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Report No: 19530

PERFORMANCE AUDIT REPORT

UGANDA

AGRICULTURAL SECTOR ADJUSTMENT CREDIT
(Cr. 2190-UG)

June 21, 1999

Operations Evaluation Department

Currency And Acronyms

Currency Equivalents (calendar year - annual average market/official rates)

1990	USh 698/433	=	US$1.00
1991	USh 935/750	=	US$1.00
1992	USh 1237/1145	=	US$1.00
1993	USh 1217/1195	=	US$1.00
1994	USh 1004/979	=	US$1.00
1995	USh 977/969	=	US$1.00
1996	USh 1053/1046	=	US 1.00

Abbreviations and Acronyms

AGSEC	Agricultural Secretariat
APC	Agricultural Policy Committee
APSEC	Agricultural Policy Secretariat
ARTP	Agricultural Research and Training Project
ASAC	Agricultural Sector Adjustment Credit
ASMP	Agricultural Sector Management Project
CDO	Cotton Development Organization
CMB	Coffee Marketing Board
CMBL	Coffee Marketing Board Limited
CMU	Coffee Monitoring Unit
FAO	Food and Agricultural Organization
HARE	Head Start Program for Agricultural Research and Extension
ICR	Implementation Completion Report
IDA	International Development Association
LPRP	Land Policy Research Program
LPRC	Land Policy Research Committee
MAAIF	Ministry of Agriculture, Animal Industry and Fisheries
MFEP	Ministry of Finance and Economic Planning
MLHPP	Ministry of Lands, Housing and Physical Planning
MOTI	Ministry of Trade and Industry
NARO	National Agricultural Research Organization
NGO	Non-governmental Organization
PASP	Program for Agricultural Sector Planning
SAC	Structural Adjustment Credit
UCDA	Uganda Coffee Development Authority
UCTF	Uganda Coffee Trade Federation
USAID	United States Agency for International Development

Fiscal Year

Government: July 1 - June 30

The World Bank
Washington, D.C. 20433
U.S.A.

ROBERT PICCIOTTO
Director-General
Operations Evaluation

June 24, 1999

MEMORANDUM TO THE EXECUTIVE DIRECTORS AND THE PRESIDENT

SUBJECT: Performance Audit Report on Uganda Agricultural Sector Adjustment Credit (Credit 2190-UG)

Attached is a Performance Audit Report on Uganda, Agricultural Sector Adjustment Credit project (ASAC), prepared by the Operations Evaluation Department, ASMP, supported by a credit of $100 million equivalent, and approved in FY 91. The credit was closed in FY 97 after three extensions of the closing date, and $1.65 million was cancelled.

This was a hybrid project which addressed policy issues and supported investments. The main objectives of the credit were (a) to stabilize the economy by controlling credit expansion through improved institutional arrangements for the financing of coffee procurement and its marketing; and (b) to promote agricultural growth and diversification by creating a competitive system for processing and marketing of export crops through institutional reform, enhancing coffee export incentives through price and tax reform, making public spending more efficient, strengthening agricultural research and extension institutions, and improving sectoral policy analysis in agriculture. About 84 percent of project costs provided financing for the importation of agricultural inputs and the remainder supported various investments in the agricultural sector.

Most components of the project were successfully implemented. The flagship components were the changes in the financing arrangements for coffee procurement and marketing. Financing was successfully changed from dependence on the central bank to financing by a consortium of domestic private banks, as well as off shore financing from time to time. Marketing changes were also successful and transformed the monopoly Coffee Marketing Board (CMB) to an independent entity in competition with a substantial number of licensed private coffee traders. Other institutional changes were made to provide services that had originally been the responsibility of the CMB such as surveillance of the quality of coffee exports. The project also led to the decontrol of cotton and tea marketing as well as rehabilitation of cotton and tea processing plants in a follow-on project to ASAC. Related investments spawned by this project, namely the Agricultural Research and Training Project and the Agricultural Extension Project were implemented. A relatively important component among the institutional changes to be financed was the Program for Agricultural Sector Planning (PASP). This component which intended to strengthen the analytical capacity of the Ministry of Agriculture, Animal Industry and Fisheries was ultimately cancelled following agreement between government and the Bank that a comprehensive approach to strengthening the Ministry's capacity would be better tackled by an independent project. However, institutional components leading to strengthening land policy and administration, as well as project coordination and management were successfully implemented. The import support program was not in as much demand as expected but, following adjustments to allow a wider eligibility for the use of funds, the component was disbursed.

This project, in conjunction with macroeconomic adjustment programs supported and financed by the Bank and the International Monetary Fund, successfully introduced efficient coffee marketing to Uganda. Almost immediately private sector financing of coffee purchases started to grow rapidly. Within two years the private sector had captured 45 percent of the coffee trade (from a base of zero) which rose to practically 100 percent by the end of the project. The proportion which producers received of the export price also rose rapidly from 30 percent at the beginning of the project to 65 percent at the end of the project.[1] Apart from the obvious impact on producers, there were two other important effects from this successful liberalization of the coffee market. First, the demonstration effect that decontrol of markets can be highly beneficial to all sections of the trade and to producers. Second, the increased income received by coffee producers (who were from all welfare levels) led to a significant reduction in poverty in coffee growing areas, although the incidence of poverty in rural Uganda was still a high 50 percent in 1995. The Research and Training Project was a success, achieving its main objective of establishing the National Agricultural Research Organization (NARO). The Extension Project was less successful and the extension function has recently been taken over by NARO.

A disappointment was the failure of the food crop sub-sector, made up of many poor small scale farmers, to grow and diversify. Productivity declined, markets for surplus food crops continued to be weak, and marketing arrangements for non traditional crops were uncertain. The outcome of these conjunction of events was that the incidence of poverty in the food crops sub-sector was higher than in any other sub-sector in 1995. This situation might have been avoided if there had been a more proactive policy toward the food crops sub-sector. In the event it was implicitly assumed that small food crop farmers would be able to grasp opportunities in the free market, improve productivity or diversify production and increase their incomes. Unfortunately the support in terms of technology (intended through the Extension and Research projects) or markets, either did not prove to be effective, or did not exist.

The overall outcome of this project was satisfactory. On the basis of the changes in financing and marketing of coffee it was a highly satisfactory project. On the other hand the failure to achieve substantial diversification of the agricultural sector, the stagnation of the food crop sub-sector, and the demise of the PASP component detracted from the success of many components of the project and explain its overall rating.

This project produced some significant lessons which are relevant to sector adjustment credits or loans. The main lessons were: (a) preparatory economic and sector analysis with a high degree of government ownership is vital to achieving agreement on a sound sector reform program; (b) unwavering government commitment to the core sector policy is absolutely essential for successful implementation of a sector reform program; (c) the implementation of a sector reform program should be followed up by the planning and implementation of investments in technology, infrastructure, and support services (including financial services) to ensure that the impact of policy reform is sustained; and (d) a strong, well managed, national multisectoral institution which takes on the responsibilities for leading the coordination of policy and institutional reform is essential but such a body need not be a threat to the sensible interests of participating sectoral ministries to improving their capacity to analyze and implement reforms.

[1] Today it is about 80 percent.

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Principal Ratings

	ICR	*Audit*
Outcome	Satisfactory	Satisfactory
Sustainability	Likely	Likely
Institutional Development	Substantial	Substantial
Borrower Performance	Satisfactory	Satisfactory
Bank Performance	Satisfactory	Satisfactory

Key Staff Responsible

	Task Manager	Division Chief	Country Director
Appraisal	Lars Vidaeus	J. Shivakumar	C. Madavo
Midterm	K. Loganathan	S. Ganguly	F. Colaco
Completion	T. Sharif	S. Ganguly	J. Adams

Preface

This is a Performance Audit Report (PAR) of the Agricultural Sector Adjustment Credit, Republic of Uganda, for which Credit 2190-UG in the amount of US$SDR 69.5 million (US$100 million equivalent) was approved on December 13, 1990 and made effective on January 3, 1991. The Credit closed on December 31, 1996 after three extensions to the original closing date of June 30, 1995. SDR 68.3 million (98 percent) of the credit was disbursed, with the last disbursement taking place on June 24, 1997. SDR 1.2 million (US$1.7 million) was canceled.

The PAR was task managed by John Heath and prepared by Jack van Holst Pellekaan (Consultant). It is based on the Implementation Completion Report prepared by FAO/CP on behalf of AFTA1/CD4 of the Africa Region, on the Staff Appraisal Report, President's report, the legal documents, on study of the project files, supervision reports and project documents, and on the findings of an Operations Evaluation Department mission which visited Uganda in late 1998 and met with officials of the Government of the Republic of Uganda and with persons familiar with the project. The collaboration of these officials and other persons is gratefully acknowledged.

OED gratefully acknowledges the detailed and constructive comments on the draft PAR received from the Agricultural Policy Secretariat and the Uganda Coffee Development Authority.

1. Background and Rationale for the Project

1.1 The rationale for an audit of the Uganda Agricultural Sector Adjustment Credit (ASAC) is to learn from a successful agricultural sector adjustment program in Africa in which the major objective was the decontrol of marketing of the country's most important export commodity. This audit builds on a very comprehensive Implementation Completion Report (ICR) prepared by the Africa Region in collaboration with FAO and the government which rated the project implementation as satisfactory. This audit confirms that assessment.

Economic Developments in the Eighties and Early Nineties

1.2 In 1986 a new government took power in Uganda. As a result of about 15 years of political turmoil and civil conflict the government faced the massive task of restructuring the economy. Political, institutional, infrastructure and manufacturing capacity were in disarray and the important agricultural sector had shrunk to a fraction of its former wealth. Indeed growth in the agricultural sector (which historically accounted for about 85 percent of employment and export income) declined from a trend rate of 2.7 percent p.a. in the mid sixties/late seventies[1] to 0.9 percent p.a. between the late seventies and 1991 when ASAC implementation started. Over the same period total GDP had increased by only 0.4 percent per annum. With population growing at 2.6 percent per annum, per capita incomes in agriculture and Uganda as a whole had obviously declined substantially.

1.3 Between 1987 to 1991 the government had, with assistance from the Bank and other donors, implemented an economic recovery program.[2] Concurrently Uganda received assistance from the International Monetary Fund under a Structural Adjustment Facility and later an Enhanced Structural Adjustment Facility. These programs were aimed at stabilizing the economy, reducing internal and external balances, and promoting economic rehabilitation and growth. Some success was achieved. For example the inflation rate was reduced from 240 percent p.a. in FY 88 to 29 percent p.a. in FY90.

1.4 By the early nineties peace and security had been restored, political institutions had been re-established, and there was more discipline in the public service. However, much more needed to be achieved in the agricultural sector where growth had lagged behind. This was particularly necessary in the coffee sector (the dominant export crop) which had been hit hard by the collapse of the International Coffee Agreement in 1989 with consequent downward pressures on prices for Ugandan coffee. As a result export earnings, average household incomes and employment had all been negatively affected.[3] The government had difficulties handling the shock caused by the fall

1. For the period 1963 to 1978

2. The two World Bank assistance packages were the Economic Recovery Credits I and II (FY 88 and FY 90). This analytical work included reports from a number of Agricultural Task Forces in 1987.

3. The Uganda economic report of 1996 (*Uganda: The Challenge of Growth and Poverty Reduction*, World Bank, 1996) reports that households in all income quartiles obtained 3 to 4 percent of their annual income from coffee and another 1 to 2 percent from cotton in 1992/93 (a low period for coffee and cotton prices). In some regions such as the rural central region where coffee is most commonly grown the share is around 15 percent. In most regions

in the value of coffee exports but was able, through monthly exchange rate adjustments and tight credit control, to avoid a return to the inflation of previous years.

1.5 To sum up, the economic situation in Uganda in 1990, when appraisal of ASAC started,4 was characterized by quite successful macroeconomic reforms which had led to economic growth and reductions in inflation. On the other hand export income was completely dependent on a government controlled coffee marketing system, and food crop agriculture was predominantly based on subsistence enterprises. It was in this context that the government was also formulating its medium term economic objectives and strategy for 1990/91 to 1992/93. The macroeconomic objectives were (a) to sustain a GDP growth of 5 percent p.a.; (b) to reduce the annual inflation rate to below 10 percent by the end of the program period; and (c) to strengthen the balance of payments. While these objectives were ambitious in the light of the deteriorating external environment, the government decided that they were necessary for Uganda's economic reform program.

Strategy for Agricultural Development and Poverty Reduction

1.6 Agriculture would need to achieve strong growth if the economic reform program was to have any chance of success. The government's strategy for agriculture was "to diversify production, processing and the export base, while achieving food self sufficiency and improving the well-being of the rural population." 5 It was envisaged that this strategy would make a substantial impact on poverty reduction because most of the poor lived in rural areas.

1.7 The success of the economic reform program depended on continued political and macroeconomic stability, and an increase in export income. Hence an important focus of the measures in the ASAC program was on increasing incentives to stimulate the diversification of the agricultural sector and increase exports. Coffee which, despite the collapse in world prices, still accounted for about 80 percent of export earnings in 1990, was counted on to make a major contribution to the success of the reform program in the wake of the proposed complete re-structuring of coffee marketing and financing.

