastructure is as important as good policies</u>.

6.3. Marketing Systems and Business Infrastructure are also Crucial

The private sector proved able to take advantage of market opportunities to turn a quick, speculative profit. However, it takes a long time to establish reliable market and business relationships, and to realize the payoffs to necessary capital investments which will provide the foundation for sustainable increases in production, marketing and exports. The market and business environments are also affected by government policies. In addition, the business environment is still constrained by excessive government regulations and bureaucratic procedures along with government parastatals that remain dominant for many

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crops and industries. Policy reforms and transport infrastructure are important but businesses also require a supportive market system and business infrastructure if they are to undertake longer-term investment.

6.4 Success Depends upon Choosing the Best Tactical Approach to Policy Reform

6.4.1. The Demonstration Effect of Policy Changes. Many LDC government officials are not fully convinced of the value of free markets and private sector-led growth. The ANEPP used a demonstration approach to both foreign exchange liberalization (i.e., showing how the private sector would respond to higher foreign exchange rates and the ability to retain foreign exchange earnings) and to greater private sector participation in production, marketing and export. As a result of the demonstration effect, Government officials were uniformly impressed with the performance of the private sector and are considering further policy reforms that will expand the role of the private sector.

6.4.2. Start with limited policy reform objectives that can be achieved in a short time period. A.I.D. successfully supported policy reforms that have greatly improved the prospects for non-traditional exports. As a tactical measure this made sense--in 1988 Uganda had a vast array of serious difficulties and A.I.D. had limited resources to tackle such problems as: rebuilding the transport system, encouraging agricultural development, and reforming fiscal and monetary policy. By focusing on a limited sector A.I.D. was able to successfully apply its expertise and resources. Tactically, at the start of a program, it makes sense to concentrate on a limited and manageable task. However, as a program develops A.I.D. needs to move to other, complementary reforms.

6.4.3. A.I.D. needs to deal with broader foreign exchange policy reforms. While the successful A.I.D.-supported reforms are important, non-traditional exports account for only 5 percent of total exports. Uganda needs to move the other 95 percent of its exports to a realistic foreign exchahge rate and it needs to improve its import licensing system. While A.I.D. is a relatively small donor, it can build on its demonstrated success with non-traditional exports as it works closely with the World Bank and the IMF on reform of the broader foreign exchange system.

6.5 A Sustained Capacity for Policy Analysis Supports the Reform Process

In Uganda at the present time, 'there are in place several key factors which appear to facilitate market-oriented policy reform. There are: a) a critical mass of policy decisionmakers, b) open and honest debate on proposed measures, c) a steady supply of empirical analysis supporting the policy options presented for action and d) a supportive body politic. The country's recent history suggests that the economic goals toward which it is striving can be reached. Repudiation of economic mismanagement and political repression of the Amin era may also make the reform task more acceptable to the majority of Ugandans.

A.I.D. has made a significant contribution to assuring that there is a steady supply of empirical analysis in the consideration of policy options by its support to EPADU. Currently, however, the functions that EPADU is undertaking are partially trade policy analysis and partially exporter advisory services. These functions fall within the purviews of two different ministries at best, although the latter may most appropriately be a private sector function. Moreover, as now planned, EPADU will be disbanded when A.I.D. support ends. <u>In order to support the policy reform process with a constant flow of emprirical analysis, provision should be made at the outset for Government support to such capacity in the long term. Items to be considered include: the appropriate institutional location for such a function and recurrent cost financing.</u>

<u>6.6. Adequate Baseline Data Collection and Monitoring are a Must if the Benefits of the Reform Measures are to be Fully Measured</u>

The ANEPP design document detailed an extensive, and probably impractical, data collection, monitoring and reporting plan. The original design of the technical assistance component suggested that it would largely be responsible for these activities, but that was not fully translated into the terms of reference for the technical assistance contract, or into EPADU's terms of reference. Thus, the actual benefits of this program to the Government of Uganda as well as to the groups of beneficiaries identified in the design remain the source of speculation. The data on licensing, although indicative, is unreliable and has created inflated expectations of economic performance in the changed environment. <u>Data collection and analysis for program monitoring and evaluation must be given equal attention to other aspects of program implementation. Simple, indicative indicators must be chosen and regularly sampled, supplemented by in-depth case studies to better understand causality.</u>

<u>6.7. Foreign Exchange Subsies Should be Avoided</u>

Throughout the program A.I.D. provided C.I.P. resources at the official exchange rate. The parallel rate was almost always much higher. Importers were eager to receive a C.I.P. allocation, since imports were scarce, and they were receiving cheap foreign exchange (often at half the free market rate). There may have

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been some justification in 1988 to provide a subsidy to put life into Uganda's moribund non-traditional export market. Now that exporters have become established, and now that the parallel foreign exchange rate applies to most private sector imports and all non-traditional exports it makes little sense to provide CIP importers with a windfall profit. A.I.D. should not provide cheap foreign exchange. Any exceptions should be for very specific purposes and for a very limited time period.

6.8 Administrative Allocation of the C.I.P. Subsidy Sets a Bad Example

The USAID Mission decided, on a case-by-case basis, which C.I.P. commodities could be imported and which firms would recieve the imports. Only a very few importers were lucky enough to received the cheap C.I.P. imports. Other firms did without imports or paid the higher free maket price. A.I.D. would not have to be involved in administrative allocations if the C.I.P. dollars moved at the parallel foreign exchange rate rather than the overvalued official rate.

A.I.D. should adequately inform the whole business community about the availability of A.I.D. resources. If A.I.D. really wants to promote private sector growth, and if A.I.D. really believes that governments "should let the market decide resource allocations", then A.I.D. should not price C.I.P. imports cheaply and should not be invovled in detailed C.I.P. administration.

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THE ANEP COMMODITY IMPORT PROGRAM

CIP Rationale

The heart of the ANEP program was the policy reform package, designed to promote non-traditional exports. With the new policies, exporters would have the incentive to increase exports. Most of the new policies could be put in place by the Government through the announcement of new administrative regulations. While it was fairly easy to put the policies in place, they would be meaningless if the private sector lacked the resources to take advantage of the new opportunities. Exporters faced a number of constraints: overall economic activity was severely depressed; since exports had been depressed for years, production of export crops was also depressed; export infrastructure was almost non-existent; and probably most important -- there was almost no foreign exchange available to import inputs needed in the production and processing of export crops. While it would take time to increase overall economic activity and to improve infrastructure, there were some commodities that were immediately available, for export. With the proper price incentives these crops could be exported. In the shortrun the key constraint was the lack of critical inputs that were essential to any export effort.

CIP Operations

The ANEP provided a $12.5 million commodity import program (CIP) to finance the import of inputs needed by private sector producers and exporters of non-traditional crops. CIP commodities could be imported from any "free world country" (A.I.D. source/origin Code 935). The commodities eligible for CIP financing were limited, and targeted to those that supported non-traditional exports. They included: seasonal inputs (seeds and fertilizers); intermediate goods such as steel for the domestic manufacture of farm tools; and jute bags and packaging materials used in the collection and export of non-traditional crops. As the CIP evolved over time, the eligible list was expanded. The procedures used by the private sector to access foreign exchange under the Government's Open General Licensing System were used for the CIP. The only addition to that process was A.I.D.'s review and approval of each transaction, to assure that the commodities were consistent with the objectives of the ANEP program. The CIP would generate local currency counterpart which would be used for projects that supported ANEP objectives.

The ANEP CIP was obligated in August 1988. By January 1989 a $7.5 million Letter of Commitment had been established for the first tranche of funding. By June 1989 the CIP process was moving along smoothly -- A.I.D. had received 27 import applications and had approved transactions valued at approximately $2 million. A problem developed with the exchange rate. The official exchange rate was USh 200 = $1, the parallel rate was over 400 and the Government's Special Import Program used a rate of USh 400 = $1. The Ugandan Government wanted the A.I.D. CIP to move at the 200 rate while A.I.D. wanted to use the 400 rate in order to eliminate windfall profits. There was an impasse and CIP disbursements ground to a halt. By July 1989 the official rate had been raised to nearly 400, which was by then close to the parallel rate. The problem was solved and CIP disbursements resumed. However, for more than a year, there had been no CIP disbursements. In addition, the delay in CIP disbursements also meant that local currency was not being generated. The limited amounts of local currency available were programmed to support EPADU's operating costs and the USAID Mission's Trust Fund.

At the time of this evaluation (August 1990), CIP disbursements are moving rapidly (nearly $5 million out of the first tranche of $7.5 million has been approved) and A.I.D. is preparing to put the second tranche of $5 million in place. The eligible commodity import list has been expanded from the previous 8 items to now include all A.I.D. eligible commodities. Table X lists total CIP approvals through July 1990. The major item, at 63.8 percent, is bags (jute and woven plastic). The other major items are fishnets, 10.4 percent, and fertilizer, 9.0 percent.

CIP -Impact

Data were collected from all of the firms that have (1) imported CIP commodities and (2) have already used those commodities to promote non-traditional exports. These firms imported: bags for the export of simsim (sesame seed) and beans; fishing nets and outboard motors; and steel for the manufacture of farm implements.

Those that imported bags had previously been unable to obtain the quantity and quality of bags needed for export. Through the CIP they received the bags they needed at a price that was at least 50 percent below the local market price. They were able to profitably export to nearby regional markets and overseas markets. These traders had only a small increase in their own employment levels. For this year, the main beneficiaries have been the traders and exporters. The farmers were able to dispose of all of their surplus but they were not able to increase their production this year. In effect, this year, local production was diverted from local consumption to the export market. Next year the case may be different. The growers of beans, and particularly simsim had previously produced only a small surplus for trade or barter in village markets. This year they were able to sell all of their surplus for cash. This was of particular importance for simsin, which is grown in the semi-arid north where cash income is low. For the first time in many years those farmers sold all of their production, and possibly some of their reserve stocks for cash. As a response to this year's sharp increase in export demand, many traders and exporters expect simsim production to double next year.

The importer of fishing nets and outboard motors sold those products to individual fishermen, mainly near Lake Victoria. As a result of these inputs and other factors, the fishing industry is growing. Traders report that there has been an increase in the number of fishing boats, there are 3 new fish packing plants and a number of small, informal processors have expanded their operations.

The firm that imported steel, manufactured 52,200 pangas A panga is the East African machete which is one of the major farm implements of small-scale farmers (the other being the hoe). Almost all of these pangas have been sold and are being used by farmers to produce a wide range of crops.

<u>Findings and Lessons Learned</u>

<u>It is difficult to directly link increased farmer income to the CIP component of policy reform</u>

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The CIP clearly satisfied the objectives of the ANEP program -- inputs were directed to firms that were able to increase non-traditional exports. In most cases the main beneficiaries were exporters who were able to increase their sales and cash income. The effect on smallfarmer income is less clear.

Non-traditional agricultural exports did increase. It is probably unfair to give complete credit to ANEP. During 1988 and 1989 the weather was ideal (agricultural growing conditions were excellent), civil security improved and an improved road network allowed crops to be easily shipped to market. As a result prices were lower (in fact extremely low) for some crops. The farmer's increased production and marketable surplus was sold at a lower per unit price. However, some of the production that would have been sold on the local market was diverted to exports. From the farmers perspective, it is not clear to what extent the increased production and increased exports were affected by the lower overall price level. Therefore, it is not possible to link the CIP to increased farmer income.

Commodities to be Imported Under Future CIPs

Nearly 64 percent of CIP imports were gunny bags or woven plastic bags. A.I.D. has received a large number of requests for bags under the next CIP tranche. In many respects the CIP has become a "bag program." Bags were an easy and effective item that allowed exports to take place quickly. For the longerrun, if A.I.D. wants to target its commodities, it might make more sense to choose commodities that have linkages to local industries, that will create more employment, and will create local value added (i.e., imported inputs that can be processed or used by local manufactures).

Foreign Exchange Subsidy

Throughout the program A.I.D. provided CIP resources at the official exchange rate. The parallel rate was almost always much higher. Importers were eager to receive a CIP allocation, because imports were scarce, and because they were receiving cheap foreign exchange. There may have been some justification in 1988 to provide a subsidy to put life into the moribund non-traditional export market. Now that exporters have become established, and now that the parallel foreign exchange rate applies to most private sector imports and all non-traditional exports it makes little sense to provide CIP importers with a windfall profit.

CIP Targeting

The CIP was originally limited to 8 commodities for firms that would use the commodities in support of non-traditional exports. Every CIP transaction was carefully examined and approved by the USAID Mission. Even with the expansion of commodity eligibility, the process was very interventionist, with A.I.D. deciding which commodities and which importers could benefit from the program. This approach may have made sense when the economy was severely depressed and non-traditional exports were insignificant. It makes much less sense now. A final factor is A.I.D.'s interest in reducing the Ugandan Government's regulations and control of exports. If A.I.D. wants the Government to reduce its administrative controls, A.I.D. should set a good example.

CIP vs a Cash Transfer

If it seems that improved policies will accelerate non-traditional exports, then A.I.D. does not have to subsidize importers and does not have to do administrative targeting. Since CIP procurement is already open to most countries (under A.I.D. Code 935), A.I.D could shift from a CIP to a cash transfer mechanism.

