

**AFRICAN DEVELOPMENT BANK GROUP**



**UGANDA**

**REVIEW OF THE BANK GROUP ASSISTANCE TO THE  
AGRICULTURE AND RURAL DEVELOPMENT SECTOR**

**STUDY FINAL REPORT**

**OPERATIONS EVALUATION DEPARTMENT  
(OPEV)**

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Summary of Bank Group's Agricultural Sector Projects/Operations  
Key Documents Consulted  
Stakeholders' Workshop Proceedings

## **ACRONYMS AND ABBREVIATIONS**

|       |   |                                                         |
|-------|---|---------------------------------------------------------|
| ABAMP | : | Area Based Agricultural Modernization Programme         |
| ABC   | : | Animal Breeding Centre                                  |
| AD    | : | Approval Date                                           |
| ADB   | : | African Development Bank                                |
| ADF   | : | African Development Fund                                |
| AGDP  | : | Agricultural Gross Domestic Product                     |
| AI    | : | Artificial Insemination                                 |
| ASAP  | : | Agricultural Sector Adjustment Programme                |
| CBL   | : | Cooperative Bank Limited                                |
| CD    | : | Completion Date                                         |
| CDO   | : | Cotton Development Organisation                         |
| CMB   | : | Coffee Marketing Board                                  |
| CPRR  | : | Country Portfolio Review Reports                        |
| CRP   | : | Coffee Rehabilitation Project                           |
| CSP   | : | Country Strategy Paper                                  |
| DC    | : | Dairy Corporation                                       |
| DCI   | : | Development Consultants International Limited           |
| DFID  | : | Department for International Development                |
| DLG   | : | District Local Government                               |
| DRP   | : | Dairy Rehabilitation Project                            |
| EAC   | : | East African Community                                  |
| ED    | : | Effective Date                                          |
| EIRR  | : | Economic Internal Rate of Return                        |
| EPCP  | : | Economic Prospects and Country Programming              |
| ERP   | : | Economic Recovery Programme                             |
| EU    | : | European Union                                          |
| FAO   | : | Food and Agriculture Organization of the United Nations |
| FDP   | : | Fisheries Development Project                           |
| FIRR  | : | Financial Internal Rate of Return                       |
| GDP   | : | Gross Domestic Product                                  |
| GoU   | : | Government of Uganda                                    |
| GRP   | : | Ginnery Rehabilitation Project                          |
| GTZ   | : | German Technical Agency                                 |
| ICB   | : | International Competitive Bidding                       |
| IDB   | : | Islamic Development Bank                                |
| IDPs  | : | Internally Displaced Persons                            |
| IEs   | : | Intermediary Entities                                   |
| IFAD  | : | International Fund for Agricultural Development         |
| IGSU  | : | Income Generating Support Unit                          |
| IMF   | : | International Monetary Fund                             |
| KSW   | : | Kakira Sugar Works                                      |
| LDP   | : | Livestock Development Project                           |
| LMB   | : | Lint Marketing Board                                    |
| MAAIF | : | Ministry of Agriculture, Animal Industry and Fisheries  |

|         |   |                                                       |
|---------|---|-------------------------------------------------------|
| MCM     | : | Ministry of Cooperatives and Marketing                |
| MoLG    | : | Ministry of Local Government                          |
| NEMA    | : | National Environment Management Authority             |
| NPART   | : | Non Performing Assets Recovery Trust                  |
| NRM/NRA | : | National Resistance Movement/National Resistance Army |
| NWSDP   | : | North West Smallholder Development Project            |
| OPEV    | : | Operations Evaluation Department                      |
| OSRIP   | : | Olweny Swamp Rice Irrigation Project                  |
| PAP     | : | Poverty Alleviation Project                           |
| PCR     | : | Project Completion Report                             |
| PEAP    | : | Poverty Eradication Action Plan                       |
| PMA     | : | Plan for Modernisation of Agriculture                 |
| PPER    | : | Project Performance Evaluation Report                 |
| PRSC    | : | Poverty Reduction Strategy Credit                     |
| PRSP    | : | Poverty Reduction Strategy Paper                      |
| RFS     | : | Rural Farmers' Scheme (UCB Line of Credit)            |
| RMCs    | : | Regional Member Countries                             |
| RMSP    | : | Rural Micro finance Support Project                   |
| RRB     | : | Ranch Reconstruction Board                            |
| RRP     | : | Ranch Rehabilitation Project                          |
| SAR     | : | Staff Appraisal Report                                |
| SCOUL   | : | Sugar Corporation of Uganda Limited                   |
| SD      | : | Signature Date                                        |
| SIRP    | : | Seed Industry Rationalisation Project                 |
| SAP     | : | Structural Adjustment Programme                       |
| TAF     | : | Technical Assistance Fund                             |
| TU      | : | Tea Unit                                              |
| UA      | : | Unit of Account                                       |
| UCB     | : | Uganda Commercial Bank                                |
| UCCU    | : | Uganda Co-operative Central Union                     |
| UCDA    | : | Uganda Coffee Development Authority                   |
| UDB     | : | Uganda Development Bank                               |
| UGCEA   | : | Uganda Cotton Ginners and Exporters Association       |
| UNDP    | : | United Nations Development Programme                  |
| USAID   | : | United States Agency for International Development    |
| UTGC    | : | Uganda Tea Growers Corporation                        |
| WB      | : | World Bank                                            |
| WTO     | : | World Trade Organisation                              |