1.8 Following considerable analysis of the agricultural sector by the government and a number of task forces in the late 1980s which focused on agriculture it was clear that, before the sector and its exports could grow, there would need to be substantial improvements in marketing policy and financing arrangements in the coffee sector.[6] Domestic and export marketing of coffee was controlled by the Coffee Marketing Board (CMB), an inefficient monopoly which had operated at a loss in the three years prior to 1991. At government direction the CMB obtained financing for domestic coffee purchases directly from the Bank of Uganda[7]. Coffee producers received only about 30 percent of the world market price and as a result many had become

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coffee harvesting and processing had an important employment impact affecting the incomes of 5 to 6 million people.

4. The project timetable can be found in Annex I

5. Report No. P-5431-UG, Report and Recommendation of the President of the International Development Association on the Agricultural Sector Adjustment Credit, November 27, 1990, paragraph 18

6. See for example, Government of Uganda/World Bank Agricultural Task Force, *Coffee Marketing Technical Study Final Report, Volume I: Main Report and Technical Annexes 1 & 2,* prepared by Working Group 9, Kampala, Uganda, March 1987.

7. The Uganda Central Bank

disinterested in producing coffee.[8] The prospect of a declining coffee industry was a serious matter for a government which depended so heavily on coffee for its export revenue and in 1990 the government was therefore ready to take steps to arrest any decline in incentives to produce. Analysis of the agricultural sector had also concluded that major improvements were needed in agricultural research and extension, infrastructure in rural areas, and agricultural policy analysis capacity. Again the government was ready to act.

The Agricultural Sector Adjustment Credit - The Rationale

1.9 The prospect of a declining coffee industry and the general shortcomings in the performance of the agricultural sector led to agreement between the government and the Bank on the need to introduce substantial reforms in coffee marketing and considerable institutional change in the agricultural sector. It was also agreed that without such changes successful completion of the broader economic reform program with growth would be slim. The *rationale* for policy and institutional change in the agricultural sector was therefore clearly established. Subsequently the government formally asked IDA in a Letter of Agricultural Policy for an assistance program to address the policy and institutional issues in the agricultural sector, and to provide financial assistance to implement it.

8. Similar export monopolies existed in cotton and tea with similar effects on output.

2. The Project

ASAC Objectives

2.1. After detailed collaborative preparations, the project was appraised in June 1990 and approved in December the same year. [9] ASAC had two broad objectives namely: (a) to stabilize the economy by controlling credit expansion through improved institutional arrangements for the financing of coffee procurement and its marketing; and (b) to promote agricultural growth and diversification by creating a competitive system for processing and marketing of export crops through institutional reform, enhancing coffee export incentives through price and tax reform, making public spending more efficient, strengthening agricultural research and extension institutions, and improving sectoral policy analysis in agriculture. These were ***relevant, crucial issues*** which needed to be successfully tackled if the government's economic reform program was to be achieved.

2.2. The total cost of the project was SDR 69.5 million (then equivalent to $100 million). It was a hybrid addressing policy issues and supporting investments. About 84 percent of project costs were allocated to providing balance of payments support to underwrite the policy changes which were part of the economic reform program. The remainder (16 percent) supported various investment components addressing issues such as agricultural research and extension, land policy and administration, and strengthening agricultural policy analysis. Table 2.1 summarizes the expected and actual project cost.

Table 2.1: Total Project Costs—Estimated Versus Actual (US$ million)

	IBRD	*Government*	*Beneficiaries*	*Total*
EXPECTED				
Hare	6.00	1.10	0.00	7.10
Land Policy Research Program	3.20	0.10	0.00	3.30
Agricultural Sector Planning	1.80	0.00	0.00	1.80
Coffee Sub-sector Management	1.65	0.10	0.00	1.75
Project Management Support	1.65	0.10	0.00	1.75
PPF	1.25	0.00	0.00	1.25
Other	0.00	0.00	0.00	0.00
Adjustment Component	85.00	0.00	0.00	85.00
TOTAL	100.00	1.60	0.00	101.60
%	98.4	1.6	0.0	100.0
ACTUAL				
Hare	3.82	0.81	0.00	4.62
Land Policy Research Program	0.52	0.05	0.00	0.58
Agricultural Sector Planning	0.00	0.00	0.00	0.00
Coffee Sub-sector Management	0.99	0.00	0.00	0.99
Project Management Support	4.04	0.04	0.00	4.07
PPF	1.02	0.00	0.00	1.02
Other	3.17	0.00	0.00	3.17
Adjustment Component	84.63	0.00	0.00	84.63
TOTAL	98.19	0.90	0.00	99.09
%	99.1	0.9	0.0	100.0

Source: Agricultural Policy Secretariat, Ministry of Planning and Economic Development, Uganda. Exchange rates used were US$1=USh 1,093.92

Note: Expenditure relating to PASP ($200,000) the initial costs for the Ginnery Debt Relief ($ 100,000) were included in the Project Management Support Program, as were sub-sector studies undertaken as part of ASAC.

9. See Annex I for project implementation timetable

2.3. The structure of the ASAC credit was consistent with the Letter of Sectoral Policy except for the omission of any mention of the Program for Agriculture Sector Planning (PASP). The main policy focus was on restructuring the coffee financing and marketing system in order to reduce pressures on the credit ceiling, improve the incentives to coffee producers, involve the private sector in the domestic and export trade in coffee, promote improvement in coffee quality, change coffee pricing and taxation, and rationalize the involvement of cooperatives in coffee marketing. Improvements in cotton and tea d production and marketing were also fostered by this credit. The focus on a few important issues was a major positive feature of ASAC.

Project Components [10]

2.4. The essential elements of the project are shown in the Table 2.2. The project consisted of a number of policy measures (the adjustment program) and a smaller number of institutional/investment issues (the investment program) discussed below.

A. Adjustment Program

2.5. **Coffee:** Placing coffee financing and marketing system in the hands of the private sector meant re-organizing the deeply entrenched system managed by CMB. It also had the effect of removing the Bank of Uganda from its role of financing CMB's purchases of coffee. Private coffee traders were licensed and opportunities were provided to cooperatives to participate in the international coffee trade. Export taxes and controls on export prices were also to be eliminated.

2.6. **Cotton and Tea:** The decontrol of cotton and tea marketing involved the rehabilitation of cooperative ginneries and tea processing plants, as well as the rehabilitation of production by improving incentives and services to cotton and tea farmers. Many of the details for private sector development of the cotton and tea industries and supporting investment were worked out with financial support from ASAC.

B. Investment Program

2.7. The purpose of this set of activities was to follow through on policy changes supported in ASAC, to establish the enabling conditions for future growth in the agricultural sector, and to provide support for implementation of ASAC. The most important components were the Head Start for Agricultural Research and Extension (HARE). In the event ASAC supported the establishment of the National Agricultural Research Organization (NARO). There were also a number of components for institutional development inside and outside the government such as for agricultural sector planning, land access and policy issues at the Makerere Institute for Social Research, restructuring of the CMB, coffee taxation and pricing reform, and support to the land registry in the Ministry of Lands, Housing and Physical Planning.

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10. Project components are described in more detail in Annex II. Further information may be obtained from the Implementation Completion Report.

Box 2.1: Essential Elements of the Uganda Agricultural Sector Adjustment Credit

Main Features of the Credit:

Loan No: 2190-UG	**Approved:** December 13, 1990
Total Cost: US$ 100 million	**Effective:** January 3, 1991
World Bank credit: US$ 100 million	**Closed:** December 31, 1996
Cofinancing: None	**Disbursement:** 97 percent disbursed

Objectives:

- financial stabilization of the economy by controlling credit expansion used in public sector marketing of coffee; and
- promote agricultural growth and diversification in production and exports through private sector marketing of coffee and improved institutional support to agriculture.

A. Adjustment Program

- place coffee financing and marketing arrangements in the hands of the private sector and industry managed institutions, reform coffee taxation and pricing policies; and
- privatize cotton and tea marketing, rehabilitate cooperative cotton ginneries and tea processing plants, as well as the rehabilitation of production through improved incentives to farmers.

B. Investment Program

- reform of the institutional framework for agricultural research and extension
- develop an institutional arrangement to strengthen agricultural sector planning
- support sustained research into land access and land policy development
- rehabilitate the land registry in the Ministry of Lands, Housing and Physical Planning
- restructure the Coffee Marketing Board as an autonomous marketing entity
- establish a coffee nursery program under the Uganda Coffee Development Authority
- improve the efficiency of control and monitoring of public expenditures; and
- support for project coordination and management.

2.8. **Risks:** It was understood that policy changes proposed in ASAC involved substantial risks such as weak implementation. There was the possibility, for example, that the commercial banks could not provide financing for the coffee sector because of reduced savings and credit ceilings. It was also possible that farmers might not respond to the production incentives. The government understood clearly that by eliminating export taxes on coffee it would (on the basis of 1990/91 returns) lose about 14 percent of its annual tax revenue. This loss in revenue would need to be made up through other taxation measures. Finally, there was a risk that due to liberalization of the exchange of coffee proceeds at the bureau rates some of the coffee exporters would be inclined not to repatriate large volumes of coffee export proceeds and therefore the country would suffer balance of payments problems.

Management and Project Monitoring

2.9. The overall management of the project was the responsibility of the Agricultural Policy Committee (APC) an existing committee of permanent secretaries of all ministries associated with the agricultural sector. The APC was chaired by the permanent secretary of the Ministry of Finance and Planning. [11] APC had at its disposal the services of the Agricultural Secretariat

11. At the beginning of the implementation of ASAC, the Ministry of Finance and the Ministry of Planning and Economic development were separate ministries. In 1992 the two ministries were merged into one Ministry of Finance and Economic Planning. In 1996 the Ministry was again split into two ministries and merged again in 1998 into the Ministry of finance, Planning and Economic Development. However, during the whole period APC remained intact, chaired by either the Permanent Secretary/Secretary to the Treasury, Ministry of Finance,

(AGSEC) in the Bank of Uganda within which a project coordination unit for ASAC was established. However, because the head of the coordination unit was also head of the AGSEC, there was no material difference between the two groups. At its peak AGSEC had a staff of about 60 including international consultants. Both APC and AGSEC (now called the Agricultural Policy Secretariat) continue as strong focal points for agricultural policy analysis and formulation in the government.

2.10. The APC established five sub-committees to facilitate policy decisions, and to link more closely with the technical ministries and departments of government responsible for the different subcomponents of the project. The five sub-committees were; (a) the sub-committee on research and extension responsible for the implementation of the HARE; (b) land policy research for land policy reform; (c) coffee sector management for coffee reform; (d) agricultural inputs for the adjustment component (inputs only); and (e) procurement. Apart from the procurement sub-committee, which was chaired by the director of AGSEC, the other sub-committees were chaired by the permanent secretaries of the ministries which had been given the responsibility for the various issues. These sub-committees in collaboration with AGSEC, inter alia, coordinated the preparation of some 31 studies financed from various components in the credit. AGSEC maintained information on costs of production of major crops and their comparative advantage on world markets, and continues to do so.

Issues Raised during Appraisal and Negotiations

2.11. The files do not record any controversial issues during the appraisal process. There is no account in the files of the yellow cover review meeting, but the files suggest that earlier reviews within the Africa Region of the Initiating Memorandum in its various drafts were completed smoothly. The agenda memorandum from the Operations Committee secretariat was very bland. It is not possible to ascertain whether or not the project was controversial because nor record exists of the Committee's discussions. Nevertheless, the files show that the Legal Department did not agree with the hybrid nature of the project, preferring that the investment components be removed. However the Region prevailed and the only substantive issue that seems to have emerged from the Operations Committee review was a request that one condition of the second tranche release be that the government had maintained positive real interest rates.

2.12. A number of changes in conditions in the credit agreement were agreed during negotiations. These related first to recasting crop finance reform arrangements as actions under government control; second, excluding completion of legislative actions from the required changes to the Coffee Marketing Act and the Cooperative Societies Act; and third, substituting an action plan for the introduction of coffee marketing reform for the introduction of the export tax which, it had been suggested in the proposed credit, should be coupled with interim measures to improve incentives for coffee exporters. Finally, at the request of the Ugandan delegation, the size of the credit was increased during negotiations from US$ 89.7 million in the draft agreement to US$ 100 million to mitigate the negative effects of the Gulf war on the Ugandan economy. This request was justified by the government on the basis of the impact of higher oil prices on the balance of payments. There was formal agreement from senior management.

Planning and Economic Development or the Permanent Secretary of the Ministry of Planning and Economic Development.

Re-Structuring of Project

2.13. Following a review of the project's progress and detailed discussions the government and the Bank agreed to re-structure the project in July 1994.[12] The major features of the changes were (a) the cancellation of the PASP component; (b) the introduction of a UCDA nursery program; (c) Rehabilitation of Land Registry/Land Administration Systems; (d) financing of business and technical services to the cotton sector; (e) financial support to the Coffee Research Center; (f) support for a Vegetable Oil Development Project. In 1991 the responsibility for implementing HARE had been transferred from AGSEC to the Ministry of Agriculture. The implications of canceling the PASP will be discussed later. The additional activities made possible because this cancellation did have some impact. As the ICR notes, the coffee nursery program and support to the Coffee Research Center were successful. Assistance to the land registry was only partly completed because of procurement delays. On the other hand support to the Vegetable Oil Development project and the cotton sector financed small but timely inputs.