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Revised 8/6/90

Commodities Financed Under The
Uganda Commodity Import Program
(as of August 1, 1990)

COMMODITY	QUANTITY	AMOUNT (dollars)	Percentage Share
Jute Gunny Bags	5,530,400	$2,830,980	57.7
Danier, Plastic Bags	525,200	300,000	6.1
Fishnets	66,300	512,668	10.4
Fertilizer	1,000 MT	441,500	9.0
Fruit Processin Spares	Assorted	192,893	3.9
Improved Seeds	Assorted	187,853	3.8
Fruit/Vegetable Cartons	206,000	180,440	3.7
Boat Engines	100	131,999	2.7
Panga Materials	Assorted	93,519	1.9
Carnation Cuttings	Assorted	22,060	0.5
Apple Pectin	1 MT	13,615	0.3
TOTAL		$4,907,518	100.0 %

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The Importance Of Non-Price Factors On Non-Traditional Exports

Transportation

The transport network -- road, rail and air -- provides the vital links between the farmer and the foreign consumer. Unfortunately, the years of political and economic turmoil greatly damaged the system. By 1987 the road network was in extremely bad shape. Most feeder roads were virtually impassable. The trunk roads were pot-holed and severely damaged. They were driveable, but only at slow speed and with the risk of severe vehicle wear and damage. In the last 3 years most of the trunk roads have been rebuilt and work on the feeder roads is just starting. Areas of the country that were completely cut-off can now ship goods in and out. Areas that took days to reach now can be reached in a matter of hours. A similar effort has been launched to upgrade the railroads. While in 1986 only 264,000 tons were carried by rail, the tonnage had increased to 912,000 tons in 1989. Aircargo facilities at Entebbe Airport are outdated and inadequate and have not been improved.

Policies are important but if the physical infrastructure is lacking, the results will be minimal. <u>The road and rail rebuilding program has been a major reason behind the growth in non-traditional exports. Good infrastructure may be as important as good policies.</u>

Export Procedures

The proliferation of government agencies dealing with non-traditional exports, while intended to lend support to exporters has actually had the effect of complicating the export process. To correct those problems, there have been a number of improvements in the administrative system. While the process is still cumbersome, the uncertainties and the long processing time has been greatly reduced. Non-traditional exporters are generally satisfied with the progress in streamlining the system and look forward to more promised improvements. <u>There has been a clear reduction in export controls, regulations and processing time. Non-traditional exporters are encourage by these changes.</u>

Parastatals

Government corporations previously had complete control of the export of all commodities. In the last year two years they have lost their monopoly power on all but coffee, tea and cotton (and those are being reviewed now). The fact that parastatals have lost their monopoly control, and their financial blank check with the Government, has greatly encouraged the private sector. A number of firms have recently entered the export market. While it is too early to fully assess the impact of these changes, it appears that exports will be handled more efficiently under the new competitive conditions.

Nonprice.Joe

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Revised 8/6/90

Policy Decisionmaking and Implementation Affecting NTE in Uganda

The Actors

There are several key entities in macroeconomic and trade policy formulation and implementation in Uganda. These include, in the executive branch, the President, the President's Economic Committee (PEC), the Ministries of Finance (encompassing customs, taxation and central banking functions - MFIN), Planning and Economic Development (MPED), Commerce (MC), Agriculture and Forestry (MAF), and Animal Industry and Fisheries (MAIF). Also important for furthering the development of NTE because of the serious infrastructural constraints are the Ministries of Transport and Communications (MTC) and Works (MW). The National Resistance Council (NRC), Uganda's legislature, also plays a significant role. The donors provide both technical analyses and advice as do the Ugandan private business and state owned enterprise sectors. The donors are also perceived as sometimes wielding their considerable financial resources as a prod to certain policy changes.

The Decisionmaking Process

The example of the adoption of policy measures related to non-traditional exports illustrates the procedure for policy decisionmaking. An analytical paper, The Preliminary Export Strategy for Non-Traditional Export Commodities, was prepared by the Export Policy Analysis and Development Unit (EPADU) in the MPED. During preparation, the paper had been discussed with USAID, the principal donor supporting trade sector policy reform. The paper was then reviewed at the staff level by various sections of the MPED, and subsequently, on recommendation of staff, adopted by the Minister, MPED. The Minister then circulated the paper to Cabinet for review prior to presentation at the PEC. There was serious opposition from at least one ministry, which requested that the paper be withdrawn from consideration by the PEC. However, the acting chairman of the PEC permitted the paper to be tabled. The EPADU Director (principal author of the policy paper) was invited to the PEC to explain and defend the conclusions and recommendations. After considerable internal discussion, most of which was actually on the issues and not arguing matters of bureaucratic turf, the PEC adopted the paper. Many of the individual recommendations were then incorporated in the President's 1990-91 budget speech.

Some of the key recommendations that have moved to almost immediate implementation include:

- appropriate valuation of the exchange rate

- unrestricted use of foreign exchange earned by NTE exporters
- one-stop processing of licenses and certificates
- multiple export licensing/certification (i.e., time- rather than commodity-limited permit system)
- reduction of red tape in licensing
- improvement in terms of air transport (removal of Ugandan Airlines monopoly and other bureaucratic controls and fees; payment of air freight charges in local currency)
- promulgation of an investment code that will attract foreign capital.

It should be pointed out that on recommendations such as the legalization of the kibanda rate and the lifting of restrictions on uses of forex, other voices in the GOU, the private sector and the donor community were in the chorus, so that no one actor can claim full credit.

The private sector, as well as state-owned enterprises, have several vehicles available for making their positions known. A large firm's managing director can seek, and usually obtain, an audience with a minister or deputy minister. Monthly luncheons, in which a representative of government (and sometimes of the donors) is invited to speak on a specific topic and to respond to questions from the audience, are held by the Uganda Manufacturers' Association. Documents are sometimes prepared by the private sector or SOEs related to their own financial requirements which then illustrate to decisionmakers some of the issues with which the productive sector of the economy is contending. Finally, there are informal channels. Uganda is a relatively small country, in which many of the elite class now leading government and industry were classmates in secondary school or university, age mates in their communities or colleagues in their first employment. These individuals often socialize together and use such occasions as an opportunity to discuss business matters.

It is less clear that entrepreneurs with smaller firms and fewer contacts have easy access to decisionmakers. In some instances, the interests of larger firms and smaller converge, but in others, lack of appropriate channels may preclude decisionmakers from understanding the constraints experienced by new entrants or small businesses. This emphasizes the importance of an objective analytical base, and perhaps points to the need for special efforts at outreach to small entrepreneurs and new businesses.

Policy Implementation

Although the team was unable to spend a satisfactory amount of time investigating policy implementation, one or two examples actually observed by the team suggest that implementation is

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uneven. A positive example relates to the legalization of the kibanda rate and the foreign exchange bureaus. A negative example might be the fact that the customs officers in Busia appeared unaware that the export-import licensing system had been modified in 1989 to permit the establishment of foreign exchange retention accounts.

The decision to legalize the kibanda rate was announced in the President's budget speech of June ??, 1990. The effective date of the liberalization was to be ??? 1990. The team arrived on July 18, 1990, and found that foreign currencies were, indeed, readily and openly being exchanged, but that the markets were as yet disorganized and lacking information regarding relative rates. Within a few days' time, all forex bureaus had rates posted, and, according to newspaper reports, the rates were rapidly converging from one bureau to the next, although there was some competitive pricing to try to attract foreign currencies. Similarly, the team found open exchanging of foreign currency taking place at the border posts visited, although formalized offices with posted rates were not evident. Authorities were not, however, interfering with the informal trade (perhaps because the quantities involved were small).

News regarding foreign exchange regimes may travel more quickly than news about changes in bureaucratic rules and regulations. Although the word of open trading at parallel rates was quickly translated into practice, such was not the case with the change from export-import licensing to the ability to create retention accounts in a commercial bank, at least for the customs agents in Busia. When asked to explain the system, they pointed out that an exporter had to bring in the same value of goods as that allowed under the export license. Asked specifically whether exporters had to bring in an equivalent amount, both officers readily affirmed that this was the case. It may have been that because the volume of trade passing through the border at Busia was so small (other than petrol, which is fully controlled), and participants in the retention account scheme so few, that the officers had not actually encountered the situation. Still, it is expected that a regulation promulgated a year prior to the team's visit, and fundamental to the work of the Customs office, would have been better disseminated among employees.

<u>Sustainability of Policy Reform Process</u>

There are three major endogenous factors in assuring a sustainable policy reform process. The first is analytical capability at the working level of policy options formulation and the willingness of decisionmakers to demand and use empirical information. The second is an implementation and feedback system that works. Both of these have been discussed above (feedback was operating through public and private channels in the kibanda legalization example). The third is political support to

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decisionmakers faced with difficult choices and worried about staying in office (the latter a given for any politician).

In regard to political will, and the political support on which it is based, Uganda has had a difficult history. There are several reasons for guarded optimism since the advent of the Museveni government. For the visitor returning to Uganda after a six-year hiatus, the sense of security cited by Ugandans who are asked about changes since the early 1980s is immediately noticeable. Private citizens no longer fear being accosted by soldiers or police seeking money, or worse, seeking to brutalize whoever crossed their paths. Many express sadness over the loss of 20 years' time during which development could have occurred. There is apparently a broad understanding, at least among the 10 per cent urbanized population of the need for a realignment of the economy. There is also a broadly-based desire for a respite from civil strife.

There are other indicators of a more open and supportive political climate. The press appears to operate in relative freedom, including newspapers published in local (minority) languages. Almost every day the Kampala-based daily publishes accounts of corruption and wrongdoing by public officials. These are coming to light under the auspices of a Public Accounts Committee that is examining the performance of various GOU entities and of highly placed individuals within them. Other signs are the free and fully participatory elections at the village level of the Revolutionary Council system, the relatively good record of the government on human rights abuses and reports of (as well as a few personal encounters with) returned exiles, many with high levels of education and skills.

Sustainability of the Policy Reform Process

If key factors for a sustained policy reform process are a critical mass of fundamentally intelligent policy decisionmakers receiving sound empirical analysis on the one hand and popular political support on the other, then Uganda is comparatively well endowed. The Museveni government's pragmatism is exemplified by the policy turnaround experienced between 1986 and 1987. When the government initially came to power, it had broken with the IMF and pursued policies that led to significant inflation, expansion of the money supply (etc., etc. - ED/JOE, CAN YOU ADD SOMETHING HERE?). Within one year of its accession to power, the GOU's own economic analysts had determined that this course was unsustainable, and, after debate and discussion, the government changed policy course, came to an agreement with the IMF and World Bank, and has emphasized stabilization and subsequent adjustment since that time. (See the macro section on what has been done and what remains.) Another example is its willingness to acknowledge a fairly good economic track record established by the Obote regime in the 1981-83 period. Many of the same

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technical-level persons were involved in crafting and implementing that set of reforms, and the current government implicitly acknowledges that in its discussions of recent economic history.

The stabilization and adjustment process must be underpinned by popular support if it is to succeed. Thus far, that support has been forthcoming, for many of the reasons cited above. There is legitimate concern and continued discussion over the following kinds of issues:

- once the IMF loans come due, the ability to maintain the 5-7 per cent annual growth rate will become questionable, thus the average Ugandan will not be feeling as directly the benefits of stabilization and adjustment;

- after 20 years of decline and 15 years of disinvestment (the Amin period and the war years), there is a minimal rehabilitation of productive infrastructure and investment in social services, including education, that need to occur to attain previous levels of GDP growth -- this requires new investment;

- combatting resistance to the Museveni government continues to demand large military expenditures, which impedes the stabilization and adjustment processes;

- expectations among average Ugandan citizens for growth and prosperity are high, and tolerance for setbacks in living standards can probably only be expected if those setbacks are perceived as temporary.

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ANEP Technical Assistance Activity

Background

The ANEP PAAD described a $1.5 million technical assistance activity as a component of the overall program. The rationale for this component was the lack of trade policy analysis and planning being carried out by the GOU at the time of ANEP program's inception. The need for a "comprehensive, medium-term trade strategy and program to support nontraditional exports" was cited. An additional requirement was support to the private sector "to directly and indirectly expand its role in the export of nontraditional crops." It was also noted that "the country's trade regime requires diversification and direction on the export side, and streamlining of administrative arrangements to encourage greater private sector trade through formal channels."

The above rationale led to a covenant with the Government of Uganda to establish an Export Trade Policy Analysis and Monitoring Unit within the Ministry of Planning and Economic Development (MPED). The name of this unit was subsequently changed to Export Policy Analysis and Development Unit (EPADU). That unit was to be responsible for trade policy analysis and program monitoring. Additional technical assistance funding was provided to "expand the capacity of the Ugandan private sector to implement the strategy and to continue dialogue with the GOU on further policy and institutional improvements; and . . . improve the knowledge of private marketing agents and exporters on the structure and functioning of international markets for Uganda's actual and potential (non-coffee) exports."

At some point during program implementation, the responsibilities for trade policy analysis and export promotion were amalgamated within the EPADU mandate, and program monitoring. According to the unit was supposed to "receive monthly reports from both the central bank and the Ministry of Commerce regarding foreign exchange approvals, import license approvals, draw downs on the central bank's EPRP funds, record of imports financed, name of importers and shilling deposits into the ANEPP Special Account." It was then supposed to "set up a computerized tracking network to identify the location of program resources, at any given time, and the quantity and types of commodities actually imported," as well as tracking "compliance with A.I.D. Regulation 1 requirements." As EPADU evolved more into a line unit within the GOU, these monitoring tasks were partially assumed by A.I.D., but many were simply forgotten.

The PAAD stipulated the provision of one long-term (at least 24 person months) agricultural trade economist as technical assistance to EPADU (at $431,000). Short-term technical assistance (16 person months) and training were also envisioned, and $790,000 were budgeted for activities such as: 1) market surveys to identify major external markets; 2) collection and

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dissemination of market/trade intelligence data; 3) seminars and workshops on a variety of specialized topics; 4) advisory services on packaging, quality control, export pricing and financing and 5) other specialized technical assistance as may be required. Support for the purchase of related office equipment and vehicles was provided at $75,000, an evaluation was programmed at $90,000 and inflation contingency accounted for the balance of funds to bring the total to $1.5 million over two years. EPADU's recurrent costs, payable in Uganda Shillings, such as Ugandan staff salaries, petrol, etc., were to be provided from the local currency generated by the sale of commodities under the CIP component of the ANEP program.