## PREFACE

1. The African Development Bank (ADB) in early November 2001 signed a contract with Development Consultants International Ltd. (DCI) to undertake a detailed review of the ADB Group assistance to the agriculture and rural development sector in Uganda in order to assess the overall development effectiveness of the Bank Group assistance strategy to the sector; and thereafter to draw lessons and recommendations from the findings of the study. DCI fielded two consultants<sup>1</sup> who arrived in Abidjan, Côte d'Ivoire on 10th November 2001 and commenced the assignment on Monday 12<sup>th</sup> November 2001.
2. In addition to the above study objectives, the Bank Group commissioned this study in order to address another concern of whether its assistance strategy to the sector has had the desired impact on the four pillars of its intervention strategy, namely: poverty alleviation and improved food security; accelerated economic growth; natural resource management and environmental protection; and human and institutional capacity building.
3. This Study focuses both on the immediate and wider development effectiveness of the Bank Group assistance in terms of overall success, cost-effectiveness and value for money. The evaluation is based on the review of documents and reports provided by the Bank Group's Operations Evaluation Department (OPEV), and on the key findings of the Study team during their field mission in November and December 2001. During the field mission, the study team held interviews and consultations with officials of Government of Uganda (GoU) departments and institutions, and with project managers and key stakeholders, including beneficiaries of the projects in a participatory Stakeholders' Workshop held at Colline Hotel, Mukono, Uganda on 26<sup>th</sup> February 2002. The study's detailed key findings are given as background information in a separate report entitled " Detailed Technical Analysis of Study Key Findings".
4. The Bank Group is most grateful to Mr. David O.O. Obong, Permanent Secretary, Ministry of Agriculture, Animal Industry and Fisheries (MAAIF), Mrs. Rhoda Tumusiime, the Commissioner for Planning and her Assistant, Mr. George A. Otim, and the other Members of the Ministry's Staff, and to Messrs Patrick Ocailap, Oode Obella and Charles Ogol of the Aid Liaison Department, in the Ministry of Finance, Planning and Economic Development, for their co-operation, assistance and guidance throughout the Study.
5. The Bank, further, wishes thank many individuals and organizations that contributed information and ideas on this Study. The Study Team could not have satisfactorily performed its task, without the cooperation and collaboration received from the many Stakeholders involved in the various projects that have been assisted by the ADB Group, over the past thirty (30) years of lending to Uganda's agriculture and rural development sector.

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<sup>1</sup> This study was done by DCI's consultants: Mr. Lawrence E. ETURU, Agricultural and Institutional Development Specialist and Dr. (Mrs.) Germina SSEMOGERERE, Rural Development Specialist, under the supervision of Mr. E.K.N. MPANDE, Principal Post Evaluation Officer, Operations Evaluation Department. Further enquiries should be addressed to Mr. G.M.B. KARIISA, Director, Operations Evaluation Department, on Extension 4052, or to Mr. E.K.N. MPANDE on extension 4750.