12. Following a series of discussions with the Bank, APC (on behalf of the government) prepared a "Proposal for Restructuring of ASAC" dated March, 1994. The amendment to the DCA was agreed in July 1994.

3. Implementation of the Program - Efficacy

3.1. Implementation was satisfactory and the project had a substantial impact on the government's economic reform program as will be discussed below. The ICR also rated this project as satisfactory.

A. Adjustment Program

3.2. **Coffee Crop Financing and Marketing Reform:** While coffee sector reforms were all successfully implemented, there were some difficulties and delays. These hold ups were to be expected since existing financing and marketing arrangements were deeply entrenched. In the end the *Coffee Marketing Board Limited* (CMBL) was established as an independent commercial entity. The project's support to CMBL was in the form of technical assistance in areas such as financial management and information systems, but it arrived far too late to avoid costly marketing mistakes described below.

3.3. The privatization of CMBL was hampered because it remained constrained by cumbersome decision making between its management, board and the Ministry of Trade and Industry, by the cost of maintaining non productive assets, and by the inability of the management to rapidly re-structure CMBL staffing due to trade union objections. Because the projected credit requirement for CMBL from the commercial banks was larger than any one bank could handle, a consortium of commercial banks was formed backed by government guarantee.[13] However, irrespective of the financing arrangements, CMBL could not compete with the newly licensed private sector exporters since it had difficulty becoming an efficient trader. [14]

3.4. The CMBL still owns processing facilities sufficient to process about 4 million bags of coffee per annum which is equivalent to annual production in Uganda in a peak year. During the early years of its transition CMBL undertook contract processing for private traders but with mixed results from the traders' perspective. It now processes no coffee and its assets are for sale. A report by a Select Committee on Privatization of the Ugandan Parliament late last year reviewed the activities of the Divestiture and Reform Implementation Committee (DRIC) which has a Privatization Unit with authority over the CMBL stores. According to the Select Committee there appear to be political irregularities in the privatization process of CMBL because of political interference in the work of the DRIC.

13 This was tantamount to a revival of an earlier consortium which existed before the introduction of CMB financing of coffee purchases by the central bank (Bank of Uganda).

14. One event underlines this point. Along with private traders in 1992 the CMBL sought off-shore financing to avoid the high interest rates charged by commercial banks in Uganda. Agreement with offshore financial institutions required evidence of forward contracts for coffee sales. CMBL had such contracts but with the sudden boom in world prices in 1994, the CMBL was in the impossible position of buying coffee at inflated prices to honor contracts negotiated earlier at much lower prices. Obviously risk management in the CMBL had been deficient. The results were huge losses of around USh. 5.2 billion in 1994 and USh. 5.8 billion in 1995. This was a disaster for the CMBL. As a result its market share dwindled enormously and it never recovered.

3.5. Following a study of the potential design of the *Uganda Coffee Development Authority* (UCDA), which was not envisaged at ASAC appraisal, it was formally established as a successor to the Coffee Monitoring Unit which had been established in the Agricultural Secretariat to monitor progress of the coffee industry. Until March 1, 1995 the UCDA administered a minimum export price arrangement and since then has monitored indicative prices for export sales. It licenses traders, provides market information, analyzes issues related to export taxation reform, regulated minimum prices until March 1, 1995, UCDA also regulates the quality of coffee exports; no exports are allowed without a quality clearance from UCDA and there is no evidence that the quality of Ugandan coffee has declined. An important current activity to further improve coffee quality is the promotion of improved coffee planting material and the development of private nurseries for propogation. ASAC provided UCDA with equipment for communications and information systems. The Uganda Coffee Trade Federation was established in February, 1996 to represent coffee producers and traders in negotiations with the UCDA. [15] An important contribution of the credit was technical assistance to CMB and traders on risk management in the marketing of coffee.

3.6. **Other Crops:** As mentioned earlier (paragraph 2.1) diversification of the agricultural sector towards other crops was an important ASAC objective since Uganda was almost completely dependent on the export of coffee for its foreign exchange. Cotton and tea were the best other prospects since they had been major export industries in the past. [16] Liberalization of cotton pricing and marketing was slow and weighed down by substantial debts of the cooperative ginneries to the Lint Marketing Board. An important development arising directly from ASAC was the formulation, appraisal and negotiation of the Cotton Subsector Development project which is now under implementation. As a result substantial advances have been made in cotton production following abolition of the Lint Marketing Board and a re-structuring of cotton ginnery debt achieved under the Second Structural Adjustment Credit. Progress in the tea sector has been slower, but prospects are sound for a revival.

3.7. **Quick Disbursing Funds:** A major objective of ASAC financial support was to reduce Uganda's foreign exchange gap during implementation of policy change. Most of the ASAC credit (US$ 84.6 million) was used to finance the import of essential goods. These funds were used by importers at market exchange rates, determined in various ways including foreign exchange auctions. In general the commercial banks purchased foreign exchange on behalf of importers either at rates determined by the central bank or at auctions. Some US$ 32.4 million were disbursed against a positive list of agricultural inputs. US$ 26.2 million were used for petroleum products, and US$ 26.0 for general imports including bicycles and building materials which were added to the positive list when the demand for agricultural inputs weakened. The bank of Uganda received, reviewed, and approved applications from importers for foreign exchange from ASAC. The documentation was in turn reviewed by IDA prior to the replenishment of the special account. See Annex IV for a summary of disbursements from the credit.

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15. Responsibility for *re-structuring the cooperative unions* remained with the unions and technical assistance from ASAC to support the unions was negligible.

16. In the mid 1970s cotton exports represented about 20 percent of total exports from Uganda. This proportion had dwindled to less than four percent in 1990, a year in which coffee prices were depressed which underlines the extent of the decline in the cotton industry (see *Uganda: Agricultural Sector Memorandum*, March 3, 1993, World Bank report no. 10715-UG).

B. Investment Programs

3.8. **Head Start for Agricultural Research and Extension (HARE):** During ASAC implementation the Bank and the government prepared, appraised and negotiated the National Agricultural Technology and Training Project which, inter alia, financed the establishment of the National Agricultural Research Organization (NARO), and supported the Agricultural Extension Program. This was an important series of investments.

3.9. **Program for the Strengthening of Agricultural Sector Planning (PASP):** This component had sound objectives, but to a large extent it fell prey to lack of ownership[17] and disagreement about responsibilities. A difficulty which arose after project effectiveness was that the basic concept for this component became classified as "non-core" in terms of government priorities, and hence did not qualify for funding from the budget. It was not until September 1993 that there was agreement within the government on implementation, but this was less than two years before the original closing date. Subsequently, with Bank endorsement, the government requested cancellation of this component when the project was re-structured in July 1994. The Bank suggested that the objectives of the component could be incorporated into an Agricultural Sector Management project. Subsequently Parliament questioned why such a project should be funded at all since it had already been classified by the government as "non-core." There was also disagreement in Parliament with the heavy focus on financing activities at central headquarters instead of in the districts. In the event the Agricultural Sector Management project was rejected by Parliament and nothing else was done to strengthen the capacity of the Ministry of Agriculture, Animal Industry and Fisheries (MAAIF) to undertake policy analysis and planning. In the view of this audit the impact of this train of events was that the capacity of the MAAIF remained weak. The impact of the cancellation of PASP will be taken up in Section 5.

3.10. **Land Policy Research Program:** ASAC supplemented funding from USAID for the rehabilitation of physical facilities and capacity building of the Makerere Institute for Social Research. The support was enhanced by funds which became available when PASP was canceled. Unfortunately, because of procurement delays, only part of the planned assistance to the Institute was completed before the project closed.

3.11. **Support for Project Coordination and Monitoring**: The Agricultural Policy Committee (APC), with the support of its executive arm (AGSEC), has been recognized within the government and by donors to have done an outstanding job. The quality of the work was due to excellent leadership from the Ministry of Finance and Planning and a very competent AGSEC staff. As noted in the ICR, the chairman of the APC was, by virtue of his position, able to represent the interests of the agricultural sector at meetings of the Presidential Economic Council (a Cabinet subcommittee).

3.12. **Second Tranche Conditions:** All conditions of second tranche release were met, after a delay of 18 months. This delay was mainly due to the difficulties in getting agreement on coffee market financing for the CMBL which in the end required a government guarantee for the credit extended by the commercial banks. Three extensions of the closing date were granted. The details of the tranche release conditions can be found in the ICR.

17. This component was absent from the government's Letter of Sectoral Policy (see paragraph 2.3).

4. Impact of the Program - Results and Efficiency

4.1. The implementation of ASAC, the earlier two Economic Recovery Credits (ERC I and ERC II), as well as two concurrent Structural Adjustment Credits (SAC I and II) approved in November 1991 and April 1994, were all complementary operations. It is therefore impossible to attribute the specific impact of policy reform on the economy resulting from ASAC *only*. But it is possible to evaluate the changes made under ASAC and discuss some aspects of ASAC contributions to the development of the coffee industry, the diversification of the agricultural sector, the economic reform program and poverty reduction compared with what might have been the situation without ASAC. In other words, some conclusions can be reached on the ***results*** and ***efficiency*** of this operation through its incremental impact.

4.2. The SAC I program, which had been approved shortly before ASAC, achieved far-reaching reforms of the exchange rate regime including government agreement in April, 1994 to place no restrictions on international financial transactions. As the ICR for SAC I states "As measured by its degree of openness, Uganda's trade regime became very close to the policy frontier."[18] Liberalization of coffee marketing and its financing built on these reforms; the impact will be explored below. This section will also explore the impact of ASAC on diversification in the agricultural sector and on poverty reduction.

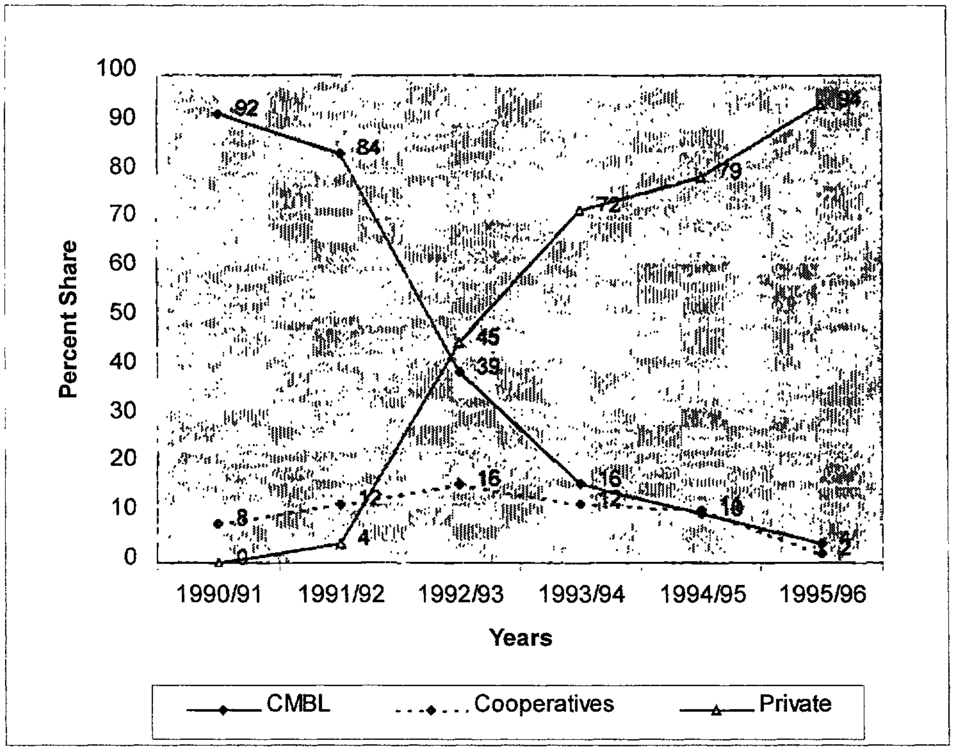
A. Adjustment Program

4.3. **Coffee Marketing:** Liberalization of coffee marketing led to large changes in the number of exporters and increased competition at the farm and export levels, and stimulated large increases in production. Before 1991 all coffee was exported by the CMB under its monopoly powers. By May, 1992 export licenses had been issued to 11 companies who purchased coffee from farmers and exported. In 1996 the number of active licensees numbered 42 although of these 10 exported 66 percent of the total coffee volume.[19] In the event, by 1996 virtually all coffee exports were handled by the private sector and the CMBL share was negligible (see Figure 4.1). On the other hand, as acknowledged in the ICR, CMBL did provide a service to producers as a buyer of last resort during 1991 while various entrepreneurs prepared to enter the coffee trade. This role was particularly useful in the 1991/92 coffee season when coffee prices crashed to the lowest levels and the new private sector entrants shied away from exporting coffee. The production and export response of liberalization were substantial. Coffee exports doubled from 142,000 metric tons in 1990 to about 280,000 metric tons in 1996.