Activities to Date

The unit was formally established in August 1989, and an agreement was signed for the rental of offices in Impala House at about that time. A $1.25 million contract to provide the long-term technical advisor, the short-term technical assistance, the training and related commodities was signed with Louis Berger International, Incorporated (LBII) in August 1989. The U.S. long-term technical advisor arrived in September 1989, and the EPADU Director was appointed in October 1989. Extensive renovation was begun on the office space, which, as of July 1990, had not yet been completed.

However, the offices were occupied in January 1990, office equipment was installed and additional professional and support staff were hired, so that by February, 1990, the unit was fully operational.

The professional staff configuration of EPADU as of July 1990 is as follows:

Director: Professor E.O. Ochieng
Trade Specialist: N.N. Waniala
Economist: A.O. Etimizi
Agricultural Economist: W.H. Ainebyona
Agricultural Economist: P. Nyabuntu
Marketing Specialist: B.M. Sekabembe
Data Specialist: ??

Five of the seven professionals at EPADU are on leave without pay from a GOU agency (including Makerere University, Bank of Uganda, Ministries of Agriculture, Planning and Economic Development, and Cooperatives and Marketing). Two professionals were recruited from the private sector.

The first long-term technical advisor, Thomas Bennett, served in EPADU from September 1989 until January 1990, when he was terminated due to dissatisfaction with his performance. The position descriptions for an Export Promotion Advisor and Trade

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Policy Advisor were rewritten after Dr. Bennett's termination. An Export Promotion Advisor, Peter Steele was interviewed in May 1990 and began working with EPADU in July 1990. Plans to recruit a second long-term advisor have been delayed until a PAAD amendment for an additional $1.5 million could be signed, and the contract with LBII amended. The PAAD amendment was authorized in late July 1990, so contract amendment and recruitment had not yet begun at the time of the impact evaluation.

A few short-term technical assistance activities have been provided to the unit under the LBII contract. Two consultancies by Dr. Walter Hecox, a macroeconomist, whose firm is a subcontractor to LBII, have provided an initial organizational assessment and some background materials for the development of the preliminary export promotion strategy. A consultancy for computer needs assessment and specialized training of EPADU staff have also occurred. A packaging expert was brought to Uganda to assess the state of packaging availability and needs, and to give a one-day seminar to exporters on packaging.

Funds within the project, but outside the LBII contract were granted to the African Project Development Facility for a Pineapple Export Pilot Project. The LBII contract was reduced by $96,000 in order to provide a grant in that amount for technical assistance from Fintrac to the Ntangauzi and Vegetable Growers Association. A $300,000 fund has been budgeted in the grant amendment to continue financing these pilot and technical assistance efforts apart from the LBII contract.

Performance to Date

The first task of EPADU was to produce an export strategy for adoption by the GOU. This entailed the preparation of a set of analyses, or background papers, written in February 1990 by EPADU staff, including:

- Air Transport for the Export of Fresh Horticultural Products
- Aspects of Marketing and Support Services in the Preliminary Export Strategy for Uganda
- Preliminary Export Strategy for Uganda: Institutional Factors
- Export Strategy for Uganda: Data Base and Production Problems of Timber Exports

In addition, the long-term technical advisor, Dr. Bennett produced the following relevant papers, though they were not used in the strategy formulation:

- A National Strategy for the Development of the Agricultural Export Trade Sub-Sector in Uganda - A Model
- Comments/Observations to be Considered in the Development of a National Agricultural Export Trade Policy and Strategy

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Dr. Hecox, the short-term advisor from LBII contributed Ugandan Export Policies and Strategies: Assessment and Recommendations in August 1989, and a subsequent brief report in February 1990. The earlier report was a general overview of the economy, which was consistent with the PAAD analysis of August 1988, and some recommendations for analytical and programmatic tasks for EPADU. It was essentially written directly to A.I.D. The team did not have an opportunity to review the later report, but is informed that it did not very directly influence the shape of the preliminary strategy document ultimately prepared by EPADU. During March, 1990, a series of discussions was held among EPADU professional staff, the USAID Project Development Officer, Alan Lessik, and Dr. Hecox on both content and format issues related to the development of the strategy. The Director of EPADU prepared the final paper, and on March 28, 1990, the Preliminary Export Strategy for Non-Traditional Export Commodities was presented to the Minister, MPED for review and adoption by the Ministry and subsequently by the President's Economic Committee (PEC) in May 1990.

Since that time, EPADU has been working on a number of follow-up activities, including:

- a survey of exporters to determine the impact of the policy reforms undertaken since 1988;
- a survey of producers to determine the impact of the policy reforms;
- inventorying information on external markets and providing it to exporters in a usable form;
- surveying commercial banks to assess the impact of the 1989 establishment of forex retention accounts;
- an assessment of the cold storage facilities at Entebbe;
- a review and critique of the liberalizations announced in the 1990-91 GOU Budget Speech and the plans for implementation of same;
- development of information for exporters on guidelines and operations of the forex bureaus.

In addition, the Export Promotion and Development Advisor has developed a set of recommendations related to the organization and work planning of EPADU, which was not yet available for review by the impact evaluation team.

Analysis of the Technical Assistance Activity under ANEP

The ANEPP design accurately identified the need for the GOU to focus on trade policy analysis and planning. The requirement for assistance to the private sector in export promotion has also been borne out by the number of requests to EPADU and directly to USAID/Kampala for information and/or assistance in various aspects of business development for export. Establishment of a unit within the GOU, and A.I.D.'s initial capitalization and recurrent cost support to that unit have been critical to the production of a preliminary export strategy, and to the inception of activities to monitor the impacts of trade policy reform. There is an economy-of-scale argument that can be made for government involvement in promoting a country's exports in a least developed country such as Uganda, as well as in providing various kinds of information and other services for which private gain is difficult to capture. As private sector capacity to advise individual exporters on specific aspects of their businesses expands, however, the rationale for exclusively public sector involvement will fade. Donors should be conscious of assuring that the public sector does not crowd out the private sector in service provision over time, but does maintain those roles for which no private gain can be captured.

The means by which the trade policy development and monitoring and export promotion objectives were addressed under ANEPP have raised a number of issues discussed in the paragraphs below.

Location of EPADU's Functions within the GOU. The Export Policy Analysis and Development Unit has been established within the Ministry of Planning and Economic Development. Although that ministry has an important role in the government's development policy and strategy formulation, it is normally not responsible for implementation of assistance to the private sector in export promotion. In Uganda, that role is usually taken by the Ministry of Commerce (MOC); plans have been drawn up by the UNDP to provide assistance to the MOC's Export Promotion Council to take on many of these responsibilities. Officers of EPADU have indicated a willingness to amalgamate its export promotion functions with MOC, should the latter's capacity be improved, and A.I.D. should be willing to support this move. The MOC is also reviving and upgrading its policy formulation and research capacity, which will again overlap with EPADU's efforts. As EPADU has no financial viability beyond the life of the ANEP program, efforts to merge these two units should be objectively considered by A.I.D. Its principal criterion should be sustainability. Capacity should be developed in the organizational context most appropriate to the GOU and to the unit's potential clientele.

Effectiveness of the U.S. Technical Assistance. The U.S.-provided technical assistance has had, at best, a mixed result to date. The economic analysis capacity appears to have had no impact on the major effort of developing the preliminary export strategy, although the project officer played a very useful role and, in some senses, provided the kind of technical input that the program-funded assistance failed to provide. The packaging and computer experts offered a specific service that was valued and not available within Uganda. As the Export Promotion and Development Advisor had only just arrived at the time that the

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evaluation was undertaken, it was too early to assess his contribution.

The strong showing of EPADU despite the poor record of the U.S. technical assistance as far as trade policy and organizational advice is concerned suggests that 1) an inadequate assessment of the state of available, qualified Ugandan personnel to staff a trade policy analysis unit was undertaken during program design, 2) the assumptions that an expatriate advisor is required to "shape and guide the unit into a highly productive team that will utilize the talent within. . ." and "to take the lead in promoting an entrepreneurial spirit with in [sic] the Unit" (March 30, 1990 PIR) are not valid. It suggests that a more consultative approach, with the Ugandan staff firmly in the lead, should be taken to assessing and meeting additional technical assistance needs in the policy analysis area. This kind of process seems to have obtained more readily in the area of export promotion assistance. The Export Promotion and Development Advisor appears also to have taken over the role of assisting the Director to establish the necessary organizational parameters of the Unit (i.e. workplans, a more hierarchical structure as a means for assuring that decisions are taken in a timely manner). Clearly, there is an element of personality in the effectiveness of any advisor, but the above speaks more to accurately determining the type of need before assuming that A.I.D.'s standard approach of long-term technical assistance is appropriate.

Contract Terms of Reference and Position Descriptions. The mixed record of the U.S. technical assistance also points up the need for clear, realistic terms of reference. The LBII contract lists a series of expected outputs, but does not clarify which are expected of the contractor as indicators of adequate performance, and which are expected of EPADU as a unit. The original individual scopes of work for the Trade Policy Advisor attempted to compensate for the fact that the technical assistance package had been curtailed from an earlier two long-term positions to one at the time of PAAD approval. Thus, it loaded into one position description the tasks of two persons. The current set of two terms of reference for the Trade Policy Advisor and Export Promotion and Development Advisor appear almost reversed in title and function and to have significant overlaps. This overlap brings into question the need for A.I.D. to provide the level of long-term technical assistance that it proposes for the period July 1990-1993.

In regard to the training aspects of ANEP, two of the EPADU staff were attending a short course at Harvard Institute for International Development during the evaluation team's visit. Thus, it is not possible to assess the efficacy of the offshore training. Although the packaging seminar presenter was valued for his technical assessment of the packaging production industry in Uganda, no follow-up had been conducted with participants in the packaging seminar, so it was likewise impossible to determine the effectiveness of the short-term technical assistance in providing targeted information to exporters.

In addition to the matters of organizational sustainability raised above, there is a serious concern from the point of view of recurrent costs. At present, EPADU is fully funded by the ANEPP and its local currency generations. Funds must either be allocated from the GOU budget after the end of the program, or a means must be sought for EPADU (or its successor within the MOC) to be at least partially self-supporting, for example, by charging a fee for its services to exporters.

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Mission Management of ANEPP

Policy Dialogue

Mission-GOU policy dialogue on the major issues of ANEPP (i.e., foreign exchange regime, reduction of bureaucratic controls on exports and greater involvement of the private sector in all phases of NTE production and marketing) was carried on at a very senior level on both sides. This had its strengths and weaknesses. On the one hand, it lent a great deal of credibility to decisions reached. On the other hand, it probably led to some slowness in implementation because those who actually had to put the decisions into operation had not been adequately prepared by involvement in the process. The kind of dialogue in which the Mission engaged was very effective for decisions that could be taken by and implemented by small numbers of people. So, for example, the decision to establish a dual licensing system was followed by effective implementation of that system. However, although there was high-level agreement to streamline the export licensing process itself, the team found that this decision had only partially been implemented.

The Mission worked well with other donors, each of whom appears to have found a comfortable niche in the dialogue in Uganda. The Mission's particular niche was at a senior level, conducted largely by an individual with extensive background and training in economics. The Mission both provided information and served as a sounding board for GOU proposals. Recently, the Mission contributed an economic background paper, Trade Policy and Investment Requirements to Facilitate Export Diversification, to the World Bank's Economic Recovery Program II design. The paper was drafted by the Assistant Director. A.I.D.'s overall stance in policy dialogue can be characterized as positive, encouraging and collegial, and key to the realization of the export/import licensing scheme.

Equal credit for effective policy dialogue in Uganda must be given to the Government of Uganda interlocutors, and to an increasingly articulate private sector. In this group, the Mission found like minds and a pragmatic, receptive stance. EPADU, in its six month of full operation, has made a significant contribution to strengthening the GOU in bringing empirical analysis to bear on policy problems.

If the Mission's approach has any drawbacks, it is that there is heavy dependence on a few key players, who, as with any government, are vulnerable to replacement or repositioning at any time. It also ignores the important task of cultivating those who will be responsible for implementing the policy changes, and that can, and in this case did to some degree, lead to unnecessary rivalry and to delays in operationalizing policy decisions. The best example of this is the partial implementation of license procedure streamlining, which is under the purview of the Ministry of Commerce, an organization with which USAID has not been intensively dialoguing.

Program Design

A word must be said about the design document on which the program was based, if one is to understand some of the problems of implementation. The document was, in general, long on economic theory and short, self-contradictory and confusing on implementation. There were, for example, no

- program logframe
- a realistic implementation plan
- specification of the locus of trade promotion activities.

Moreover, nonproject and project assistance elements were intermingled in the document. This has led to subsequent inefficiencies and confusion. A prime example is the two-part amendment process now going on. The project was amended once in August 1990 to add $1.5 million for technical assistance and to change the PACD. A second amendment, scheduled for September 1990, will add $15 million in C.I.P. funds with yet another PACD. Another example is that almost all program monitoring and evaluation as envisioned in the original document seems to have fallen through the cracks. The records related to the project/NPA components are intermixed. Having a single USAID project number makes it difficult to understand whether activities are considered part of the project or the non-project component (e.g., the small grants program), and doubtless creates some accounting issues.

Internal Program Management

The configuration for management of this activity varied during the life of the program. The Assistant Director had overall responsibility for program management, as well as for the technical economic analysis that fed into the policy dialogue. The Project Development Officer (PDO) was responsible for the Commodity Import Program, supported by three local staff members. Initially, after an applicant had received BOU approval, the Assistant Director and PDO together made the final decisions regarding acceptance or rejection of applications for use of the resources available under the C.I.P. That configuration was formalized and expanded with the addition of the Agricultural Development Officer (ADO) in ?? 1990.