4.4. The impact of coffee market liberalization on producers was dramatic and was a major contributing factor to increased coffee output. Whereas in 1991 producers were receiving about 30 percent of the world market price, by 1996 they were receiving 65

18. Implementation Report for *Uganda: Structural Adjustment Credit I (Cr. 2314-UG)*, June 23, 1997, page 3.
19. Implementation Completion Report. See also Annex VI.

Figure 4.1:Trends in the Shares of Major Trading Groups in the Export Coffee Market (1990/91 to 1995/96)



Source: UCDA; UCTF analysis

percent, and currently producers receive about 80 percent.[20] As a result the trend in real export and producer prices tended to converge between 1990 and 1966, namely the ASAC period (see Figure 4.2). The real price of coffee received by producers is estimated to have increased from around US$ 0.30 per Kg (1996/97 prices) to US$ 1.39 per Kg. in 1996/97.[21] The boom in the international coffee market in 1994/95 did make a considerable difference to market prices in Uganda, but its effect was short-lived, as shown in Figure 4.2.

4.5. What were the *net benefits* for coffee farmers? This question can be approached by estimating the incremental increase in income arising from the market reforms. Assuming that *without* reforms the producer share of export prices continued at 30 percent between 1990/91 and 1996/97 (the ASAC implementation period), then on the basis of actual prices received by producers *with* the marketing reforms the total additional revenue received by producers from export coffee would have been about US$ 96 million p. a. in 1996/97 prices (USh 102 billion)[22]

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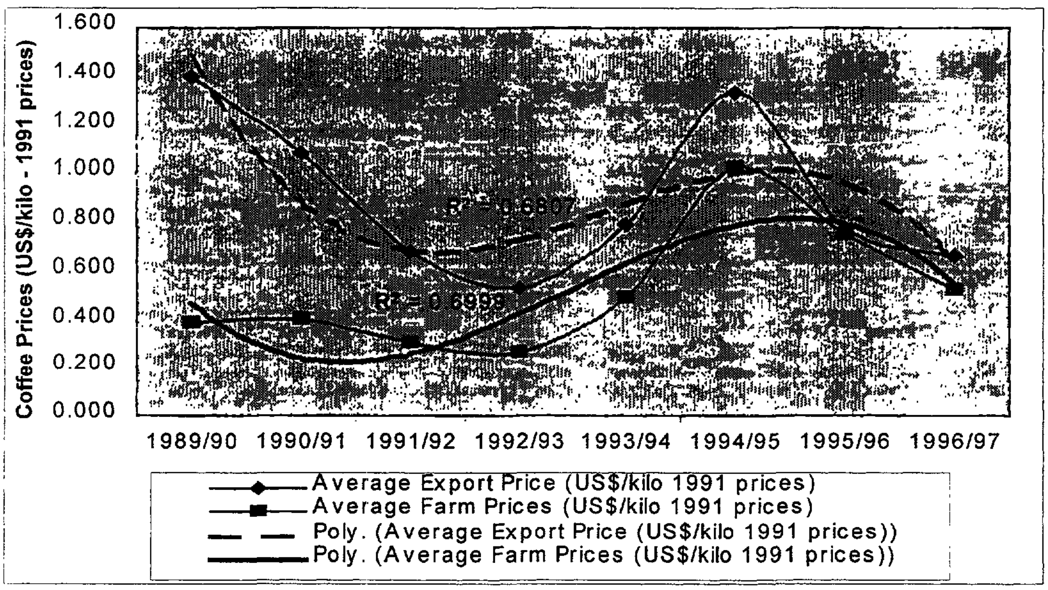
20. This compares with a percentage of about 67 percent in Cote d'Ivoire under a regime of administered costs and margins which is due to change in 1998/99 when the percentage is expected to increase.

21. Unpublished material from a recent World Bank review of the agricultural sector in Uganda (February, 1998).

22. At the 1996/97 average exchange rate of USh 1058 = US$ 1.0

assuming that real costs of production remained constant.[23] This would have been equivalent to about USh 20,000 per capita p.a. in coffee growing households.[24] This compares with estimated private consumption expenditure per capita in 1996/97 of about USh 289,000 at the national level.[25] Hence the additional annual gross benefits from coffee marketing reform during ASAC implementation represented about 7 percent of total estimated consumption expenditure per capita as measured in 1996/97. This was a significant contribution to farm income.

Figure 4.2: Trends in World Market and Producer Coffee Prices



Source: UCDA data. Note the trend lines are third order polynomials.

4.6. **Crop Financing:** The improved financing arrangements for crop purchases from farmers led to stabilization of credit demands on the Bank of Uganda in 1990/91 to 1993/94, with an upturn during the coffee boom in 1994/95, and then a decline again. At the same time there was an increase in the credit provided by the private sector (see Figure 4.3). While these events cannot all be ascribed to ASAC, the change in financing of coffee marketing had an important impact on changing the proportions of credit for the coffee industry coming from the public sector.

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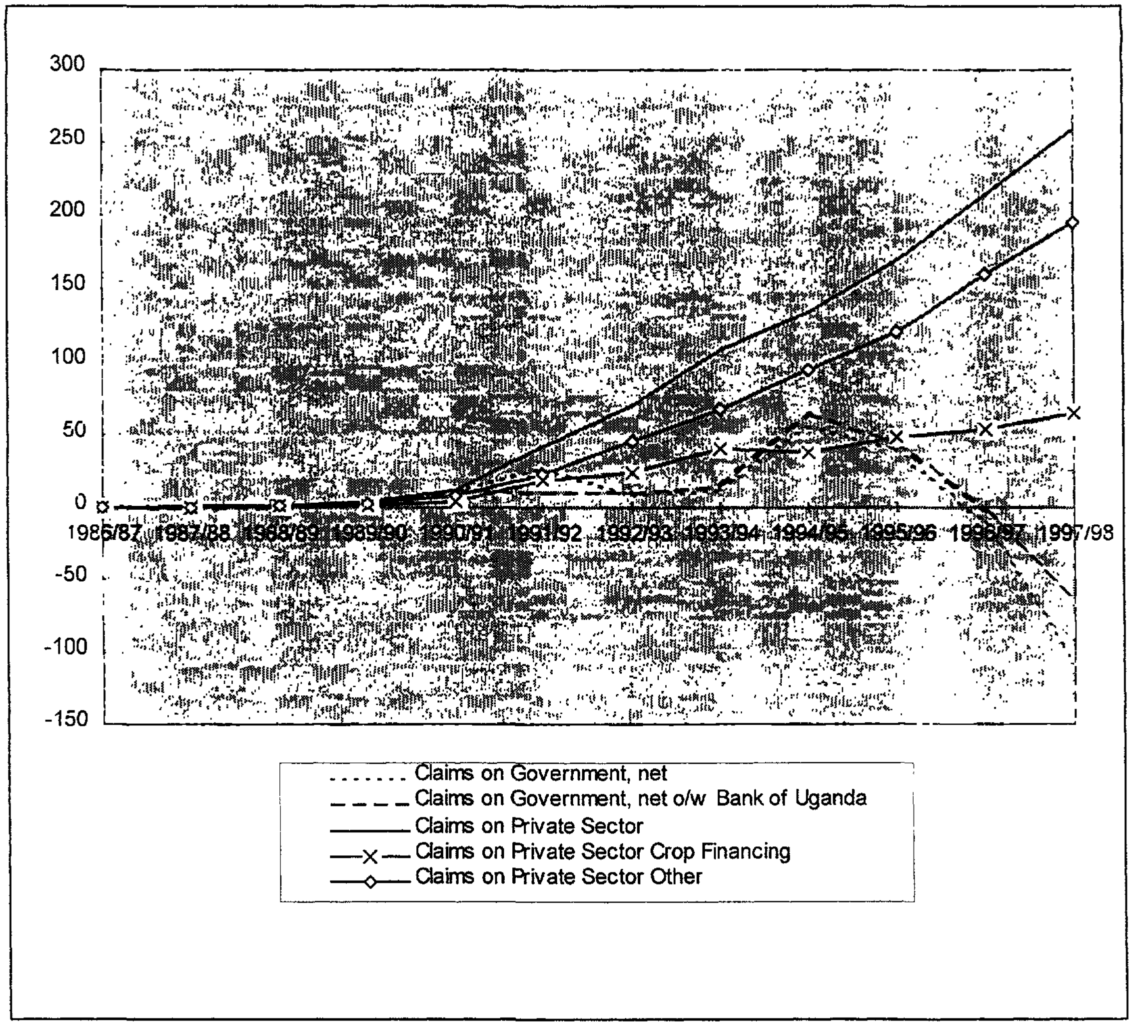
23. A reasonable assumption since there were no significant changes in production technology during the ASAC years.
24. There are estimated to be about one million households in Uganda, with an average family size of 5, involved in coffee production (AGSEC/APSEC).
25. This is an estimate from the national accounts. It is assumed that this is also a reasonable estimate for coffee producers since the results of the latest household survey (1995) show that the consumption expenditure per adult equivalent at the national level is about the same as for the average of cash crop farmers (*Changes in Poverty in Uganda*, 1992-1996, World Bank, unpublished draft).

Figure 4.3: Trends in Public and Private Sector Credit including Crop Financing
(USh billion)

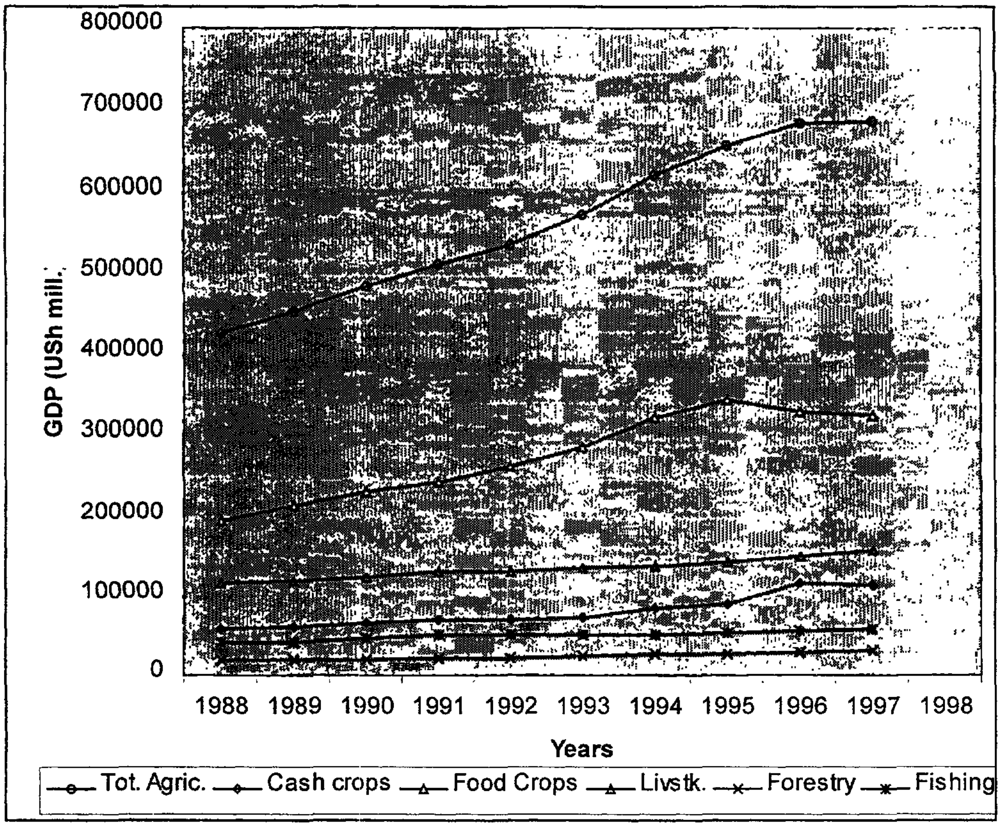


Source: Bank of Uganda data

4.7. **Economy Wide Impact:** The broader impact of reforms during the ASAC years (supported of course by many macroeconomic policy changes) is indicated by the growth rates in GDP for the economy as a whole. In 1990/91 GDP grew at 5.6 percent per annum but in subsequent years growth increased to much higher levels reaching 11.4 percent in 1994/95. Much of the high growth in that year can be attributed to the boom in world coffee prices. But strong growth trends for the economy had already been established since, apart from 1991/92, growth was well above 5 percent p.a. during the ASAC implementation period led by consistently strong growth in the coffee sub-sector.

4.8. **Diversification of Agricultural Production but Exports More Diversified:** As Figures 4.4 and 4.5 show, diversification in the agricultural sector, an important ASAC objective, is taking place slowly. As expected there has been a resurgence in the relative importance of cash crops (mainly coffee). While the importance of food crops remains high, its relative importance has recently declined following a steady increase based largely on area increases. There has in fact been a concern that growth in the food crop sector has been based too much on area expansion at low levels of productivity which will need to stop in the near future if environmental damage is to be avoided. Recent trends suggest that this is taking place.