Backstopping of the technical assistance activity was initially shared between the Assistant Director and the PDO. There seems to have been a period during which the technical assistance component had no clearly designated backstop officer besides the overall program manager. A Presidential Management Intern (PMI) arrived in March 1990 for a six-month tour, and assumed responsibility for managing the technical assistance activity. He reported to the ADO.

Local currency tracking was carried out by the office of the Controller. Local currency programming for ANEP was handled initially by the Assistant Director. Subsequently, that task has devolved to the Program Officer for general oversight, with input from each activity manager.

In regard to program monitoring and tracking, the Mission data management specialist, a local hire, was responsible for keeping an accurate record of export-import licenses granted (with associated information regrading type of commodity, volume, value, destination, etc.). Occasional reporting cables were drafted to A.I.D./Washington, detailing policy dialogue and reform progress to date. Records were maintained on importer and commodity approvals, rejections and letters of credit established. The three local staff working on the C.I.P. performed end-use checks of the C.I.P. commodities.

Having both project and NPA backstop report to the Assistant Director does not seem to have enhanced coordination or impact (witness the lack of program monitoring).

Managerial Efficiency

As noted elsewhere, because C.I.P. funds were made available at the official (preferential) rate of exchange and because of the lack of a broadly constituted selection committee,the allocation process for the C.I.P. resulted in both preferential allocation and an administered allocation that impeded market signals from dominating the determination of uses, prices and so forth. The criteria for C.I.P. selection may not have been adequately publicized, but the records reveal unwarranted intrusion in the decisionmaking of individual entrepreneurs, and an overly-fine-grained interpretation of many of the criteria so as to exclude potential importers.

On the technical assistance side, there was again, according to the documentary and verbal evidence, a significant level of second-guessing and overspecification. This at least partially results from the lack of clarity about the ultimate objective of the technical assistance. It remains unclear whether USAID/Kampala believes it is contributing to building sustainable institutional capacity for trade policy analysis and export promotion, or whether the technical assistance was provided largely to facilitate attaining the shorter-term objectives of the ANEP program. The most recent manifestation of this lack of clarity is the insistence upon adding a second long-term technical assistance position in the face of the lack of success of the earlier attempts to provide additional economic analytical capability, and an articulated preference for selected short-term assistance on the part of the Director of EPADU. USAID/Kampala is currently amending the LBII contract with a position description that is inconsistent with the recommendation for that position put forward by the Export Promotion and Development Advisor. If the Mission wishes the functions to be sustained by the GOU, it must treat EPADU collegially, rather imposing A.I.D. priorities on EPADU, which is wholly dependent on A.I.D.'s goodwill for its continued financing.

<u>Conclusions</u>

The fact that the policy dialogue element of this activity has met with more thoroughgoing success than the two "legs" on which it stands is, at least in part, a reflection of the program management by USAID/Kampala. The wisdom of the requirement for a strong design document, with a solid, realistic implementation plan, is underscored by the subsequent confusion and heavy management burden experienced during implementation. It is important that the Mission draw up a tight implementation plan and local currency use plan for the PAAD amendment, and begin to draw back from the very intensive management mode that has been used to date to implement the ANEPP.

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ANNEX C

EXPORT POLICY ANALYSIS AND DEVELOPMENT UNIT (EPADU)

Ministry of Planning and Economic Development

EPADU Policy Paper No.1

THE PRELIMINARY EXPORT STRATEGY FOR NON-TRADITIONAL EXPORT COMMODITIES

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March 1990

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THE PRELIMINARY EXPORT STRATEGY

I. INTRODUCTION

Uganda during the 1960's, exported a more diversified mix of products than in the case presently. The severe disruptions which commenced in the early 1970s wiped out all the other commodities from the export scene and coffee was virtually left alone contributing at one time over 98% of total export earnings.

The last three years witnessed another tragedy when International Coffee prices fell by over 50% and the ICO agreement collapsed. Uganda's export earnings fell from US $ 408 million in 1984 by more than 50%.

Since the modern sector in Uganda is import dependent its maintenance and development depend wholly on the continued inflow of foreign finance. Therefore these tragedies spell out doom for the economy of Uganda unless something is done, and done quickly.

The NRM's long term development strategy aims at building a strong national economy. The main element of this long term strategy directly pertains to the strengthening and diversification of exports. One of the tasks of the Export Policy Analysis and Development Unit of the Ministry of Planning and Economic Development is to develop a National Export Strategy for the country. Since this task will take sometime, and action is required <u>NOW.</u> the Unit has produced a Preliminary Export Strategy to enable the government to act quickly and prevent a bad situation from growing worse. This preliminary Export Strategy will form the basis for the development of a more comprehensive and complete export strategy after all the necessary studies have been carried out.

II. GOALS AND OBJECTIVES:

The goals of this strategy are to develop and promote the non-traditional export trade potential of Uganda.

The specific objective is to increase the value of non-traditional exports to over US $100 million per annum within three years on a sustainable basis.

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7. KEY PLAYERS:

The Key players in achieving these goals and objectives and their roles are described below:

Government: While it is the duty of each citizen to develop his country, the government must therefore create a conducive environment for each citizen to contribute maximally to development. It must remove all obstacles to exporting; and provide incentives to producers, traders, transporters, financial institutions and Consumers. It must improve the external environment and must offer improved facilities to exporting. The government should facilitate profitability to all players.

Producers: Producers must ensure that commodities are available at the correct time; in correct qualities, varieties and volume. They will fulfil this role if their operation is profitable.

Exporters: These are the linkmen between producers and final consumers. Their roles should be recognised as essential.

Transporters: Goods are useless unless they have reached the point at which they are going to be consumed. The role of transporters is to ensure that goods arrive at their point of destination on time and in good condition.

Financial Institutions: Money is the lifeblood of commerce. The role of the Financial Institutions is to ensure that credit is available in correct quantities and at affordable prices.

Consumers: This is the target group of the whole operation. While their wishes should be taken as given;, attempts should be taken to try to gear their tastes to our particular products.

Foreign Governments (which with consumers set foreign market conditions) Foreign governments set the rules under which trade will take place. They set the standards and put in place tariff and non-tariff barriers to trade. The political relationships between countries also determine whether one country will trade with another or not. Uganda must cultivate friendly relations with countries it wishes to trade with.

Aid Donors: Aid Donors can influence economic activities within a country by their actions. They could ruin a whole export market potential by offering free commodities. They could also offer a whole range of opportunities by buying

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commodities to be offered as free goods to some needy people. This later opportunity should be explored to the full since Uganda is in the midst of a region prone to political unrest and frequent droughts.

IV. NON-TRADITIONAL EXPORT COMMODITIES

The list of potential agricultural commodities for export and promotion is long. Based on reports of exporters and producers, early response to the export retention scheme (Table 1) and EPADU staff knowledge of market conditions the following categories of commodities have been selected for initial research, promotion and development:

Table 1: The Value of Export Licenses granted During the Period January 1988 to January 1990

Item	Value in US $million
Hides & Skins	18.8
Tea	11.2
Dried Beans	10.7
Maize	7.8
Timber	6.6
Fish	4.0
Bananas	3.0
Sesame	2.7
Misc. Vegetables	1.5
Misc. Fruits	1.3
Pineapples	1.1
Ginger	0.8
Cereals	0.6
	70.9

Source: USAID - Kampala

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Biologically Grown Fruits and Vegetables: These are fruits and vegetables grown without the use of pesticides and herbicides and using naturally produced fertilizers. Biologically or organically grown produce command higher value in the markets of health - conscious Europeans. Uganda has a comparative advantage in this type of production due to the present minimal use of such foreign exchange dependent imported agricultural inputs. The potential commodities in this category include:

- pineapples
- passion fruits
- bogoya
- french beans
- avocadoes

Food Aid to African Countries: Due to the recurrent problems of drought, warfare and inability to meet internal food demands in many neighboring countries, a very large and continuing market exists in food aid. Uganda is well situated to serve this market due to its location and ability to produce the specific commodities desired. The bulk of this market is with international relief and donor agencies, although a growing portion is with private sector importers. The commodities included here are:

- dried beans
- maize
- Cassava
- Sweet potato
- simsim
- groundnuts

Fresh and Processed Fish and Fish Products: Uganda is blessed with numbers of lakes and rivers which produce an abundance of fish. Already a significant export market exists for fresh, dried and smoked fish and with development for fish by-products.

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Spices: Another smaller export market exists for spices. The long-term development of this market may include vanilla, tumeric and cinnamon. More immediately, Uganda can export:

- chilies
- pepper
- ginger

Hides and Skins: The final category is that of hides and skins in both minimally processed and highly processed (leather) form.

Exports must meet the particular standards and consumer demands in the final place of consumption. The most important market locations for Uganda include:

- The middle East.
- European Economic Community
- PTA countries and Zaire

This is confirmed by the destinations of exports under the Export Retention Scheme shown in Table 2

Table 2: Destination of Non-Traditional Exports

Destination	No. of Licenses	Value (US $ million)
Africa	360	32.0
Europe(UK excluded)	50	16.6
UK	137	10.6
Middle East	43	5.0
Asia	12	3.4
Others	22	3.4
	624	70.9

Source: USAID - Kampala

V. **PRELIMINARY IDENTIFICATION OF CONSTRAINTS TO EXPORT DIVERSIFICATION AND STRATEGIC ANALYSIS**

Achievement of the strategy requires analysis of conditions which affect export diversification and expansion. Analysis is an on-going process within the Export Unit in coordination with other government entities sharing responsibilities for exports. Once such conditions are identified, specific actions are recommended to improve non-traditional export performance. Preliminary listing of constraints and strategic analysis is proceeding in the following areas:

a) Macro-economic environmental problems

- lack of incentives to producers
- inappropriate macro prices (exchange rates, wage rates, interest rates, rents and inflation)
- absence of investment code
- non freedom to hold foreign exchange
    - political & economic stability

External and internal costs, prices and financial returns are a major determinant of export activity. Realignment and reform of Uganda's economic structure are underway; evaluation of macro-economic conditions supports a series of recommendations about additional reforms necessary to facilitate expansion of non-traditional exports and achievement of the Strategy. These include appropriate prices for foreign exchange and credit, proper levels of taxation and spending, urban and rural prices, transport and communication rates, and financial inducements for investment-domestic and foreign. Table 3 shows the exchange rates at which each export commodity would be competitive in the world market.

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Table 3. Export Competitiveness: Competive Exchange rates (Domestic Resource Costs)

	Estimates		Projections	
Commodity	1989/90	1990/91	1991/92	1992/93
Coffee: Arabica	521	629	583	616
Coffee:Robusta	553	685	872	932
Cotton	205	225	236	247
Tea	181	198	208	218
Tobacco	241	264	277	290
Cocoa	363	397	416	436
Maize	1670	1829	1916	2007
Beans	374	410	429	450
SimSim	343	376	394	412
Soya beans	620	679	712	745
Groundnuts	1373	1504	1576	1651
Cashewnuts	9	10	11	12
Average Competitive Exchange Rates	529	613	699	742

Source: Macro-Planning Dept. MPED

(b) Institutional Bottlenecks

- expensive and cumbersome procedures
- proliferation of organization/Ministries dealing with exports
- bureaucratic delays in processing & licencing
- inbuilt belief that businessmen are either thieves or cheats or enemies of government

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- the wrong belief that foreign exchange belongs to government and no citizen should hold it without permission

- requirement for separate export licence each time one wants to export

- centralization of licensing

- lack of foreign exchange for exporters to look for markets abroad

- imposition of reserve prices for exports

- numerous payments to different organizations dealing in export

- restricting exporter to one destination

- problem of long turn round for double export-import licence of nine months or more

- lack of export oriented industries

- problems of financial institutions especially UCB

- income tax deposit

- restriction of private air freight operators to operate in Entebbe

- obstacles imposed by Uganda Airlines to would be other operators

Historically, developed legislative and administrative controls are excessive; they involve government in extensive and intensive direction of productive activities. Impediments to timely decisions and actions by enterprises need to be narrowed and streamlined. Building upon a strengthened macro-economic environment in which prices play a significant role in allocating resources, government's role can and must be reduced to a minimum. Government must cease to impede legitimate productive activity, rather acting to promote and encourage non-traditional export activity.

(c) Marketing Problems

- inadequate crop-finance

- ignorance about export potential, export markets, prices, quality control, standardization

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- lack of specialization in exporting

- institutional incumberances

- lack of storage facilities

- absence of business connections

- collection of goods from a large number of dispersed producers

- administrative bottlenecks

Uganda already is engaged in modest levels of non-traditional export activity. Such production comes from a number of product lines within agriculture; it is also directed to several diverse areas of the world. For most products there already is keen competition from other countries, establishing limits on price, quality and quantity. Successful expansion of exports requires concerted and careful analysis of market opportunities. Certain product "niches" exist which Ugandan products can fill. Additional varieties of crops, directly correlated to sophisticated market requirements abroad, can be grown and exported. It is essential to initiate export expansion and promotion from the premise that exportable products are destined for particular consumers in explicit markets abroad.

(d) transport and communications problems

- poor feeder roads

- inadequate rolling stock

- inadequate air-cargo capacity

- lack of facilities at Entebbe Airport

- irregularity of flights

- high airfreight charges

- high handling charges

- requirement of payment in foreign exchange for handling, fuel, landing, etc. at the airport

- discriminatory charges in Kenya

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- expensive telecommunications

- lack of facilities for private exporters at the ports of Mombasa and Dar-es-salaam

Physical constraints to existing and expanded exports arise from the severe disruption of the Ugandan economy in the past. Deliberate actions must be taken on a priority basis to provide priority improvements to roads, equipment, air facilities, distribution and collection centers, and other infrastructure if export expansion is to proceed.

(e) post-harvest handling problems

- problem of collecting produce from a large number of dispersed small-scale producers

- lack of storage chain (cold or otherwise)

- lack of standardization and quality control facilities

- inadequate and low quality packaging materials

- lack of cleaning and grading facilities

Critical to successful export of agricultural products is a well-organized, smooth movement of goods from points of production to final point of export from Uganda. A chain of post-harvest activities exists which includes collection, grading and quality control, packaging, cooling, transport and storage. Extension and demonstration activities through collection farms, coops and central markets are required. Provision of services from enterprises is essential, as is government participation and encouragement.

(f) Production Problems

- lack of the right planting materials

- dependency on rainfed agriculture so that production is seasonal and unpredictable

- lack of production credit

- lack of coordination in input procurement

- problem of dispersed small scale producers

- absence of large scale commercial producers

- lack of training for farmers in quality control and scientific methods

- high cost of production

- lack of production incentives

Key to significant expansion of agricultural exports is additional production. This requires specific production of particular crops and varieties in suitable regions, all coordinated to meet foreign consumer demands and seasons. A complex mix of activities and conditions must be present for production to expand, including: research; extension and demonstration activities; credit; assured access to inputs; and maintenance of quality and timeliness at the enterprise and coop level. Both enterprises and government have key roles to play in assuring that production can keep pace with other aspects of Uganda's export strategy.

g) Information and data problems

- lack of data on production, consumption, export and import of the commodities

- ignorance of producers, exporters, and government functionaries

- lack of data on the export markets, prices, competition, varieties, qualities conditions of sale etc.

Export pessimism exists in Uganda; current and potential exporters have been discouraged by adverse conditions. Market information on product demand and regional market opportunities is difficult to obtain. Government must match improved financial, institutional and infrastructure conditions with active information and marketing assistance. Aggressive promotion of exports is essential.

VI. APPROACHES TO THE STRATEGY

Objective: Uganda will develop and promote non-traditional exports, with the aim of achieving sustainable earnings of over US $100 million per annum within three years.

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Approach: There is an underlying strategy for export diversification which shapes the actions Government must take. Inherent in the Rehabilitation and Development Plan is the responsibility of Government to structure a financial and institutional environment which enables enterprises to produce diversified products for export. Thus, government must enable but not subsidize; it must remove distortions and impediments, but not encourage inefficient production for domestic or foreign consumption. It must nurture and encourage the private sector to take on a widely expanded role, certain that their efforts and risks can lead to financial gain.

Export Unit: The Export Policy Analysis and Development Unit, Ministry of Planning and Economic Development has been established by Government to assure that export diversification proceeds along side Government's continuing efforts to achieve structural realignment and reform. The strategy of the Unit is to identify impediments to diversified agricultural production and export, initiate actions to reduce and remove disincentives, and encourage enterprises to export. This assignment to the Unit is consistent with the responsibility of the Ministry of Planning and Economic Development to articulate Government's planning and economic development strategy, coordinate responses from all segments of the economy, and oversee the achievement of goals and strategies.

Coordinated Government Participation: Actions by the Export Unit will fit into a broad array of other Government entities and responsibilities which also determine the environment for export activity, including:

- Ministry of Planning and Economic Development
- Ministry of Commerce
- Ministry of Finance, Customs
- Ministry of Agriculture
- Ministry of Transport
- Ministry of Cooperatives and Marketing
- Ministry of Animal Industry & Fisheries
- Ministry of Industry
- Bank of Uganda
- Export Promotion Council
- Agricultural Secretariat

The Export Unit will encourage a coordinated attack on impediments to export diversification by organizing an Inter-Ministerial/Industry Working Committee with the objective of developing a National Export Development Strategy.

Enterprise Participation: Leadership in identifying elements of such a National Export Development Strategy will be exercised

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by the Export Unit: this Preliminary Development Strategy for Non-Traditional Exports begins such a process. It is important that in addition to government coordination, a broad representation of individuals and organizations from throughout the economy participate in shaping Uganda's National Export Strategy. If the nation is to achieve reduced dependence upon coffee exports and the uncertainties and financial disruptions which go with such an export base, then Government's export diversification strategy must address the actual impediments and hindrances to production for export markets. Only by listening to those individuals and entities with the capability and/or potential to export can Government shape an effective and meaningful export strategy.

VI. ACTION PROGRAMME

Basic Premise: The Export Unit has identified a number of key areas within the economy where actions must be undertaken to reduce impediments and actively encourage export diversification. This is a preliminary list which must be discussed within Government and among individuals and entities that have the potential to export. Guidance in forming such a list derives from the overall strategy of the Export Unit: to create an environment conducive to export diversification where enterprises are willing to undertake risk and there is a reasonable potential for financial gain. Such a strategy, while removing impediments and previous disincentives, must stop short of subsidizing or over-encouraging export activity. Resource scarcity and national development priorities demand that efficiency as measured by world prices play a guiding role in determining the actual mix of products to be exported.

Analysis of Conditions: The process of establishing an Action Programme has been driven by the question: what are the conditions which act to hinder or prevent export diversification? By approaching the problem through the eyes of potential exporters, it is possible both to structure and prioritize steps which must be taken to encourage export diversification. This also puts into proper perspective the separate but supportive roles which must be played by Government and the enterprises themselves if export diversification is to proceed. While government acts to correct remaining imbalances and distortions and to provide appropriate encouragement to export diversification, enterprises themselves have many responsibilities if financial gains are to be achieved within acceptable levels of risk. Increasingly it will be the responsibility of producers and traders to undertake projects leading to enhanced export performance, to identify remaining impediments, and to work with Government to overcome difficulties. Government has made and will continue to make a solid commitment to encouraging exports; enterprises are now being called upon to join in the effort, to contribute to evaluating this preliminary strategy and to undertake increased export activity.

Priority Actions Recommended: The Strategic Analysis being conducted by the Export Unit is comprehensive; it has evaluated the broadest range of conditions, favorable and unfavorable, affecting non-traditional exports. From this review the Export Unit has drawn up a prioritized list of improvements required to move Uganda along the path towards realizing the underlying strategy of expanding non-traditional export earnings to US $100 million per annum within three years. Below are listed these priority improvements which are required to facilitate export expansion:

PRIORITY ACTION RECOMMENDATIONS

1. Adequate Exporter Compensation for Foreign Exchange Earnings

There is wide recognition that the official exchange rate is overvalued and severely hinders non-traditional exports. The Export Retention Scheme has been an attempt to alleviate this constraint, but limitations on use of foreign exchange and lack of confidence constrain its effectiveness. The double export-import licence is another example of this recognition.

A variety of recommendations are being made to correct this distortion. Legalization of the "Kibanda" market is proposed, as is devaluation of the official exchange rate which would then be maintained at levels which reflect the true scarcity value of foreign exchange. It would also be possible to make major improvements in the Export Retention Scheme.

Critical to encouragement of non-traditional exports is a simple, predictable, profitable assured method for exporters to earn, hold, use (for imports, foreign travel and servicing of foreign obligations) and dispose of their foreign exchange. Whichever approach or mix of approaches is used, it is essential that Government establish and maintain financial conditions which make it possible for exporters to plan on long-term involvement in earning foreign exchange through sale of non-traditional exports abroad.

Ministry/Organisation Responsible: BOU, MPED, MOF
Time horizon: immediate

2. One Stop Processing of Licenses and Certificates

Fundamental to Open General Export Licenses (in 3 below) and streamlined licensing procedures for exporters (in 4 below) is consolidation of the necessary approvals into a single office. Government must act administratively to reduce in scope and eliminate in distance the steps exporters have to take in receiving approval for their activities. Further Government must place severe time limits on itself in terms of the maximum days necessary for exporters to receive necessary approvals.

Ministry/Organisation Responsible: MOC, BOU, MOA, MOAIF, MCM
Time horizon: immediate

3. Open General Export Licenses

Regular exporters are severely hindered by current licensing procedures. Excessively complex and lengthy requirements introduce delays and uncertainty as well as additional costs. Serious encouragement of export activity requires immediate establishment of an annual license for regular exporters, under which any number of consignments can be exported for approved products. This is an administrative and legislative step which Government can undertake to smooth the way for increased levels of export activity among regular exporters.

Ministry/Organisation Responsible MOC, BOU
Time horizon: Immediate

4. Streamlined Export and Import Licensing Requirements

Exporters face complex, lengthy and unpredictable licensing requirements both to export and to import requirements for production, handling and packaging. Both in the case of regular exporters seeking an annual Open General Export License and new or seasonal exporters seeking individual consignment export licenses, the requirements need to be reduced, streamlined and limited in the time required for approval.

Approval of import licenses for import requirements of exporters present similar delays and complexities. This is true even in cases where sufficient foreign exchange to cover costs exists in Export Retention Scheme foreign exchange accounts or no foreign exchange is required from the Central Bank of Uganda. As for export licenses, Government must severely reduce and limit licensing administration.

Ministry/Organisation Responsible MOC, BOU
Time Horizon: Immediate

5. Air Transport Improvement

Severe constraints exist on Uganda's ability to export fresh products by air. The monopoly exercised by Ugandan Airlines and bureaucratic controls by other authorities make air shipments uncertain and costly. These problems can only be addressed by opening air transport to competition from other suppliers and by streamlining administration of air cargo handling facilities and fees. Arrangements must also be put in place to allow for payment of air freight charges by local exporters in Uganda shillings.

Ministry/Organisation Responsible: MOT, MOE, UAC, Airport Authority, MOW, BOU.
Time Horizon: Short to medium

6. Cold Storage Facilities

An integral part of improved export of fresh produce by air is major restructuring of the cold chain of product handling and storage. This includes initial cooling at production and collection points, appropriate transport at controlled temperatures, storage in airport facilities where each type of product can have an appropriately controlled environment, and speedy loading onto air cargo facilities. Involvement of private enterprises in the funding and management of such a cold chain is both essential and desirable. Competition from enterprises and the efficiencies and cost-effective services which can be provided should be a major source of cold chain services.

Ministry/Organisation Responsible: MOW, MOA, MAF, MCM, Airport Authority, BOU, EPADU
Time horizon: medium - to long

7. Marketing Information Services

Growth of Ugandan exports must be matched by expansion of readily available information on markets. Exporters must be assured of access to information sources so that consignments can receive competitive prices in overseas markets. Further, specific opportunities to export to foreign markets derives from sophisticated information services. There are economies of scale in provision of such information services; Government needs to stimulate improvements in market information. Effective models for enterprise involvement in market information services offer

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alternatives to Government being the sole or even major provider of services.

Ministry/Organisation Responsible: MOC, EPC, EPADU, MOInformation, MOForeign & Regional Affairs, BOU, MPED
Time Horizon: Short-to medium

8. Removal of Reserve Prices on Exports

Acts by Government to assure minimum prices for export consignments are outdated and will be unnecessary under the financial environment being created by these reforms. Improvements in exporters' ability to retain and effectively use foreign exchange will eliminate pressures for under-invoicing. Improved market and foreign price information and aggressive marketing of Ugandan products will improve the prices which exporters can receive for their products abroad.

Ministry/Organisation Responsible: BOU, MOC, EPC, Agric. Secretariat
Time Horizon: Immediate

9. Improved Access to Packaging Materials

Limits on quantity and quality of domestically produced packaging materials are a major impediment to expansion of non-traditional exports. Immediate access to additional packaging materials can come from automatic approval for exporters to import necessary packaging where domestic availability is limited or quality is not adequate. Longer-term solutions should include major improvements in Ugandan production of packaging materials, which should include competition from several enterprises. Without high quality packaging, Ugandan export competitiveness will continue to be limited.

Ministry/Organisation Responsible: MOI, BOU, MOC, EPADU
Time Horizon: short to medium

10. Promulgation of The Investment Code

Access to foreign capital is required throughout the economy. Of critical importance for export expansion are foreign partners and joint-venture undertakings. Besides bringing in capital for expansion, such links to foreign partners infuse knowledge and experience: essential components to penetrating sophisticated foreign markets. Without rapid finalization of an Investment Code satisfactory to foreign venture partners and sources of capital, Uganda's efforts to expand exports will be severely hindered.

Ministry/Organisation Responsible: MOF, NRC, Ministry of Justice, MPED, BOU.
Time Horizon: immediate to short

11. Post-Harvest Improvements

A companion to improvements in export production will be the availability of post-harvest handling, packaging and transport. In the future a comprehensive system of post-harvest services must be available. Elements of handling, storage, packaging and transport have been addressed already, but Government must start now to assess these elements and assure that they fit into an integrated system. Where problems and constraints remain, it will be essential to stimulate solutions. Involvement of enterprises to deliver such post-harvest services is critical due to lack of government financing and the efficiencies which enterprises can bring to post-harvest services.

Ministry/Organisation Responsible: MCM, MOA, MOW, EPADU, MOIndustry
Time Horizon: medium to long

12. Access to Credit

A barrier to major expansion of export activity is current limits on credit for exporters. Some large exporters, with assistance from foreign buyers, can expand exports through current channels of financing. But encouragement of new exporters and expansion of exports by many existing enterprises depends upon substantial improvements in credit terms and availability. Use of commercial banks and the possibility of an Export Credit Facility for rediscounting offer one option for assuring appropriate credit is available to match the willingness and capability of Ugandan exporters to increase their sales in foreign markets. Government must assess current credit availability, problems, and available solutions. Appropriate solutions must then be implemented quickly so that lack of credit does not become a constraint to export expansion and diversification.

Ministry/Organisation Responsible: BOU, MOF, Commercial Banks, Other Financial Institutions
Time: Short to medium

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13. Expansion of Export Production

As Uganda proceeds with expanded exports of non-traditional products, production limits will begin to constrain growth rates and diversification possibilities. Government must begin now to design comprehensive approaches to breaking these production limits. Such an approach should include selective encouragement of large-scale farming where there are economies of scale, use of contract growing and out-grower schemes, increased smallholder participation through co-operative organizations, extension services, and research into crop varieties which can be grown in Uganda. Rehabilitation of research and extension services as well as encouragement of innovative grower organizations and cooperation are essential.