Figure 4.4: Trends in Agricultural GDP by sub-Sectors (1991 prices)

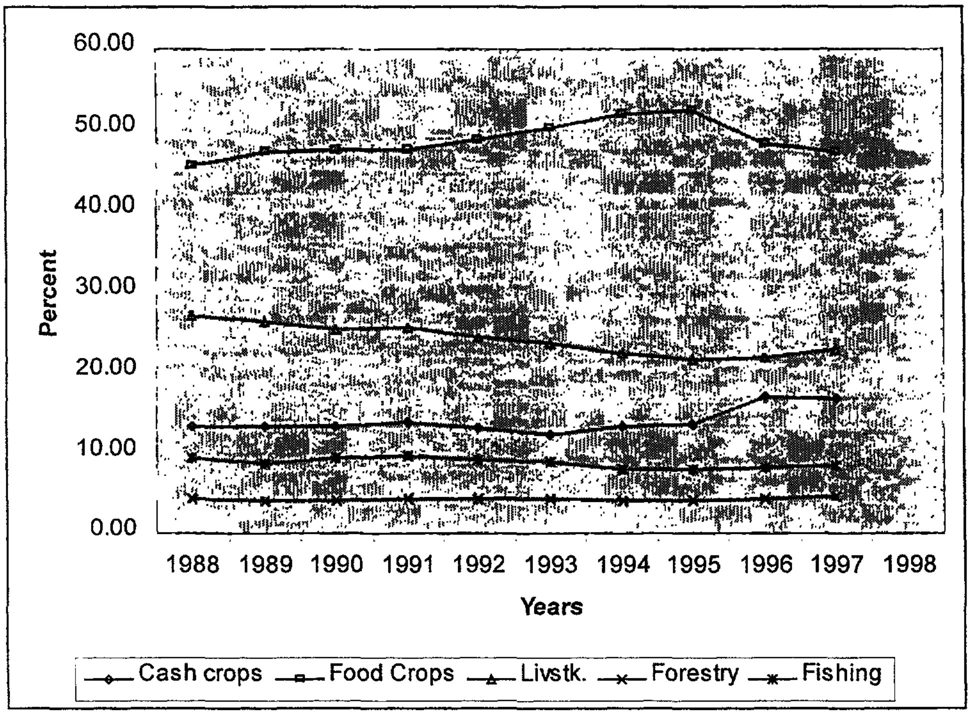


Source: Statistics Department, MFPED data

4.9. A surprise has been the steady decline in the relative importance of livestock. This may reflect area expansion in the food crop sub-sector. Also, cattle rustling during the 1980s had a big impact on reduction in livestock production, particularly in the north-eastern districts. The issues pertaining to strategies for increasing agricultural productivity through acreage expansion and increase in yield are being addressed in the context of agricultural research and development of new technologies under the Plan for Modernization of Agriculture. Whether agriculture is caught in a low level equilibrium trap is being debated in the context of an ongoing review of the agricultural sector, but it does underline one of the objectives of ASAC namely the need to make progress in agricultural research and the development of new technology to improve productivity. At the same time it is worth noting that the proportion of non-traditional exports in total exports (in terms of value) rose from 14 percent in 1990 to 37 percent in 1997.

4.10. This brief overview does suggest that the ASAC program was focused on the right issues. Was there too much focus on coffee at the expense of other crops? This audit concludes that the answer to this question is "no" since coffee provided the strong growth in exports needed to support economic development. Also, the leadership in terms of policy change which the coffee sub-sector provided in the agricultural sector should in future have many spin off effects as the benefits of coffee market liberalization filter through to other sub-sectors. An issue which is of concern is that the expected follow up investments in other sub-sectors of agriculture which are necessary to sustain agricultural growth have not yet taken place. This is a current issue which needs to be addressed. ASAC did not strengthen the capacity of the government to deal with such issues.

Figure 4.5: Trends in the Relative Importance of Major Sub-Sectors in Agriculture (1988 to 1997)



Source: Statistics Department, MFPED data

4.11. **Poverty Reduction Impact was Measurable and Important:** A crucial question in connection with the progress under this credit is whether the poor have been affected positively. Even the poorest groups of farmers in Uganda produce some coffee (see footnote 4); indeed the proportion of income from coffee in poor households is about the same as the proportion in groups at the highest income levels. A recent analysis of changes in poverty in Uganda based on levels of consumption measured in four household surveys between 1992 and 1995/96 shows that, although poverty remains a serious problem in Uganda, absolute poverty declined (using the headcount index) from 56 percent in 1992 to 46 percent in 1995/96, a drop of 18 percent.[26] This is still a high level of poverty compared with other regions where, except for South Asia, the headcount indexes are much lower. Poverty in Uganda now is at about the same level as the average for Sub-Saharan Africa. The depth of poverty recorded a decline of 26 percent to 15 percent which is higher than for most countries in Sub-Saharan Africa. In the Central Region, where most of the coffee is produced, the headcount index fell from 45 percent to 28 percent. The change in the headcount index for cash crop producers in general for Uganda was spectacular dropping from 64 percent to 41 percent, a drop of 36 percent in poverty which almost certainly reflects to a large extent the rising fortunes of the coffee sub-sector in recent years.

26. Taken from *Changes in Poverty in Uganda, 1992-1996, (unpublished draft).* The discrepancy between the figure for the whole of Uganda and the rural and urban areas is explained by an increase in the estimate if the relative size of the urban population from 12.5 percent in the earliest survey to 14.3 percent in the final survey.

B. Investment Programs

4.12. **Research and Extension:** NARO was successfully established and has released a number of useful research results with evidence that these releases are having an impact. These releases include better management of bananas to increase productivity, improved coffee varieties, improved fish pond management mosaic-resistant cassava and zero-grazing management for dairy farms. A recent economic assessment of agricultural research in Uganda shows that rates of return for Ugandan research have generally been in the order of 10 to 20 percent.[27] While the NARO research program has been quite successful so far, the same cannot be said for the extension program. It suffers from widespread criticism as being ineffective and not connecting with farmers.[28] The government has reviewed the future of extension management and has decided to place it under the responsibility of NARO. The Bank is assisting in the preparation of a project to provide assistance to extension within the context of the new managerial arrangement.

4.13. **Agricultural Sector Planning:** As already noted, the PASP component was ultimately canceled because it was classified as a "non-core" public investment. As a result ASAC had no impact on capacity building for agricultural sector policy analysis. What was the impact of canceling this component? The audit concludes that cancellation of this component, supported by the Bank, was regrettable because of its negative impact on the Ministry of Agriculture, Animal Husbandry and Fisheries (MAAIF). Today one of the weakest points in the economy is the sustained development and diversification of agriculture which were key ASAC objectives. There appears to be little capacity within the MAAIF to provide leadership on agricultural and rural development issues and it is possible that if the PASP component had been implemented this may not be the case today. This audit will return to this issue below in Part 5.

4.14. **Land Policy Research Program:** This program was well implemented and supported a broader USAID assistance program. The Institute for Social Research is now a semi-autonomous body at Makerere University and able to set its own conditions of employment and can therefore retain good staff. As a result the Institute became better able to compete for contracts. However some parts of this component, such as improvements to library facilities, were not completed because of delays in specifying procurement requests. A component added when the project was re-structured to assist the Department of Lands and Environment was also only partly completed because of procurement processing delays for equipment. Studies implemented under ASAC were referred to when the Constitution was drawn up in 1995 and helped shape the 1998 Land Act.

4.15. **Public Expenditures:** The government committed itself, as a condition of the credit, to enhance the management of public expenditures for agriculture and to improve the efficiency of public expenditure allocation. This commitment was made in the context of an ongoing dialogue started as part of ERC II. During the course of the ASAC credit regular public expenditure reviews were held and there was an intense dialogue between the government and the Bank on "core" and "non-core" expenditures from the budget. Between 1990/91 and 1995/96 the share of the development budget allocated to health and education increased from 6.8 percent to 22.2 percent. The government envisaged this proportion increasing following the implementation of guidelines aimed at allocating more resources to priority sectors.[29] As planned, the management

27. Unpublished draft of an economic assessment of agricultural research in Uganda, 1998.

28. See, for example, *Baseline Service Delivery Survey,* prepared in support of results oriented management in the Uganda Institutional Capacity Building Project by CIET international, March 1996 which found that on average only 11 percent of Ugandan households in rural areas had ever been visited by an extension worker.

29. See Background to the Budget 1996/97, page 76.

of the budget for agriculture came under considerable scrutiny as non-core investments were removed from the public investment program. This affected the PASP component of ASAC (see paragraph 3.9).

4.16. **Project Management:** The role of the APC was central to the project. It was universally agreed to have been successful and Bank staff working on Uganda that the effective implementation of ASAC was due to the excellent work by the APC and AGSEC. There have, however, been questions raised about the extent to which APC was too dominant and as a result marginalized the MAAIF. There was also a sense that the APC picked off the high flying activities such as coffee marketing and left the less glamorous areas such as extension to the MAAIF. On the other hand it should be noted that the MAAIF was a key member of the APC and presumably had every opportunity to influence its work and decisions. On balance this audit concludes that the APC, with the support of AGSEC, provided energetic and strategic leadership for this project and was therefore a crucial element in the success of policy and institutional changes which ASAC supported.

5. Findings and Lessons

Project Ratings

5.1. This audit concludes that ASAC was ***efficiently*** implemented and results were satisfactory. The main achievements such as coffee marketing and financing reform, establishment of NARO, and liberalization of cotton production and marketing have proved to be sustainable so far. Institutional development was generally successful with the one disappointment being the inability of the project to strengthen agricultural sector analysis and planning. The performance of the borrower and the Bank were satisfactory.

Overall Outcome

5.2. This was a very successful project and the assessment in the ICR that it was satisfactory is strongly supported. There was, however, no formal monitoring and evaluation program in the project design. There was no rate of return calculated in either the SAR or the ICR and admittedly it would have been difficult to undertake such a calculation for this audit because net costs and benefits attributable to ASAC are impossible to determine precisely. Nevertheless, a formal monitoring program would have helped in making a more comprehensive assessment of project benefits. Even now it is worthwhile to make an assessment of the project in terms of what might have been the situation without the ASAC program and the government's complementary economic reform program (the counterfactual) and compare this with the actual results.

5.3. **The counterfactual:** In the late 1980s GDP from agriculture had, after losing considerable ground between about 1977 and 1984, returned to a trend rate of growth similar to the typical trend for the mid sixties to late seventies. However, as explained in earlier parts of this audit, it is not likely that this trend could have been sustained because of negative incentives to produce either cash crops or food crops. At the same time large budget deficits were being incurred and the inevitable inflation resulting from these deficits would have eventually destroyed the welfare of all Ugandans, particularly the poor, since price increases for basic foods always have a severe impact on the poor. Something had to be done to ease the strain on domestic resources, to stimulate growth and employment in the dominant agricultural sector, and to reduce poverty. ASAC provided the necessary support and the stimulus to get the economy moving again.

5.4. **The results with the project:** Funds available from the ASAC credit contributed to augmenting the availability of crucial resources for the economy and thereby reduced the inflationary pressures, reducing the vulnerability of the poor to increasing deprivation. The complete reversal in coffee marketing policy described in Part 2 of this audit resulted in a substantial increase in incentives to produce coffee which farmers had been looking for. This focus benefited coffee producers and traders, the balance of trade, and the poor through the considerable employment effects. The ASAC strategy focusing firmly on reform of coffee marketing and financing was correct and successful.

Finding: ASAC was a focused high impact adjustment operation which, in conjunction with two structural adjustment credits, contributed to changing the Ugandan economy from stagnation and high inflation to one with strong growth and lower inflation.

Finding: Sector adjustment operations can provide substantial and relevant support to macroeconomic programs, and make a major contribution to poverty reduction.

Sustainability

5.5. Policy and institutional actions achieved in ASAC have been sustainable so far. Indeed the reforms in coffee marketing and financing continue precisely because they are supported by government, producers and traders. While there is no move to return to monopoly export arrangements, the small number of large traders in the current market,[30] along with relatively low margins, could possibly lead to forms of market sharing and strong vertical integration which could weaken competition in the market.

Finding: The trend in coffee marketing structure will need to be monitored to ensure that competition and efficiency are sustained.

5.6. While changes in coffee marketing policy have been major and have probably also had a substantial impact on the mind sets of policy makers, the main issues which remain are the prospects for sustained growth in the production of coffee, other crops and diversification of the agricultural sector. As discussed earlier, the evidence of substantial supply response to increased prices in the coffee sub-sector is already available. For example the volume of coffee exports doubled between 1990 and 1996 (paragraph 4.3). On the other hand, growth in food crop production has been around 3.5 percent p.a. over the last 10 years - roughly one percent above population growth and, with few prospects for exports, prices to producers declined. [31] This is good news for poor consumers. On the other hand farmers will have difficulty maintaining real incomes in the face of declining food crop prices unless they can raise yields or diversify.

Finding: Stable macroeconomic conditions and liberalized marketing policies have contributed to the necessary conditions for growth and diversification in agriculture. So far the evidence is that yields in agriculture have not increased and diversification is slow. Sustained growth and diversification in agriculture will only occur in Uganda, as in other countries in Africa, on the basis of adequate technology, improved rural infrastructure and effective agricultural support services. These are the core issues in rural development and need to be addressed.

Finding: Technical issues are being addressed by NARO. This was an important benefit from the hybrid design of the project. Road development has been started, and more attention is currently being given to improving agricultural extension.

Finding: Further reduction in poverty which, despite recent progress is still at unacceptably high levels, is on hold until more rapid rural development takes place.