Ministry/Organisation Responsible: MOA, MAIF, MCM, BOU
Time Horizon: Short to medium

14. Active Export Promotion

Entry of new enterprises into export activity requires substantial encouragement and facilitation. Initial assistance in the complexities of exporting products to foreign markets is essential. All aspects of production for export must be covered in training and assistance services, ranging from exploration of specific market demand for individual products to quality control in production, handling, storage and shipping. Export promotion services can be delivered by several different organizations, including government offices, business associations, and enterprises in the service sector. Experience accumulated around the world indicates that traditional government export promotion services are rarely efficient or suited to the real needs of exporters. Uganda should take advantage of this accumulated experience in designing effective services through appropriate service delivery organizations.

Ministry/Organisation Responsible: MOC, EPC, EPADU, MOForeign & Regional Affairs, MOInformation
Time Horizon: Short to medium

15. Comprehensive Storage Improvements

In addition to improving the cold chain of product handling and storage, there is need for an integrated system of storage of other products. This should systematically range from on-site production storage to collection point storage and point of export facilities. Elements of this

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storage chain exist but need to be improved and integrated into a coordinated system. The capabilities of such storage services must match the requirements of the specific products being exported and the demands of the foreign markets. Scarce government funds require an active role for enterprises and private investment in provision of these services. Government must, however, initially assess requirements and assist in planning for expansion and integration of storage services.

Ministry/Organisation Responsible: MCM, MOA, BOU
Time Horizon: medium to long

VIII. ACTIONS REQUIRED TO FINALIZE DEVELOPMENT STRATEGY

Continued Strategic Analysis: This preliminary action programme derives from initial analysis of key constraints to export expansion and diversification. The Export Unit will continue such strategic analysis, which will contribute to broader understanding of critical problems and available solutions.

Specific Studies/Analysis: One essential aspect of finalizing the Development Strategy is in-depth study of key problems. The prioritized list of recommended actions provides a priority list of such studies to be undertaken. The Export Unit, in cooperation with other key Government offices and enterprise organizations, will undertake immediate analysis of these key areas for action. Detailed papers will be produced which explore the problem area and rationale for action, as well as listing options available to solve or alleviate the problem. Priority in the Work Plan for the Export Unit will be assigned to finalizing the Export Strategy.

Coordination With Other Efforts: The Ministry of Planning and Economic Development has formed an Inter-ministerial/Industry Working Committee to coordinate development of the export strategy. Frequent meetings of this committee and close liaison with its members on a daily basis by the staff of the Export Unit will be carried out.

Enterprise Participation: Exports will diversify and expand as enterprises respond to financial inducements and opportunities to sell abroad. As the fundamental element in export activity, enterprises must participate fully in designing the export development strategy. The Export Unit will consult frequently with exporters and enterprise organizations to assure that their

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requirements are fully taken into account.

<u>Commodity and Market Analysis:</u> Active evaluation of commodities and markets with promise in the export sector will be initiated by the Export Unit. Initially an assessment will be made of existing and on-going activities in Uganda which shed light on varieties of commodities which can be grown in Uganda and foreign market opportunities. Supplemental activities will be undertaken to speed this evaluation process and assure that production opportunities and foreign market niches are widely understood and exploited.

<u>Technical Assistance:</u> Donor support for the Export Unit will provide the resources necessary for its operation. In addition, short-term consulting services and assistance in studies/analysis are available. The Export Unit will assess technical assistance constraints to achieving a final export strategy and seek government and donor assistance to eliminate these constraints.

ANNEX D

A Brief Description of Uganda's

Foreign Exchange

Pricing and Allocation System

(August 1990)

This annex is an attempt to provide a preliminary description of critical elements of the foreign exchange allocation system in Uganda. The annex is largely based on secondary sources of information prepared prior to October 1989, but also examines some significant changes in the period since then. There are no recent analyses evaluating the reforms promulgated June 28, 1990 and the design schedule precludes preparation of more than a rudimentary and very preliminary description. This description will serve as the basis for further research and analysis, by EPADU and ANEPP Technical Assistance personnel and USAID/Uganda on next steps to effectively extend this aspect of Uganda's macroeconomic policy environment.

A. Exchange Rate Developments, 1987-90

The GOU has undertaken active management of the shilling exchange rate over the 1988-90 period (see Table 1), in an attempt to preserve and improve the domestic competitiveness of Uganda's exports. As of this writing, the GOU has legalized the parallel market rate and has steadily adhered to its pledge to prevent any appreciation in the real effective exchange rate (REER); a more accurate measure of competitiveness than the nominal exchange rate). In the period between first-quarter 1988 and the end of 1989, when Uganda announced its intention to regularly devalue the official rate in line with relative inflation rates in Uganda and abroad, four discrete devaluations occurred, bringing the official exchange rate from 60 shillings per dollar in first-quarter 1988 to 340 shillings per dollar in October 1989. These devaluations resulted in the fourth-quarter 1989 nominal (official) exchange rate, in foreign currency terms, being 81 percent below the level in first-quarter 1988. However, the superficial benefit of these gains was eroded by high inflation rates in Uganda, compared with its major trading partners, such that the REER only depreciated by 32 percent. In addition, over the period the depreciation in the REER was not steady; by contrast, the REER steadily appreciated between fourth-quarter 1989 and third-quarter 1990. In the period since the end of 1989~~, the nominal rate has declined~~ by an additional 30 percent, an amount which is, as promised by the GOU, broadly in line with rough estimates of inflation differentials, thereby generally preserving the value of the REER.

Table 1:

Table 1: Uganda: Nominal and Real Exchange Rate Indicators

(Ush/$ and percent)

	1988				1989				1990	
	I	II	III	IV	I	II	III	IV	I	II
Nominal Râte (Ush/$)	60	60	150	155	174	200	200	318	377	410
* Index (inverse)	100	100	40	39	34	30	30	19	16	15
Real Effective Ind.	100	131	80	74	77	85	98	68	51	n/a

Source: <u>IMF International Financial Statistics</u>

The existence of a parallel exchange rate in Uganda, however, and the marked premium receivable on foreign exchange sold on the parallel as opposed to the official market, strongly indicates continued overvaluation of the shilling exchange rate, despite these real effective devaluations. In 1985-86, the period prior to the current government's assumption of power, that premium was reportedly on the order of 900 percent. In mid-1989, toward the end of the period of real effective appreciation noted above, the premium was just over 100 percent. Since then, exchange rate management has brought the premium down to below 60 percent. Although the direction of movement of the premium is certainly desirable, its existence provides a strong signal that the GOU must move further. Indeed, current understandings between the GOU and the multilaterals require that ~~unification of~~ the official exchange rate ~~and parallel~~ is ~~exchange rates~~ market-clearing by approximately the end of 1991.

On the foreign exchange earnings side of the balance of payments ledger, the official exchange rate is used to convert all foreign exchange earnings from coffee exports, which amount to about 95 percent of merchandise exports. Additionally, all externally provided capital, including donor project funds, donor balance of payments support, and reserve transactions such as IMF flows, are converted at the official exchange rate. The parallel exchange rate is used to convert to shillings all transactions in the now-legalized parallel market, which includes primarily inward remittances (private transfers) and earnings from noncoffee exports.

On the foreign exchange expenditure side of the ledger, the official exchange rate is used by the GOU to price all petroleum imports (in terms of the shilling border price), all debt transactions, all project-related (i.e., primarily donor-funded) imports, and all imports through the GOU's two foreign exchange allocation systems (of which more below).

As a consequence, despite the legalization of the parallel market, the Mission estimates that no more than one quarter of Uganda's annual merchandise import bill of $600-plus million (including donor-funded project imports) has been purchased at a shilling valuation above the overvalued official exchange rate. On the other hand, a far greater proportion of imports are sold to end-users at prices that more closely reflect parity pricing through the parallel exchange rate. This premium earned by importers presents clear opportunities for rent-seeking activity, resulting in economic inefficiencies in addition to those resulting from the usual incentive skewing directly caused by multiple exchange rate practices.

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B. Foreign Exchange Allocation Systems

As of August 1990, there existed a number of different mechanisms for gaining access to foreign exchange for imports. These include (1) government's direct imports of petroleum and donor-funded commodities, (2) the OGL (open general license) allocation system, (3) the SIP (special import program) allocation system, and (4) the "no forex" system. (The dual licensing system introduced with A.I.D.'s support in 1988 exists in name but has been made irrelevant by the legalization of the parallel exchange market coupled with the removal of foreign exchange surrender requirements.) The first three of these operate at the official exchange rate, as noted earlier, while the last operates using the parallel exchange market.

1. Government Imports

Government's direct imports of petroleum amount to just over ten percent of merchandise imports, and foreign exchange for these is sourced to coffee export earnings. Project-related imports by the government include those funded from donor financing, as well as (presumably) some on government's own account, also from coffee earnings. Project-related imports amount to about another forty percent of merchandise imports. All shilling import prices for government imports are converted at the official exchange rate. Fully fifty percent of Uganda's $650 million in annual merchandise imports thus are direct government imports, with balance going through the various allocation and market schemes.

2. Open General License

This foreign exchange allocation system is actually a misnomer, being neither open nor general. With donor assistance the source of foreign exchange for this allocation system, the GOU in January 1988 fully implemented its OGL, and sells foreign exchange at the official exchange rate. [illegible] manufacturing firms in selected industrial subsectors were originally selected as eligible to use the system, based on their management abilities, and their access to credit and working capital. There is no indication how the selection criteria were applied. The number of subsectors was expanded in 1989, and the firm list was in March 1990 expanded to 63 firms. The OGL allocated foreign exchange to the eligible firms for imported inputs, with the firms generally producing mass consumption goods or generating significant tax revenues. In 1988, $55 million was made available for OGL imports, but only about half that amount of licenses were issued, and a ~~slightly lower amount were actually~~ utilized. Data show that private sector firms were the overwhelming beneficiaries of the OGL, at least in 1988. Recent discussions between the GOU and the multilaterals have examined the possibility of expanding the OGL to embrace economic sectors outside manufacturing, such as agriculture, but no decisions have been taken yet.

3. Special Import Program

SIP-III is the current version of the SIP, and has replaced SIPs I and II. The eligibility list of firms is very broad, and there is only a short negative list of commodities. In magnitude, SIP-III accounts for about non-project, non-petroleum imports, for which importers pay a shilling equivalent based on the official exchange rate. Foreign exchange is available through SIP-III on a first-come, first-served basis, and supplies of foreign exchange are currently sporadic and far short of market demand (at the official exchange rate). Under the SIP, the BOU (Bank of Uganda) from time to time announces the immediate availability of a certain amount of foreign exchange, and approves applications until that amount is exhausted. Although the exchange rate under the SIP is more favorable than under the "no forex" system, it appears that the laxity of customs control under the latter (permitting significant underinvoicing for tariff purposes) and some additional fees under the former can significantly reduce the apparent attractiveness of the SIP as a source of foreign exchange.

4. "No forex" Imports

This system of access to foreign exchange for imports, legalized since 1988, permits any legitimate importer with his own access to foreign exchange to import goods. Licensing occurs after the arrival of the imports, is very rudimentary, and serves primarily customs revenue and recording purposes. Sources of foreign exchange publicized when the system was introduced included primarily foreign exchange held abroad, but it was widely known that the (at the time) illegal parallel exchange market was a primary source of foreign exchange for such imports. This system clearly represented tacit GOU approval of the existence of a parallel market, and the magnitude of such imports was a significant one-third of non-government imports in each of the past two calendar years.

In 1988, with USAID's encouragement and support through ANEPP, the GOU began issuing dual export-import licenses to nontraditional exporters. The retentions unused by exporters were not legally transferable to any entity except the government, and that at the official exchange rate. This, according to our discussions with many exporters, reduced the incentive effort of such retentions and possibly inhibited greater expansion of exports at the time. This system can be considered a variant of the "no forex" system, in that it also provided tacit recognition of a parallel rate: exporters could import goods and ~~sell these at~~ prices reflecting the parallel rate.

This system has been overtaken by the June 1990 legalization of the parallel market. Vendors who purchase a license are permitted to buy and sell foreign exchange at uncontrolled exchange rates, the assumption being that competition will reduce disparities among vendors. Sources of foreign exchange to this market are presumably primarily foreign exchange formerly in that market, as well as the foreign exchange earnings of nontraditional exporters, since there are no surrender requirements. On an annual basis, the parallel market should constitute about one-quarter to one-third of Uganda's imports in the near term.

Doc. AnnexD

ANNEX B

STATUTORY CHECKLIST

3(A)2 - NONPROJECT ASSISTANCE CHECKLIST

The criteria listed in Part A are applicable generally to FAA funds, and should be used irrespective of the program's funding source. In Part B a distinction is made between the criteria applicable to Economic Support Fund assistance and the criteria applicable to Development Assistance. Selection of the criteria will depend on the funding source for the program.

CROSS REFERENCES: IS COUNTRY CHECKLIST UP TO DATE? HAS STANDARD ITEM CHECKLIST BEEN REVIEWED? (Mission to verify with desk officer)

A. GENERAL CRITERIA FOR NONPROJECT ASSISTANCE

1. FY 1990 Appropriations Act Sec. 523; FAA Sec. 634A. Describe how authorization and appropriations committees of Senate and House have been or will be notified concerning the project.

   CN transmitted on 9/12/90, expired on 9/27/90.

2. FAA Sec. 611(a)(2). If further legislative action is required within recipient country, what is basis for reasonable expectation that such action will be completed in time to permit orderly accomplishment of purpose of the assistance?

   A CP to the 3rd tranche requires enactment of a new investment code. Consultation with Senior GOU officials suggests that the legislation should be acted on within three months, well prior to date of 3rd tranche.

3. FAA Sec. 209. Is assistance more efficient;u and effectively provided through regional or multilateral organizations? If so, why is assistance not so provided? Information and conclusions on whether assistance will encourage developing countries to cooperate in regional development programs.

   No.

4. FAA Sec. 601(a). Information and conclusions on whether assistance will encourage efforts of the country to: (a) increase the flow of international trade; (b) foster private initiative and competition; (c) encourage development and use of cooperatives, credit unions, and savings and loan associations; (d) discourage monopolistic practices; (e) improve technical efficiency of industry, agriculture, and commerce; and (f) strength free labor unions.

   Purpose of Program is to increase rural income by overcoming short-term constraints to non-traditional agricultural exports. Emphasis will be on policy reforms affecting the private sector. This project does not address cooperative issue (CAAS 617-0111).

5. FAA Sec. 601(b). Information and conclusions on how assistance will encourage U.S. private trade and investment abroad and encourage private U.S. participation in foreign assistance programs (including use of private trade channels and the services of U.S. private enterprise).

   This project, and other USAID activities focuses on these issues, to the extent foreign private investment is encouraged in non-traditional agricultural exports.

6. FAA Sec. 121(d). If assistance is being furnished under the Sahel Development Program, has a determination been made that the host government has an adequate system for accounting for the controlling receipt and expenditure of A.I.D. funds.?

   N/A

B. FUNDING CRITERIA FOR NONPROJECT ASSISTANCE

1. Nonproject Criteria for Economic Support Fund

   a. FAA Sec. 531(a). Will this assistance promote economic and political stability? To the maximum extent feasible, is this assistance consistent with the policy directions, purposes, and programs of Part I of the FAA??

   b. FAA Sec. 531(e). Will assistance under this chapter be used for military or paramilitary activities?

   c. FAA Sec. 531(d). Will ESF funds made available for commodity import programs or other program assistance be used to generate local currencies? If so, will at least 50 percent of such local currencies be available to support activities consistent with the objectives of FAA sections 103 through 106?

      N/A

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d. <u>FAA Sec. 609.</u> If commodities are to be granted so that sale proceeds will accrue to the recipient country, have Special Account (counterpart) arrangements been made? — N/A

e. <u>FY 1990 Appropriations Act, Title under heading "Economic Support Fund," and Sec. 592.</u> If assistance is in the form of a cash transfer: (a) Are all such cash payments to be maintained by the country in separate account and not to be commingled with any other funds? (b) Will all local currencies that my be generated with funds provided as a cash transfer to such a country also be deposited in a special account, and has A.I.D. entered into an agreement with that government setting forth the amount of the local currencies to be generated, the terms and conditions under which they are to be used, and the responsibilities of A.I.D. and that government to monitor and account for deposits and disbursements? (c) Will all such local currencies also be used in accordance with FAA Section 609, which requires such local currencies to be made available to the U.S. Government, and which requires the remainder to be used for programs agreed to by the U.S. Government to carry out the purposes for which new funds authorized by the FAA would themselves be available? (d) Has Congress received prior notification providing in detail how the funds will be used, including the U.S. interests that will be served by the assistance, and as appropriate, the economic policy reforms that will be promoted by the cash transfer assistance?

(a) Yes

(b) Yes

(c) Yes

(d) Yes

2. Nonproject Criteria for Development Assistance

a. FAA Secs. 102(a), 111, 113, 281(a) Extent to which activity will: (1) effectively involve the poor in development, by expanding access to economy at local level, increasing labor-intensive production and the use of appropriate technology, spreading investment out from cities to small towns and rural areas, and insuring wide participation of the poor in the benefits of development on a sustained basis, using the appropriate U.S. institutions; (2) help develop cooperatives, especially by technical assistance, to assist rural and urban poor to help themselves toward better life, and otherwise encourage democratic private and local governmental institutions; (3) support the self-help efforts of developing countries; (4) promote the participation of women in the national economies of developing countries and the improvement of women's status; and (5) utilize and encourage regional cooperation by developing countries?

b. FAA Secs. 103, 103A, 104, 105, 106 120-21. Is assistance being made available (include only applicable paragraph which corresponds to source of funds used; if more than one fund source is used for assistance, include relevant paragraph for each fund source):

(1) [103] for agriculture, rural development or nutrition; if so (a) extent to which activity is specifically designed to increase productivity and income of rural poor; [103A] if for agricultural research, account shall be taken of the needs of small farmers, and extensive use of field testing to adapt basic research to local conditions shall be made; (b) extent to which assistance is used in coordination with efforts carried out under Sec. 104 to help improve nutrition of the people of developing countries

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through encouragement of increased production of crops with greater nutritional value; improvement of planning, research, and education with respect to nutrition, particularly with reference to improvement and expanded use of indigenously produced foodstuffs; and the undertaking of pilot or demonstration programs explicitly addressing the problem of malnutrition of poor and vulnerable people; and (c) extent to which activity increases national food security by improving food food policies and management and by strengthening national food reserves, with particular concern for the needs of the poor, through measures encouraging domestic production, building national food reserves, expanding available storage facilities, reducing post harvest food losses, and improving food losses, and improving food distribution.

(2) (104) for population planning under Sec. 104(b) or health under Sec. 104(c); if so, extent to which activity emphasizes low-cost, integrated delivery systems for health, nutrition and family planning for the poorest people, with particular attention to the needs of mothers and young children, using paramedical and auxiliary medical personal, clinics and health posts, commercial distribution systems, and other modes of community outreach. N/A

(3) (105) for education, public administration, or human resources development; if so, (a) extent to which activity strengthens nonformal education, makes formal education more relevant, especially for rural families and urban poor, and strengthens management capability of institutions enabling the poor to participate in development; and (b) extent to which assistance provides advanced education and training of people of developing countries in such disciplines as are required for planning and implementation of public and private development activities. N/A

(4) (106) for energy, private voluntary organizations, and selected development problems; if so, extent activity is: N/A

i)(a) concerned with data collection and analysis, the training of skilled personnel, research on and personnel, research on and development of suitable energy sources, and pilot projects to test new methods of energy production; and (b) facilitative of research on and development and use of small-scale, decentralized, renewable energy sources for rural areas, emphasizing development of energy resources which are environmentally acceptable and require minimum capital investment;

(ii) concerned with technical cooperation and development, especially with U.S. private and international development, organizations;

(iii) research into, and evaluation of, economic development processes and techniques;

(iv) reconstruction after natural or manmade disaster and programs of disaster preparedness;

(v) for special development problems, and to enable proper utilization of infrastructure and related projects funded with earlier U.S. assistance;

(vi) for urban development, especially small, labor-intensive enterprises, marketing systems for small producers, and financial or other institutions to help urban poor participate in economic and social development.

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(5) (120-21) for the Sahelian region; if so, (a) extent to which there is international coordination in planning and implementation; participation and support by African countries and organizations in determining development priorities; and a long-term, multidonor development plan which calls for equitable burden-sharing with other donors; (b) has a determination been made that the host government has an adequate system for accounting-for and controlling receipt and expenditure of projects funds (dollars or local currency generated therefrom)? N/A

DRAFTER:GC/LP:EHONNOLD:3/20/90:2169J

Cleared:9/17/90:CBrown, RLA /S/

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ANNEX F

ACTION: AID-2 INFO: CHARGE

RECEIVED
25 SEP 1990
USAID/UGANDA

LOC: 51 443
25 SEP 90 2097
CN: 40698
CHRG: AID
DIST: AID

VZCZCAVA212ESA619
PP RUTAKM
DE RUEHC #4029 2672119
ZNR UUUUU ZZH
P R 242117Z SEP 90
FM SECSTATE WASHDC
TO RUTAKM/AMEMBASSY KAMPALA PRIORITY 3398
INFO RUEHNR/AMEMBASSY NAIROBI 4129
BT
UNCLAS STATE 324029

AID C NAIROBI FOR REDSO/ESA

E.O. 12356: N/A
TAGS:
SUBJECT: AGRICULTURAL NON-TRADITIONAL EXPORT PROMOTION (ANEPP) 617-0113

REFS (A) USAID TELEFAX, DATED 9/7/90 (B) KAMPALA 03676

1. THE BUREAU HAS DETERMINED THAT THE ANEPP II PAAD SUPPLEMENT IS BASICALLY SOUND BUT THAT, IN LIGHT OF UGANDA'S CRITICAL AND URGENT NEED FOR OIL IMPORTS AND THE RECENT SHARP ESCALATION IN OIL PRICES, A NON-PROJECT SECTOR ASSISTANCE WOULD BE PREFERABLE TO A CIP. AD HOC AUTHORITY IS HEREBY DELEGATED TO THE USAID DIRECTOR TO UGANDA, OR TO THE PERSON ACTING IN THAT CAPACITY, TO APPROVE A PAAD SUPPLEMENT FOR U.S DOLS 20 MILLION FOR THE AGRICULTURAL NON-TRADITIONAL EXPORT PROMOTION PROGRAM (617-0113).

2. THIS AD HOC DOA SHALL BE SUBJECT TO ALL THE TERMS AND CONDITIONS OF AFRICA BUREAU DOA 551. PAAD APPROVAL AND EXECUTION OF THE NON-PROJECT SECTOR ASSISTANCE PROGRAM AGREEMENT PER DOA 551 SHALL BE SUBJECT TO FORMAL MISSION CONTROLLER AND RLA-REDSO/ESA CLEARANCE. THE CONGRESSIONAL NOTIFICATION WILL EXPIRE ON SEPTEMBER 27,

CONTROLLER AND RLA-REDSO/ESA CLEARANCE. THE CONGRESSIONAL NOTIFICATION WILL EXPIRE ON SEPTEMBER 27,
1990. OBLIGATION OF FUNDS WILL BE SUBJECT TO POSITIVE CABLE ADVICE FROM AID/W THAT CN HAS EXPIRED WITHOUT OBJECTION.

3. WITH RESPECT TO REF FAX, AID/W ENDORSES MISSION'S PROPOSED USE OF THE INITIAL TRANCHE OF DOLS 8 MILLION FOR PURCHASE OF OIL FROM THE PERSIAN GULF THROUGH MOMBASA. GIVEN CRITICAL NEEDS, THIS WOULD BE IN LINE WITH DFA'S GOAL TO MAXIMIZE THE PURCHASE OF THE U.S. PRODUCTS WITH DFA RESOURCES. (THIS IS BECAUSE THE COMMODITY, URGENTLY NEEDED-OIL, IS UNAVAILABLE FROM THE U.S.) AS FOR THE SECOND AND THIRD TRANCHE RELEASES, IT WOULD BE UP TO THE MISSION, IN THE PROGRAM AGREEMENT AND IN A SUBSEQUENT PIL, TO RECORD AGREEMENT WITH THE GOU ON CRITERIA FOR SIMILAR APPLICATION OF THE QUOTE MAXIMIZING UNQUOTE POLICY AND DFA PROCUREMENT POLICIES IN EFFECT AT

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TIME.

4. WILL LOOK TO THE MISSION TO REVISE PAAD SUPPLEMENT SO THAT, IN ONE PLACE, WE HAVE A COMPLETE DOCUMENT ADDRESSING CHANGE TO NPA MODE, SEPARATE ACCOUNT/TRACKING REQUIREMENTS, USE OF CASH, SPECIAL DOLLAR ACCOUNT LOCAL CURRENCY GENERATIONS/AUDITING, ETC. WILL LOOK FORWARD TO RECEIPT OF SUCH DOCUMENT EX POST FACTO. BAKER

BT

#4029

NNNN

[illegible]

... INITIAL ... OF ... BILLION ... GULF THROUGH ... THIS ... IN LINE ... U.S. ... AVAILABLE FROM ... TRANCHE RELEASES. ... PROGRAM AGREEMENT ...

[illegible]

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VZCZCKMD *
PP RUEHC RUEHNR
DE RUTAKM #3057/01 194 **
ZNR UUUUU ZZH
P 131312Z JUL 90
FM AMEMBASSY KAMPALA
TO RUEHC / SECSTATE WASHDC PRIORITY 6604
INFO RUEHNR / AMEMBASSY NAIROBI 1585
BT
UNCLAS SECTION 01 OF * KAMPALA 03057

CLASS: UNCLASSIFIED
CHRGE: AID 07/13/90
APPRV: D/DIR:SCRYNER:
DRFTD: PRM:CGORDON
CLEAR: ADO:GBAYER
PDO:ESMITH
DISTR: AID-3 AMB DCM
CONS CHRON

AIDAC

NAIROBI FOR REDSO/RLA, ECON

E.O. 12356: N/A
SUBJECT: PAAD AMENDMENT FOR AGRICULTURAL NON-TRADITIONAL EXPORT PROMOTION (ANEP) PROGRAM (617-0113)

REF: STATE 191697

1. USAID/KAMPALA PROCEEDING TO DEVELOP SUBJECT AMENDMENT OF DOLS 13.5 MILLION FOR EXPECTED OBLIGATION WITH GOU O/A 28 AUGUST 1990.

2. IN CONSIDERATION OF MISSION API DEVELOPMENT (SEPTEL TO FOLLOW) AND ANEP PROGRAM IMPACT ASSESSMENT TEAM SCHEDULED TO ARRIVE JULY 18, WE EXPECT DRAFT PAAD INCORPORATING AID/W COMMENTS TO BE SENT VIA CABLE O/A AUGUST 6.

3. DUE TO TIGHT SIGNING TIME SCHEDULE, SIGNIFICANT POLICY REFORMS MADE BY GOU TO DATE, AND POSITIVE AID/W COMMENTS ON PROJECT, REQUEST AUTHORIZATION FOR MISSION APPROVAL OF FINAL PAAD AMENDMENT.