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30. In 1997/98 two trading houses exported 27 percent of all coffee, and nine out of 42 traders accounted for 66 percent of exports (Uganda Coffee Trade Federation, *Uganda Coffee News,* Volume1, no. 1, August 1998). In 1996 (when ASAC closed) there were also 42 traders but ten of them accounted for 66 percent of exports.

31. See *Uganda: Agricultural Sector Memorandum*, unpublished draft, World Bank, February 1998.

> **Finding:** This audit concludes that accelerating rural development to capitalize on progress in policy change under ASAC is obviously part of the uncompleted agenda in Uganda's development program. This is a challenge APC could tackle.

Institutional Development

5.7. The role of the private sector in coffee marketing in Uganda is now well established as is the support to and monitoring of the coffee trade to ensure that there is adequate information about trading conditions, and that quality standards are being maintained. The reforms in coffee marketing have become a model for the rest of Africa and other countries such as Cote d'Ivoire where similar changes in coffee marketing have been made. Institutions such as NARO, established under ASAC, show signs of becoming a success. Yet, other programs, such as agricultural extension, are not yet working satisfactorily despite considerable support.[32]

> **Finding:** The successful institutional changes supported under ASAC were only achieved following collaborative preparatory work with a government which had a strong commitment to the changes. Without such pre-conditions it is unlikely that sustained institutional change could have been achieved.

5.8. One institutional proposal not implemented in ASAC was the PASP. This audit finds that this was a disappointing aspect of project implementation. Regardless of the reasons, when the credit closed Uganda was left without an enhanced capacity for policy analysis and planning in the agricultural sector. The lack of follow through on rural development after the close of ASAC (paragraph 5.6) and the recent difficulties encountered in preparing the Medium Term Plan for Modernization of Agriculture may be to some extent the legacy of the inability to implement the PASP component.

> **Finding:** The failure of ASAC to establish the PASP (or the proposed Agricultural Sector Management project later) was due to a large extent to the changes in policy on "core" and "non-core" public expenditures which ASAC had itself set in train. On the other hand, there was also an absence of ownership on the government side to changes in an agricultural policy institution. The PASP component had not been well prepared among interested government parties and was not even mentioned in the Letter of Sectoral Policy (paragraph 2.3).

> **Finding:** This audit finds that the ultimate reason for the demise of the PASP component was the Ministry of Agriculture's withdrawal of support, resulting in lack of ownership within the government of key objectives.

5.9. The APC existed before the negotiation of ASAC and was involved in the preparations for the project. Questions have been raised about the appropriateness of an institution based in the Ministry of Finance and Planning being responsible for policy analysis and program implementation in the agricultural sector. Clearly this arrangement worked well; the project was implemented successfully. On the other hand there is plausible evidence that this arrangement created tensions between the Ministry of Finance and the Ministry of Agriculture (later the MAAIF).

> **Finding:** This audit finds that, irrespective of tensions which may have existed during project implementation, leadership from a strong multidisciplinary body was essential to

32. See World Bank, *Uganda: Agricultural Sector Memorandum*, draft, February 20, 1998 pp 37-58.

the success of this multisectoral project and of course to the success of the economic reform program. The performance of APC demonstrated the justification for having an efficient, multisectoral, institution to implement policy change and to ensure the successful implementation of a national program.

Bank Performance

5.10. The performance of Bank staff on this project was remarkable with much evidence in the files of close collaboration. The project was based also on considerable collaborative sector work, and was carefully appraised and supervised. While average supervision costs of about 20 staff weeks per year were higher than the Bank average at the time (13 to 18 staff weeks per year), it was appropriate for such a complex operation. Supervision was assisted by locating a task manager in Uganda who could address issues on the spot during the most difficult implementation period. This was done very effectively. On the other hand vigorous follow through with complementary investments to support sustained growth did not take place when ASAC closed and actions on a number of issues such as extension have been weak.

Finding: For such a complex project there is a major advantage in having a staff member in the resident mission during project implementation who is qualified to advise the government on project issues, make decisions, and monitor progress.

Finding: The Bank appeared to reduce the intensity of its dialogue on agricultural and rural development after ASAC closed. Nevertheless, over the last two years attention to the agricultural sector has picked up and the time is right for a follow up to ASAC to address policy analysis and planning, agricultural technology and extension, rural infrastructure, and diversification of the agricultural sector which remain important challenges facing Ugandan agriculture

Borrower Performance

5.11. The success of this project was mainly due to the borrower's commitment to the reform policies which were the basis for the project from the start. The borrower established effective management of implementation arrangements. The two borrower entities responsible for implementation, namely APC and AGSEC, were efficient in the their decision making process, effective in getting things done and in coordinating diverse interests and responsibilities. At the same time they maintained a clear vision of the long term objectives of the project.

> **Finding:** Strong institutions with the capacity to provide leadership on policy issues which coordinate the responsibilities from all sectors are essential for effective rural development. APC and ASGSEC (now APSEC) proved to be such institutions.

Lessons

5.12. There are 4 lessons emerging from this project which are relevant to agricultural sector adjustment programs, but they are also relevant to any program or project in which policy change is the main objective.

- Preparatory economic and sector analysis with a high degree of government ownership is vital to achieving agreement on a sound sector reform program (paragraphs 1.8, 5.7 and 5.11).

    - The government and the Bank had worked closely over a number of years before ASAC appraisal to reach consensus on changes in macroeconomic and agricultural sector policy. This process built the foundations of mutual trust and a collaborative program for policy change.

- Unwavering government commitment to the core sector reform policy is absolutely essential for successful implementation of a sector program (paragraphs 1.9 and 5.11).

    - At various stages during implementation of ASAC there was resistance to the coffee financing and marketing policy changes included in the reform program, but the government's objectives prevailed because it was based on a strong commitment to ASAC's core objective based on analytical work which transcended political pressures.

- The implementation of a sector reform program should be followed up by the planning and implementation of investments in technology, infrastruc-ture, and support services (including financial services) to ensure that the impact of policy reform is sustained (paragraphs 4.9, 4.12, 5.6 and 5.8).

    - The ASAC reform program was a necessary condition for growth and diversification in the agricultural sector and, while follow up in terms of investments in areas such as agricultural research and cotton market decontrol and production did take place, attention to areas such agricultural extension and infrastructure such as rural roads was weak.

- A strong, well managed, national multisectoral institution which takes on the responsibilities for leading the coordination of policy and institutional reform is essential; such a body need not be a threat to the sensible interests of participating sectoral ministries to improving their capacity (paragraphs 4.15 and 5.9).

    A reform program in a sector such agriculture has many implications for other sectors and it is therefore necessary that a multisectoral group such as the Agricultural Policy Committee with strong central leadership manages the process in order to ensure coordination with a national perspective.

ANNEX A

BASIC DATA SHEET

PROJECT NAME (CR 2190-UG)

Key Project Data *(amounts in US$ million)*

	Appraisal estimate	Actual or current estimate	Actual as % of appraisal estimate
Total project costs	101.61	97.04	95.5
Loan amount	100.00	96.8	96.8
Cofinancing (Government of Uganda)	1.6	0.9	56.3
Cancellation	0	0	
Date physical components completed	6/30/95	12/31/96	
Economic rate of return	NA	NA	
Institutional performance		Satisfactory	

Cumulative Estimated and Actual Disbursements

	FY						
	1991	1992	1993	1994	1995	1996	1997
A. Expressed in SDR							
Appraisal Estimate	25.7	54.1	66.5	68.2	69.5	-	-
Actual	14.4	27.0	36.2	54.2	64.2	66.7	68.3
Actual as % of estimate	56%	50%	54%	79%	92%	96%	98%
B. Expressed in US$							
Appraisal Estimate	37.0	77.9	95.7	98.2	100.0	-	-
Actual	20.5	37.8	50.1	76.2	91.0	94.7	96.9
Actual as % of estimate	55%	48%	53%	78%	91%	95%	97%

Source: Implementation Completion Report

Project Timetable

Steps in Project Cycle	Date Planned	Date Actual/Latest Estimate
Initiating Memorandum		May 16, 1990
Identification		Nov. 1988
Letter of Sector Policy		November 23, 1990
Preparation[1]		Nov.. 1988 – May 1990
Appraisal		June 1990
Negotiations		Oct. 1990
Board presentation		December 13,1990
Signing		December 19, 1990
Effectiveness	February 1, 1991	January 3, 1991
First tranche release	February 1991	February 1991
Second tranche release	October 1991	December 1992
Midterm review	December . 1992 - HARE June 1993 [2] LPRP and PASP	
Project completion	June 1995	December 31, 1996
Credit closing	June 30, 1995	December 31, 1996

1. Prepared by Bank of Uganda Agricultural Policy Committee with assistance from IDA
2. With HARE being integrated into NARO's work program under ARTP, satisfactory progress under LPRP, and discussions between GOU and IDA on canceling PASP, the ,mid term review of these subcomponents was not undertaken.

Annex A

USE OF BANK RESOURCES

Staff Inputs[1/] (staff weeks)

Stage of project Cycle	Planned		Revised		Actual	
	Weeks	US$	Weeks	US$	Weeks	US
Preparation to Appraisal		N/A		N/A	49.3	107.8
Appraisal		N/A		N/A	71.5	188.2
Negotiations through Board Approval		N/A		N/A	2.7	7.9
Supervision		N/A		N/A	145.9	442.1
Completion[2]		N/A		N/A	12.0	54.7
Total		N/A		N/A	281.4	800.7

N/A = Not available from Cost Accounting System

1/ As of June 19, 1997. The cost for completion is estimated. Amounts are in US$ thousand.

2/ Undertaken by FAO/CP

Mission Data

Stage of Project Cycle	Date (month/year)	No. of persons	Staff days in field	Specializations represented	Performance Rating Impl. Status	Dev. Objectives	Types of problems
Appraisal	5/90						
Supervision	1/91	8	11	FA, Ec, Res, Proc, Disb, Mgmt, Coffee	-	-	-
	4-5/91	2	15	FA,CO	2	1	PM
	6-7/91	4	24	FA,Ec,Leg,Tea	2	1	PM,F
	9-10/91	4	15	FA,Ec,Land,Mgmt	2	1	-
	5/92	3	12	FA,Ec,Res	2	1	F
	11/93	1	10	FA,	2	1	PM,F
	1/94	2	8	FA	2	1	F
	6/94	1	12	FA	2	1	F,PROC
	2/95	1	6	FA	2	2	F,PROC
	6-7/96	2	19	FA,Land	2	2	F,PROC
	3-4/97	1	7	FA	2	2	-
Completion	4-5/97	2	14	Ec, Mgmt	-	-	-

Abbreviations: Ec = Economist; FA = Financial Analyst; Mgmt = Management Specialist; Tea = Tea Specialist; Coffee = Coffee Marketing Specialist; Disb = Disbursement Specialist; = Procurement Specialist; Res = Research Specialist; CO= Country Officer; Leg= Legal Officer; Land = Land Tenure Specialist; PM = Project Management; F = Financing; PROC = Procurement
Completion report carried out by FAO/CP

Other Project Data

CONTEMPORARY AND FOLLOW-ON OPERATIONS

Operation	Credit no.	Amount (US$ million)	Board date
Livestock Services			1990
Agricultural Extension			1992
Agricultural Research and Training			1993
Cotton Sub-sector Development	2609-UG		1994

Annex B

Key Indicators for Project Implementation

The President's Report listed a number of policy actions that were to be monitored under the Credit. The fulfillment of these policy actions were conditions of the second tranche release. These policy actions and conditions, set out in the box below, were considered fulfilled by December, 1992. The proposed date had been October, 1991.

Conditions for Second Tranche Release

(a) In the context of the macro-economic framework as set out in the Government's Policy Framework Paper (FY 91 to FY 93) continue to apply policy measures to ensure that positive real interest rates on commercial bank loans, including crop finance loans are maintained.

(b) Progress in the implementation of the Coffee Subsector Budgeting and Monitoring System for the CS 91, according to an agreed work plan, and adoption by the Government of a Coffee subsector Budget for CS 92, satisfactory to IDA.

(c) Complete the financial and institutional restructuring of CMB satisfactory to IDA, consistent with the findings of the CMB balance sheet report, including formalizing Government's injection of working capital to CS91 as contribution to CMB's equity, providing additional equity capital, as required, to meet CMB's incremental base working capital requirements for CS92, and strengthening institutional arrangements for development and regulation of the coffee industry consistent with the Government's coffee export liberalization strategy.

(d) Issue coffee export licenses to at least two private sector parties other than cooperatives and implement measures to significantly increase the share of the coffee exports by the private sector by: (i) ensuring adequate profit elements in exporters fixed margins; and (ii) establishing a price grading structure for coffee to maximize quality and sales value. Adopt an action plan to implement a new coffee export taxation system to further increase trade incentives while safeguarding fiscal objectives under the stabilization program.

(e) Establish a semi-autonomous National Agricultural Research Organization to plan and oversee the implementation of a national agricultural research program, satisfactory to IDA.