4. FOR RLA: REQUEST TDY ASSISTANCE O/A AUGUST 6 FOR THREE DAYS TO REVIEW DRAFT AMENDMENT AND PREPARE AUTHORIZATION. USAID WILL PLAN TO BEGIN NEGOTIATING PROJECT GRANT AGREEMENT WITH GOU AFTER TDY IN ORDER TO ADHERE TO SIGNING SCHEDULE.

5. FOR J. ROSE: REQUEST YOU PASS COPY OF THIS CABLE TO IMPACT ASSESSMENT TEAM.

6. PAAD WILL REVIEW THE THREE MUTUALLY SUPPORTING ANEP ACTIVITIES; POLICY REFORM, TECHNICAL ASSISTANCE AND COMMODITY IMPORT PROGRAM. USAID PLANS TO SEEK VERBAL INPUTS FROM THE IMPACT TEAM AS SOON AS REASONABLE SO THAT THEIR FINDINGS CAN BE INCLUDED IN PAAD AMENDMENT TEXT. USAID WILL ESTABLISH AGREEMENT WITH TEAM ON COLLECTION OF ECONOMIC DATA, POLICY REFORMS AND INDICATORS AVAILABLE TO AVOID DUPLICATION OF EFFORT.

7. USAID NOTED SOME CONFUSION AS TO ANEP GOAL AS STATED IN THE REF CABLE. WE WILL REVIEW THE GOAL STATEMENT FOR ADDITIONAL CLARIFICATION DURING THE PAAD

AMENDMENT PROCESS. THE PURPOSE: STATEMENT QUOTE TO INCREASE NON-TRADITIONAL EXPORTS; END QUOTE, REMAINS THE SAME.

8. THE FOLLOWING IS A DRAFT OUTLINE OF THE PAAD AMENDMENT.

I. SUMMARY OF PROJECT ACCOMPLISHMENTS TO DATE

- - POLICY REFORMS/CHANGES

- - TECHNICAL ASSISTANCE

- - COMMODITY IMPORTS

II. EVALUATION - AREAS OF MEASUREMENT

- - CONDITIONS AND COVENANTS

- - COMMODITIES LICENSED

- - NON TRADITIONAL EXPORTS MADE

- - PROGRAMS EFFECT ON PRODUCTIVITY (MAY BE TOO
- - EARLY, BUT AN AREA TO LOOK AT).

- - EMPLOYMENT GENERATED AT LOCAL LEVEL WITH
- - FOCUS ON BACKWARD/FORWARD LINKAGES (MAY BE
- - TOO EARLY)

- - INCREASED INCOME (USAID WILL TRY TO GIVE
- - EXAMPLES OF HOW THIS PROJECT HAS INCREASED
- - THE INCOME OF THE PRODUCER (MAY BE TOO
- - EARLY)

- - FOREIGN EXCHANGE EARNINGS

- - EFFECTS OF TECHNICAL ASSISTANCE, TRAINING
- - AND SEMINARS. (IT IS NOTED THAT BECAUSE OF
- - CONTINUING TA DEMAND, DOLS. 1.5 MILLION IS
- - TO BE ADDED IN JULY AMENDMENT)

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#3057

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 DISTR: AID-2 AMB DCM CONS CHRON

AIDAC

NAIROBI FOR REDSO/RLA, ECON

E.O. 12356: N/A
SUBJECT: PAAD AMENDMENT FOR AGRICULTURAL

- - STATUS AND PROJECTIONS OF CIP

- - USAGE OF LOCAL CURRENCY: EPADU AND IMPORTER REPAYMENT STATUS

- - ANEP AS IT SUPPORTS OTHER USAID PROGRAMS
- - AND DONOR INITIATIVES.

III. EXAMINATION OF THE NEED AND POTENTIAL IMPACT OF
- THE INCLUSION OF AN INTERMEDIATE/SECONDARY
- CREDIT WINDOW FOR ANEP.

IV. ADDITIONAL POLICY CHANGES AND EXPECTED IMPACT
- (THESE ARE INITIAL SUGGESTIONS)

A. CONTINUED IMPROVEMENT IN EXPORT LICENSING
- PROCEDURES.

B. FURTHER LIBERALIZATION OF THE FOREIGN EXCHANGE
- REGIME.

C. CONSOLIDATION AND OPERATIONALIZATION OF MEASURES
- ALREADY TAKEN.

D. REMOVAL OF UGANDAN AIRLINES MONOPOLY IN
- CLEARING, FORWARDING AND HANDLING OF CARGO AT
- ENTEBBE.

E. PROMULGATION OF AN INVESTMENT CODE.

F. CREATION OF AN EXPORT CREDIT FACILITY FOR MEDIUM
- TERM LENDING.

NOTE: IN DISCUSSIONS WITH J. WOLGIN, USAID UNDERSTANDS HE IS PREPARING SOME SUGGESTIONS FOR THIS SECTION. WITH THE RECENT DRAMATIC GOU FOREX POLICY REFORMS MADE WHILE HE WAS TDY USAID WILL APPRECIATE HIS INPUTS.

9. REQUEST AID/W PROVIDE ASAP:

A. CONCURRENCE IN MISSION AUTHORIZATION OF PAAD
- AMENDMENT.

B. COMMENTS ON DRAFT OUTLINE OF PAAD AMENDMENT.

BURROUGHS
BT
#3057

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ANNEX G

INITIAL ENVIRONMENTAL EXAMINATION
OR
CATEGORICAL EXCLUSION

PROJECT COUNTRY: Uganda

PROJECT TITLE AND NO.: Agricultural Non-Traditional Export Promotion Program (617-0113) Amend.No.1

FUNDING: FY1990 US$ 22,000,000

IEE PREPARED BY: Cheryl McCarthy, Program Officer (AFR/EA)

ENVIRONMENTAL ACTION RECOMMENDED:

Positive Determination	
Negative Determination	X
Categorical Exclusion	
Deferral	

SUMMARY OF FINDINGS:

This program will fund a non-project sector assistance activity which will subsequently generate local currency for development activities. This program would qualify for a Categorical Exclusion under Section 216.2(c)(2)(ix) of Reg 16 where A.I.D. does not have knowledge of the specific commodities to be financed prior to approval. In this case, the probable major commodity involved will be fuel oil. Therefore, a negative determination is recommended on the basis that the importation and use of this commodity will have no direct environmental impacts above and beyond those already associated with normal operations in the transport sector.

In the case of local currency use for development activities, Reg 16 does not apply. However, the Agency is no less committed to sound environmental review of their consequences. The guidance cable on this subject (88 State 066242) recommeds that responsible safequards ensuring that environmental concerns be taken into account in the design and implementation of projects and programs supported by jointly programmed local currency and trust funds.

In-country procedures to evaluate any long-term environmental impacts of activities funded with generated local currency already exist in Uganda. The Mission Environmental Officer will ensure that the responsible staff in the Ministry for Natural Resources will be made aware of A.I.D. concerns, and that they will be asked to provide occasional progress reports to the Mission. This program will also include some support for adequately training environmental staff to carry out monitoring of these activities, and in developing an oil spill response plan for use by the GOU and anyone involved in oil handling and transport.

The Mission Environmental Officer or the Regional Environmental Officer will participate as necessary in the program mid-term evaluation in order to assess both direct and long-term impacts. MEO and/or REO should review the World Bank National Environmental Action Plan for Uganda as it evolves, in order to assess the cabability of GOU to monitor the above.

Recommendation:

A negative environmental determination for this program is recommended.

CONCURRENCE:

Bureau Environmental Officer:
John J. Gaudet, AFR/TR/ANR

APPROVED: X
DISAPPROVED:
DATE: 14/9/90

CLEARANCE:
GC/AFR: (draft) DATE:14/9/90

ANNEX B

TELEGRAMS: "ECSTATIC", KAMPALA.

DIRECT TELEPHONE NOS.:
MINISTER — — [illegible]
PERMANENT SECRETARY [illegible]
GENERAL — — [illegible]

TELEX: 61117. ECONOMY UGA.

IN ANY CORRESPONDENCE ON THIS SUBJECT PLEASE QUOTE NO. ED/C/USA/1/00

THE REPUBLIC OF UGANDA

MINISTRY OF PLANNING AND ECONOMIC DEVELOPMENT.
P.O. BOX 7086.
KAMPALA, UGANDA.

14 September 1990

RECEIVED
17 SEP 1990
USAID/UGANDA

Mr Keith Sherper
USAID Mission Director
P.O. Box 7007
KAMPALA

Dear Mr Sherper

I wish to refer to discussions between USAID and the Government of Uganda regarding the continuing shortage of foreign exchange available to stimulate and support an expansion of Uganda's non-traditional agricultural exports.

Trade promotion, especially of the non-traditional exports, remains a top priority of the NRM Government and financial assistance in this area is vital and helpful towards successful implementation of the programme. In this regard, I wish to formally request the Government of the United Sates of America to amend the existing Agricultural Non-traditional Export Promotion Programme Grant for an additional US$20million in non-project sector assistance. As tentatively planned, $8m. will be used to finance the immediate procurement of petroleum products which are essential to the production and export of non-traditional agricultural goods. The balance will be used to finance private sector general imports and/or fulfill international debts and commitments.

Finally, I wish to express the Government of Uganda's appreciation for the USA Government's contribution and support to our various programmes and for the encouragement and assistance in our development efforts.

Yours sincerely

E. Tumusiime-Mutebile
PERMANENT SECRETARY

c.c. The Secretary to the Treasury
Ministry of Finance
KAMPALA

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Uganda's Balance of Payments Situation

Uganda's balance of payments problems will increase in the upcoming months due to the continued low receipts from coffee exports, the increased prices for petroleum imports and the delays in release of the second tranche of ERC funds by the World Bank. According to Bank of Uganda cash flow analysis, the estimated deficit in the monthly balance of payments before receipts from donors for the months of September is in the range of dols 12.5 million. October, November and December deficits are forecasted at dols 5.4 million, dols 8.7 million and dols 9.1 million, respectively. (See attached table for the breakdown of the cash flow figures.)

While an estimated dols 140.0 in receipts from donors will become available in the September through December period, the timing of the releases and the tied nature of the dols 19.5 funds from ODA make the availability of this foreign exchange to meet needs for petroleum imports in a timely fashion uncertain. Dols 35 million in ESAF funds are scheduled to be released on September 28, however, the dols 55 million for the ERC from the World Bank is unlikely to be released before the end of October or mid-November.

The foreign exchange requirements for petroleum imports are forecasted to rise from dols 5.8 to between dols 8 and 8.5 million. (See Telefax on "Oil Crisis in Uganda.") Although the debt service to multilateral institutions drops from dols 12.1 in September to 2.8 in October, a deficit is still likely in both months.

Moreover, the estimated receipts from coffee exports may be overly optimistic in light of continued problems with low deliveries to the Coffee Marketing Board. Deliveries were off by 45 percent in May, perhaps in anticipation of producer price increases. However, after the announced moderate increases of producer prices in the June budget speech, deliveries have still failed to increase. The estimation of receipts of dols 10 are based on projected monthly deliveries of 2.7 million bags, but it may still be difficult to increase exports to 2.5 million bags. Last month coffee receipts were around dols 6 million and unless there are substantial increases in coffee deliveries, the estimated dols 10 receipts for coffee exports are unlikely to materialize.

The Bank of Uganda is planning to make dols 3 million per month availble through the Open General Licensing system to the expanded list of 63 eligible firms that produce basic consumer goods or products that produce tax revenue for the GOU (e.g. beer). Additionally, the BOU projects that dols 32 million will be available through the Special Import Program that offers foreign exchange at the official rate on a first-come-first-served basis.

If shortfalls in coffee export receipts occur and foreign exchange requirements for petroleum imports rise, the Bank of Uganda may be forced to decide between allocations for petroleum imports and the OGL and SIP allocations. One option it is considering is to restrict the foreign exchange available for petroleum imports to its current level or a slightly increases allocations. This will necessarily result in shortages at the current, prevailing, world-market prices. Alternatively, it will have to curtail allocations under the OGL and SIP systems, which have already been shut down since July due to lack of foreign exchange. This would increase the strain experienced by these industries, discourage any new investment, could potentially cause employment layoffs, and reduce the government's already low tax revenue collections to meet expenditure needs.

In sum, the projected foreign exchange cash flow reveals looming foreign exchange deficits which may impact severely on the petroleum imports and the Uganda's economic recovery program. Donor funds when and if they become available may ease the strain, however, there is clear need to assure untied foreign exchange over the next two months.

BANK OF UGANDA: PROJECTED (BASIC) FOREIGN EXCHANGE CASH FLOW SEPT - DEC 1990

	1990 SEPT	OCT	NOV	DEC
RECEIPTS	10.80	10.80	10.80	10.80
Coffee Exports	10.00	10.00	10.00	10.00
Invisibles	0.80	0.80	0.80	0.80
PAYMENTS	23.30	16.20	19.50	19.90
Petroleum	5.80	8.00	8.00	8.00
CMB Offices Abroad	1.20	1.20	1.20	1.20
Uganda Embassies	1.00	1.00	1.00	1.00
Bank of Uganda Debt Service	0.80	0.80	0.80	0.80
Government Imports Incl travel	2.40	2.40	2.40	2.40
Multilateral debt service	12.10	2.80	6.10	6.50
BALANCE	-12.50	-5.40	-8.70	-9.10

OTHER PROJECTED FOREIGN EXCHANGE CASHFLOW

	$M 1990 SEPT-DEC	
RECEIPTS	140.00	
ESAP	35.00	- 9-28
ERC II 2nd Tranche	55.00	- End of Oct - mid Nov
USAID	15.00	
UK (ODA)	19.00	- tied
Germany	6.00	- unclear
SIDA	10.00	- cash
PAYMENTS	44.00	
OGL	12.00	
SIP	32.00	
BALANCE	96.00	

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