Annex B

Key Indicators for Project Operation

ACTION PROGRAM	ACTUAL ACHIEVEMENT
Coffee Crop Financing Reinstate commercial banks as lenders for crop finance/revise institutional arrangements.	Achieved before second tranche release in Dec. 1992. For 1993/94, US $38 million was available to exporters as prefinance funds. Since 1993/94, crop financing has been a minor problem.
Pricing of Export Crops Adjust producer prices and processing/marketing margins for coffee. Increase farmers' share of the long-term coffee export price. Increase price and tax incentives for exporters.	Farmers are now recovering about 60% of the export price against 20% before liberalization. GOU removed export tax on coffee in July 1992. A new stabilization tax, imposed in 1994/95, was abolished effective, July 1, 1996.
Processing and Market Institutions Abolish CMB's export monopoly and provide incentives for private sector participation in exports.	Against a target of 40 licenses to private sector exporters by 1993/94, 87 have been issued in 1995/96. The private sector is now responsible for 95% of coffee exports.
Public Expenditure Review Establish and secure funding for high priority agricultural projects.	PER's have been undertaken since 1993/94 to establish such priorities.
Agricultural Research and Extension Implement an integrated national agricultural research plan and support the establishment of a semi-autonomous National Agricultural Research Organization (NARO).	NARO has been established and is being supported under ARTP (CR. 2446-UG), while a national unified extension system is being supported under AEP (CR. 2424-UG).

Annex B

Key Indicators for Project Operation

ACTION PROGRAM	ACTUAL ACHIEVEMENT
Production	
• UCDA to finalize comprehensive Nursery Development Program by Dec. 1993.	Completed in 12/93. 370 new nurseries (105% of target) and 333,750 mother bushes (79% of target) have been established.
• Establish 75 private sector nurseries by June 1994.	126 nurseries were in place at 5/31/94.
Marketing	
Allow exporters to choose any method that suits them best by Dec. 1993.	Completed in March 1994.
Floor Price	
Review Floor Price System and replace it with Indicative Price System by Oct. 1994.	Indicative Price System in place since March 1, 1995.
UCDA	
Amend UCDA Statute, 1991 by Dec. 1993.	Completed on April 15, 1994.
CMBL	
Prepare Corporate Plan by Oct. 1993. Privatize CMBL by Sept. 1996.	Plan prepared by May 1994. Some non-productive assets of CMBL were sold prior to its privatization. Bids from prospective buyers (received in June 1997)being considered.

Annex B

Key Indicators for Project Operation

ACTION PROGRAM	ACTUAL ACHIEVEMENT
Transport	
Partial liberalization of coffee transportation (20% by road) by Dec. 1993.	Completely liberalized in March 1994.
HARE (Research) Component	
	The component's integration with NARO, due by 1/1/94, has been fully implemented. Performance in most sub-projects has been satisfactory.
MISR Component	
	The rehabilitation of buildings and the training has been completed.
Land Policy Component	
	The Technical Committee's Report on Land Tenure was published in June 1993.

Source: Implementation Completion Report, June 27, 1997

Annex C

Borrower Comments: The Governor, Bank of Uganda

BANK OF UGANDA

OFFICE OF
THE GOVERNOR

37/43 KAMPALA ROAD.
P.O. BOX 7120,
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Ref:G.10.2

16th June, 1999

06-22-99A10:53 RCVD

Mr. Gregory K. Ingram
Manager
Sector and Thematic Evaluations Group
Operations Evaluation Department
The World Bank
1818 H Street NW
WASHINGTON, D.C. 20433
U.S.A.

Dear Sir,

COMMENTS ON THE DRAFT PERFORMANCE AUDIT REPORT ON THE UGANDA AGRICULTURAL SECTOR ADJUSTMENT CREDIT (CR:2190-UG)

Please find enclosed my comments on draft Performance Audit Report on the Uganda Agricultural Sector Adjustment Credit (Cr:2190-UG). I hope these comments will help you in refining the Final Report

Yours faithfully,

C.N. Kikonyogo
GOVERNOR

CNK/rgkm

Annex C

COMMENTS ON THE DRAFT PERFORMANCE AUDIT REPORT ON THE UGANDA AGRICULTURAL SECTOR ADJUSTMENT CREDIT (Cr. 2190-UG)

The assessment of the performance of the Agricultural Sector Adjustment Credit Project should be based on the extent to which the basic objectives of the project have been achieved.
The main objectives of the Agricultural Sector Adjustment Credit Project (ASAC) were:

a) to stabilise the economy by controlling credit expansion through improved institutional arrangement for the financing of coffee procurement and its marketing;

b) to promote agricultural growth and diversification by creating a competitive system for processing and marketing of export crops through institutional reform, enhancing coffee export incentives through price and tax reform, making public spending more efficient, strengthening agricultural research and extension institutions, and improving sectoral policy analysis in agriculture.

These objectives were to be achieved by implementing the programmes listed below:

Adjustment Program

a) Place coffee financing and marketing arrangements in the hands of private sector and industry managed institutions, reform coffee taxation and pricing policies; and

b) privatize cotton and tea marketing, rehabilitate cooperative cotton ginneries and tea processing plants, as well as the rehabilitation of production through improved incentives to farmers.

Investment Program

a) reform the institutional framework for agricultural research and extension
b) develop an institutional arrangement to strengthen agricultural sector planning
c) support sustained research into land access and land policy development
d) rehabilitate the land registry in the Ministry of Lands, Housing and Physical Planning
e) restructure the Coffee Marketing Board as an autonomous marketing entity
f) establish a coffee nursery program under the Uganda Coffee Development Authority
g) improve the efficiency of control and monitoring of public expenditures; and
h) support for project coordination and management

Diversification and Modernization of Agriculture

The objective of diversifying agriculture and promoting the development of high-value export oriented production, its financing and the laying down of the supportive infrastructure has not been achieved. This might have been due to the over emphasis that the project placed on the coffee sector to the neglect of other sectors. The benefits accruing to the coffee sub-sector were expected to filter on to other sectors. This was not possible in the short-run because the rising profitability in the coffee sub-sector instead pulled resources to this sub-sector at the expense of other sectors.

Poverty Reduction
Although the report acknowledges that poverty remains a serious problem in Uganda, the severity of the problem is down played by the statistical evidence that absolute poverty has declined (using the headcount index) from 56% in 1992/93 to 46% in 1995/96. The report should acknowledge that this decline is a result of policies pursued in all fronts including ASAC. The Priority Program Areas (PPAs) must be fully financed and the quality of service delivery drastically improved.

Research and Extension
It is true that there have been fruitful results in agricultural research. This should be attributed to the efforts of the National Agricultural Research Organization (NARO) which was partly established by ASAC. However, the main problem is that with the exception of coffee, cassava and a few other crops, these improved varieties have not reached the grassroot. Secondly the extension services are still a major problem in the country. This should be stated explicitly and future credit lines should be called on to address this problem

Agricultural Sector Planning
The statement "There appears to be little capacity within the Ministry of Agriculture, Animal Industry and Fisheries (MAAIF) to provide leadership on agricultural and rural development issues and it is possible that if the Programme for Agricultural Sector Planning (PASP) component had been implemented this may not be the case today" is uncalled for. We believe MAAIF has the capacity now to provide visionary leadership to transform agriculture and implement rural development strategies. The most important thing is that the responsibilities of the various managers involved in the project must be streamlined. The project managers must be results-oriented. They should be closely supervised and held accountable for the poor performance.

Project Ratings
We are in agreement with the overall conclusion of the audit report but performance could have been better than what is on the ground especially when you realise that the real economy has not yet been transformed. Agro-Industry, Eco-tourism which provides linkage with agriculture and high-value export oriented agriculture and the real economy must be seen to be competitive, fully financed and transformed. In addition, the liberalization of cotton production and marketing in particular has not been very successful. Cotton production continues to be low showing that production has not responded to the price incentives induced by liberalization. Cotton used to be Uganda's leading export and the revival of cotton export-oriented production must be seriously addressed the successor of ASAC.

Annex C

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Your Ref

Our Ref UCDA/ADM/88

Date June 16, 1999

Uganda Coffee Development Authority

Office of the Managing Director

Mr Gregory K. Ingram
Manager, Sector and Thematic
Evaluations Group
Operations Evaluation Department
WASHINGTON D.C., U.S.A.

Fax (202) 522-3123

Dear Sir,

AGRICULTURAL SECTOR ADJUSTMENT CREDIT (CR 2190-UG)

Draft Performance Audit Report

With reference to your letter dated 25th May 1999 on the above subject, I confirm that we received the audit report, studied it and our comments have been sent to the Agricultural Policy Committee (APC) for official transmission to you. UCDA is generally happy with the report.

Yours faithfully,

T.N. Bucyanayandi
MANAGING DIRECTOR

cc. Director
Agricultural Policy Secretariat
KAMPALA

Annex C

Agricultural Policy Secretariat

Bank of Uganda New Building-Ground Floor-Shimoni Road
P.O. Box 24133 Kampala - Uganda
Telephone: 233819/233954 Fax No: 244322

email<mpagric@starcom.co.ug>

Your Ref:

Our Ref: AS/TC/5

16 June, 1999

Mr. Gregory K. Ingram,
Manager,
Sector and Thematic Evaluations Group
Operations Evaluation Department,
The World Bank,
Washington D.C.

Fax # (202) 522 3123

Re: <u>APC Comments on the ASAC Draft Performance Report</u>

I am pleased to inform you that the Agricultural Policy Committee (APC) on Monday 14 June, 1999 met and one of the Agenda was to review the Draft ASAC Performance Audit Report. They made extensive comments on the report which we are putting together and will be faxed to you in course of today or tomorrow.

C.H. Gashumba
<u>DIRECTOR</u>

Annex C

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Your Ref:

Our Ref. AS/TC/5

June 28, 1999

Mr. John R. Heath,
Senior Evaluation Officer,
The World Bank/OEDST.

Fax# (202) 522-3123

Dear Mr. Heath,

I am in receipt of your e-mail of Saturday 26th June, 1999. I am faxing to you a clean copy of the comments on the Draft Audit Report (Credit No. 2190) as requested.

Regards,

C.H. Gashumba
DIRECTOR

Annex C

REPUBLIC OF UGANDA

AGRICULTURAL POLICY COMMITTEE

COMMENTS ON AGRICULTURAL SECTOR ADJUSTMENT CREDIT - ASAC (CR 2190 - UG) DRAFT PERFORMANCE AUDIT REPORT

BACKGROUND

The Operations Evaluation Department of the World Bank has submitted a draft Performance Audit Report for ASAC - an IDA/GOU financed credit of US$ 100 million utilized in Uganda between FY 1991 and FY 1997. ASAC was a hybrid project addressing policy issues and supporting investments including balance of payments. About 84 percent of the project costs provided financing for the importation of agricultural inputs and the remainder supported various investments in the agricultural sector.

The following were the major objectives:-

(a) To stabilize the economy by controlling credit expansion through improved institutional arrangements for the financing of coffee procurement and its marketing.[1]

(b) To promote agricultural growth and diversification by creating a competitive system for processing and marketing of export crops through institutional reforms, enhancing coffee export incentives through price and tax reforms, making public spending more efficient, strengthening agricultural research and extension institutions and improving sectoral policy analysis in agriculture.

According to the submission of the Operations Evaluation Department (World Bank), the objectives of a Performance Audit Report which is normally carried out by the World Bank after completion of a project, are:-

(a) To evaluate the extent to which the objectives of a project were achieved.

(b) To determine reasons for variations between planned activities and actual results and the extent of the general effectiveness of World Bank support.

(c) To identify what can be learned from past experience for possible extension to other World Bank funded projects.

The Agricultural Policy Committee (APC) has reviewed the Draft Performance Audit Report and wishes to submit comments as indicated below:

---

[1]In case of ASAC this objective was achieved through the transfer of coffee crop finance responsibility from the Government guarantee provided through the Central bank to commercial banks and off-shore financing sources.

Annex C

KEY FINDINGS OF REPORT

a. The audit report notes that the project was very successful in that most components were successfully implemented. Among the notable achievements were the successes recorded for the coffee sub-sector in terms of:-

- The changes in financing arrangements for coffee procurement from dependence on the Central Bank to financing by a consortium of domestic banks as well as off-shore financing from time to time.

- Removal of export marketing and processing monopoly from CMB and creation of competition in export marketing and processing which in turn benefited on producers through realization of remunerative prices. This led to a significant reduction of poverty in coffee growing areas.

b. The project led to successful liberalization of marketing of other traditional export commodities including cotton and tea.

c. Investments funded under the project led to the creation of NARO and formulation of successor projects including ARTP, AEP and CSDP.

d. ASAC contributed significantly to macro-economic stabilization and had positive impact on overall economic growth.

e. The Audit Report further attributes the overwhelming success of the project to:

   i) The commitment of the Government of Uganda to implement reforms.

   ii) The energetic and strategic leadership provided by APC and its Secretariat, APSEC, as being crucial elements in implementation of changes supported by ASAC.

   iii) The commitment and zeal of the World Bank staff who were assigned the responsibility of supervising the project.

f. The audit report concludes that accelerating rural development to capitalise on progress in policy change under ASAC is obviously part of the uncompleted agenda in Uganda's development program. This is a challenge for APC to tackle.

COMMENTS ON THE REPORT

1. Page 1; Para 1 of the letter of submission: The last sentence which reads "The credit was closed in FY 1997 after <u>one</u> extension ..." should read "The credit was closed in FY 1997 after <u>three</u> extensions..."

Annex C

2. Page 2; Para 1 of the letter of submission: The last sentence which reads "The extension project was less successful and was eventually taken over by NARO" should read "The extension project was less successful and the extension function has recently been taken over by NARO".

3. Page 2; Para 1.5: The first sentence reading "...quite successful macro-economic reform which had lead to reductions in inflation and growth" should read "...quite successful macro-economic reforms which had led to economic growth and reductions in inflation."

4. Page 5; Para 2.1: Objective (a) As earlier stated, in case of ASAC this objective was achieved through transfer of coffee crop finance responsibility from the Government guarantee provided by the Central Bank to commercial banks and off-shore financing sources.

5. Page 7; Para 2.8: <u>Risks</u>

   One of the risks which has been omitted in the report but was envisaged at the design of the project was that due to liberalisation of the exchange of coffee proceeds at the bureau rates some of the coffee exporters would be inclined not to repatriate large volumes of coffee export proceeds and therefore the country would suffer balance of payments problems.

6. Page 7; footnote: should read "At the beginning of the implementation of ASAC, the Ministry of Finance and the Ministry of Planning and Economic Development were separate ministries. In 1992 the two ministries were merged into one Ministry of Finance and Economic Planning. In 1996 the Ministry was again split into two ministries and merged again in 1998 into the Ministry of Finance, Planning and Economic Development. However, during the whole period APC remained intact, chaired by either the Permanent Secretary/Secretary to the Treasury, Ministry of Finance, Planning and Economic Development or the Permanent Secretary of the Ministry of Planning and Economic Development."

7. Page 9; Para 1: The sentence which reads "In 1991 the responsibility of managing HARE had been transferred from APC to the Ministry of Agriculture" should read " In 1991 the responsibility for implementation of HARE had been transferred from AGSEC to the Ministry of Agriculture."

8. Page 13: Para 3.11: Last sentence should read "... the Chairman of the APC was, by virtue of his position, able to represent the interests of the agricultural sector at meetings of the Presidential Economic Council - PEC (sub committee of Cabinet)."

9. Page 15; Para 4.3: Before the second last sentence in the para the following should be added "This role was particularly useful in the 1991/92 coffee season when coffee prices crashed to the lowest levels and the new private sector entrants shied away from exporting coffee."

10. Page 16; Para 4.4: The figure referred to in the last sentence should be figure 4.2 and not figure 2.

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11. Page 18; Para 4.8: Diversification of Agriculture Failed

The report states that diversification of agricultural exports failed during implementation of ASAC. Available evidence, however, demonstrates that there was significant export diversification as a result of implementation of ASAC. For example the export value of non-traditional exports increased from US$ 25 million in 1990 to US$ 223 million in 1997 which is an increase from 14.3% to 36.7% of total exports during implementation of ASAC. Given the relatively short period of time of ASAC implementation, this increase in export volumes is more than modest. In any case ASAC provided long term strategy for export diversification through strengthening research and provision of extension services.

12. Page 19; Para 4.9: The report expresses a surprise in the decline in the relative importance of livestock production in the agricultural sector and indicates that this is probably a reflection of the area expansion in the food crop sub-sector. However, it is known that cattle rustling during the 1980s had a big impact on reduction in livestock production particularly in the North-Eastern districts which had a large cattle population.

Further, the second sentence should be replaced with the sentence "The issues pertaining to strategies for increasing agricultural productivity through acreage expansion and increase in yield are being addressed in the context of agricultural research and development of new technologies under the Plan for Modernization of Agriculture (PMA)." The reason for replacing the sentence as above is because the strategy for PMA is based on using agricultural development as a tool for eradication of mass poverty.

13. Page 20; Para 4.11: The sentence in the middle of the para which reads " ...absolute poverty decline (using the head count index) from 56% in 1962 to 46% in 1995/96..." should read " absolute poverty declined (using the head count index) from 56% in 1992 to 46% in 1995/96..."

14. Page 21; Para 4.12: Research and Extension

The report notes that compared with agricultural research, extension has generally not performed and suffers from widespread criticism as being ineffective and not connecting with farmers. However, it should be noted that farmers have low adoption rates because they are generally risk averse and the risks associated with agricultural production need to be properly understood.

15. Page 21; Para 4.13: Agricultural Sector Planning

The Audit report notes the cancellation of PASP and subsequently ASMP which were intended to build capacity for agricultural policy analysis in MAAIF. The report further notes that this was an opportunity lost and there continues to be little capacity for policy analysis in MAAIF.

However, it should be noted that this issue has been recognised by Government and is currently being handled under " Institutional Strengthening" in the Plan for

Annex C

Modernization of Agriculture.

Further on page 26 para 5.8 the report notes that the fundamental reason for the demise of PASP component was inadequate collaborative preparation of the component among interested Government parties. This statement is not correct for the following reasons:-

i) PASP was prepared under the auspices of the multi-agency government institution - the APC.

ii) The Government team that negotiated PASP with IDA was led by MAAIF.

However, it should be noted that the main reason for dropping PASP was because GOU changed its priorities in regard to implementation of PASP.

16. Page 21; Para 4.14: Land Policy Research Program

The report notes correctly the capacity that has been built in MISR which was the agency directly responsible for implementation of this program. The report however, does not acknowledge the contribution of this component as a guide on land issues during the constitution making process in 1995 and the subsequent enactment of the Land Act in 1998. The studies implemented under ASAC by MISR were instrumental in these areas.

17. Page 22; Para 4.16: Project Management

The Audit Report notes that one of the key lessons to be learnt from ASAC is that implementation of such a multi-faceted program required the presence of a strong well managed multi-sectoral institution which takes on responsibilities for leading the co-ordination of policy and institutional reforms. It should be noted that the role of APC under ASAC also involved direct implementation mainly on account of the heavy content of policy reforms as well as strengthening existing institutions (e.g MISR) and creation of new ones e.g CDO, NARO, UCDA, etc. Since implementation of ASAC, however, there have been substantial strengthening of several institutions and creation of new ones in the agricultural sector and the roles of APC have changed accordingly. For example under CSDP direct implementation by APC was undertaken only for the ginnery restructuring and debt relief component which was part of policy and institutional reforms.

Given the inter-sectoral nature of agriculture, it is evident that the APC needs to continue playing its central role but the future activities shall be limited to policy deepening and coordination as well as program monitoring and providing a common platform for consensus building and harmonization of programs by the various stakeholders. This vision is applicable to the Plan for Modernization of Agriculture (PMA) now under design.

It is also becoming increasingly evident that the membership of APC needs to be reviewed in order to cater for the enhanced private sector participation in agricultural development. The envisaged future role of the APC would also be consistent with accelerated rural development which has to capitalise mainly on agricultural growth.

Thus, the growth of the agricultural sector that has taken place during and after implementation of ASAC and the changing roles of APC would provide useful lessons for other World Bank projects targeting agricultural transformation and rural development.

18. Page 25; Para 5.5: Sustainability

The audit report notes the current developments in the coffee sub-sector whereby there is a trend towards existence of a small number of large traders which may eventually weaken competition in the coffee market. This development has been observed by government and is a concern which requires continuous monitoring and review. It is planned that during the next financial year a study will be undertaken under the auspices of APC in this regard.

19. Page 34; Annex B: The table indicates that the program of allowing exporters to choose methods of transporting coffee to ports of export was successfully competed in March 1994. However, it should be noted that the planned introduction of road user's tax was not implemented and as a consequence following liberalisation of coffee transport most exporters opted for the tax free road transport. As a result the railway transport was essentially weakened. However, now that there has been an introduction of the axle load limit on road transport most exporters would prefer to start using rail but which is to a large extent not functioning optimally.

20. UCDA Comments on the Draft Performance Audit Report

Appended are specific comments by the Uganda Coffee Development Authority (UCDA) on the impact of the implementation of ASAC on the coffee sub-sector. The APC has noted these comments and an indepth review of the sub-sector will be undertaken during 1999/2000 season. However, at the sametime, Government is fully committed to the reform measures implemented under ASAC and will not undertake measures likely to reverse them.

Annex C

UGANDA AGRICULTURAL SECTOR ADJUSTMENT CREDIT (CR.2190-UG)

UCDA'S COMMENTS ON THE DRAFT PERFORMANCE AUDIT REPORT

01. GENERAL COMMENT

UCDA is generally happy with the draft audit report. We believe that the farmer has been the most important beneficiary of the liberalization and reform programme because his coffee is paid for on cash basis and his market share has risen from a mere 20% in 1991 to about 80% at present of the realized world price. As a result, the overall production has also increased by almost 75% from 2.0 million 60-kg bags in 1991 to an average of about 3.5 million bags annually at present. To that extent, coffee is a very important farm enterprise in as far as poverty alleviation among peasants is concerned.

UCDA however, as the implementing body of the reforms has had some observations to make . We believe, that we should share the lessons learnt with the Evaluation Team. These experiences are as follows:

02. QUALITY ASSURANCE BY EXPORTERS

During the course of implementation, there was agitation that the private exporters should carry out quality assurance by themselves. UCDA trained some Quality Controllers who were actually employed by exporters in their factories and up-country stations to monitor and control quality. This was a delegated responsibility because UCDA retained accountability for pre-shipment inspection to ensure that coffee which does not meet the pre-scribed standards is not exported. It had been hoped that with time the exporters would produce good quality coffee consistently and then UCDA would allow them to take over responsibility of quality assurance. Unfortunately, due to commercial interests and stiff competition among exporters, set quality standards were violated. UCDA has, on many occasions had to reject a lot of coffee and require the owners to carry out remedial measures before the coffee is allowed to be exported. **THE LESSON HERE IS THAT SELF ASSURANCE OF QUALITY IS NOT EASY. THERE MUST BE A REFEREE TO ENFORCE STANDARDS. UCDA IS FULFILLING THIS IMPORTANT ROLE.**

03. THE RATE AT WHICH EXPORTERS DROP-OUT OF BUSINESS

The rate at which coffee exporters are dropping out of business is so high that it is an issue for close monitoring. Several years ago, as many as 90 exporters had registered. Currently, there are 30 left on the register. Of these 30, about 90% of the business is in the hands of 10 exporters. This trend raises concern for two reasons:-

(a) The possibility of leaving several exporters in the business who could form a cartel and minimize competition; and

(b) The lack of sustained experience and contacts overseas which undermines confidence in the trade.

04. REMOVAL OF COMPULSORY MINIMUM PRICE AND ITS REPLACEMENT WITH AN INDICATIVE PRICE

On 1st March 1995, as agreed with World Bank, the Compulsory Minimum Price was removed and was replaced with an indicative price. Immediately that happened, UCDA noticed statistically that there were distortions. Some few exporters sold coffee at good prices above indicative prices while many others sold at unreasonably low prices. The view of UCDA was that these exporters constantly selling at low prices were most likely under-invoicing in order to minimize payment on cess which is 1% of export value per kg. **THE MOST IMPORTANT ISSUE IS THAT THE DISTORTIONS CREATED BY REMOVAL OF MINIMUM PRICE MAKES IT DIFFICULT FOR GOVERNMENT TO OBTAIN RELIABLE DATA ON THE VALUE OF COFFEE INDUSTRY AND THIS DOES IMPAIR PLANNING.**

05. THE CURRENT CHARACTER OF THE COFFEE INDUSTRY

At the time of liberalization, emphasis was mainly placed on Marketing issue especially the breaking of CMB Monopoly and creating competition by licensing private exporters. This reform succeeded. The exporters now need more coffee to export. This calls for greater investment in coffee Research and production. The crucial areas for investment are:

(a) The development of Coffee Research Centre (COREC) by improving infrastructure, equipping and recruitment of additional personnel.

(b) Accelerated Private Nursery Development in order to produce more planting materials to reduce on targeted time. According to the original plan, the replanting programme would proceed at a rate of 3-5% per annum and the old coffee trees would be replaced in 20 years time. There is now need to reduce this time to about 10 years because of the need to carry out aggressive replanting programme as one of the ways to contain the serious Coffee Wilt Disease (Tracheomycosis)

(c) Input Supply and Credit

During the course of implementing reforms, farmers who are now eager to implement technological packages are handicapped by lack of inputs and credit facilities to buy the few inputs available.

Annex C

This also makes Extension Officers look ineffective because their technological messages cannot be adopted.

(d) Adding Value to Coffee

There is need to carry out reforms further by production of soluble coffee and sell a finished product instead of raw green beans.

06. COMPOSITION OF THE BOARD & PERFORMANCE

IN 1994, the composition of the Board was reviewed to make it look more industry oriented by having 2 representatives of farmers, 2 representatives of exporters and 2 representatives of processors. On 11 member Board, 7 are private people and 4 represent Government Departments. Although UCDA is a Regulatory Government parastatal, the Authority operates like a "private body" in every sense - funding, staffing, output and service delivery to its customers. **THIS MAY BE THE REASON FOR SATISFACTORY PERFORMANCE ARISING FROM SERIOUS AND RESULT ORIENTED LEADERSHIP.**

07. Appreciation

UCDA wished to register its appreciation to good guidance received from APC and the World Bank TASK MANAGER Mr T. Sharif.