## **EXECUTIVE SUMMARY**

### **1. Objectives and Scope of the Study**

- 1.1 The African Development Bank (ADB) Group has extended assistance to Uganda's agriculture and rural development sector since 1974, beginning with a loan for cotton ginneries rehabilitation, followed soon after with another loan for construction of tea factories in 1976. The Bank Group agricultural sector portfolio steadily grew thereafter, and by October 2001 the approved loans, net of cancellations, totalled UA 142.61 million while disbursements totalled UA 104.65 million.
- 1.2 Given this cumulative level of the agricultural sector portfolio, the Bank Group commissioned this Study in November 2001 with a three-fold purpose: (a) to assess, in terms of fulfilment of objectives and outputs (efficacy), relevance, efficiency, institutional development impact and sustainability, the overall impact of development effectiveness of Bank Group assistance strategy to the agricultural sector in Uganda; (b) to evaluate efficiency of the assistance through the measured or perceived benefits from the projects, compared to the costs in terms of budgetary implications, aid coordination and monitoring of projects; and (c) to draw out lessons and recommendations at policy and strategy levels, which can be applied to future Bank Group assistance strategy in the agricultural sector in Uganda or in other Regional Member Countries (RMCs).
- 1.3 The Study covered the entire Bank Group agricultural portfolio, consisting of fourteen (14) projects and seven (7) studies (including two social sector projects and one agricultural line of credit). Eleven completed projects were reviewed in detail, while the rest were reviewed only in summary form. The overall performance of Bank Group assistance strategy was assessed using five evaluation criteria applied at the individual project level, with overall performance rating obtained by summing up the individual project ratings. The five evaluation criteria used were: relevance and quality at entry; achievement of objectives and outputs (efficacy); efficiency; institutional development impact; and sustainability of benefits and outcomes. The results of the project and sub-sectoral evaluations are contained in a separate report entitled "Detailed Technical Analysis of Study Key Findings", which has been issued separately.

### **2. Key Findings and Performance Assessment**

#### **2.1 Relevance of Goals and Objectives and Quality at Entry**

- 2.1.1 The Bank Group's agricultural sector portfolio was relevant to Uganda's development objectives and priorities. The projects addressed both national and specific sectoral and sub-sectoral objectives as stated in the Government of Uganda's (GoU) National Development Frameworks (Development Plan Documents). The assistance strategy was also as broad-based as possible,

encompassing the cash and food crops sub-sectors, agro-processing industry (sugar), livestock, fisheries, integrated rural development and micro finance.

2.1.2 Although relevant and well intentioned, the overall performance of projects on the basis of relevance was rated unsatisfactory owing to poor quality of preparation. Only two projects - Kakira Sugar Works (KSW) and the Seed Industry Rationalisation Project (SIRP) - had satisfactory performance on the combined criterion of relevance and quality at entry because they had more than three elements of good quality preparation. The rest of the projects whose performance was found unsatisfactory had not been supported by either detailed feasibility or sub-sectoral studies at their design stage, and the rehabilitation components of many of these projects were not comprehensively appraised.

## 2.2 Achievement of Objectives and Outputs

2.2.1 In the overall assessment of the efficacy of the Bank Group's assistance, the portfolio with highly unsatisfactory attainment of objectives, i.e. where achievements were either very short lived (ginneries, coffee factories), or project assets were destroyed as in the Ranch Rehabilitation Project (RRP), or lacked data to measure what outputs were attained as in the Rural Farmers' Scheme (RFS), or completely failed to deliver any outputs (the three tea factories), reduced the overall performance of the assistance to unsatisfactory. However, the above overall conclusion must be qualified. Four projects – KSW, SIRP, Olweny Swamp Rice Irrigation Project (OSIRP), and Poverty Alleviation Project (PAP) - attained substantial planned outputs as per the Staff Appraisal Reports (SARs) and are likely to be sustainable, hence, they were rated satisfactory.

2.2.2 The Dairy Rehabilitation Project (DRP) attained substantial immediate outputs, and contributed to self-sufficiency in milk and dairy products, but the milk collection system is heavily subsidised and cannot be sustainable. Although some of the rest of the projects attained substantial immediate outputs, the sustainability of those outputs cannot be guaranteed, thus, their overall performance was rated unsatisfactory.

## 2.3 Efficiency

2.3.1 Although the best indicators of efficiency would have been economic and financial internal rates of return (EIRR, FIRR), calculated at the time of the SAR to justify the allocation of resources, and at the PCR to ascertain whether the resources were efficiently utilized, comparable calculations for both these measures were only available for SCOUL. Further comparisons of the EIRR and FIRR could not be used to assess efficiency for the rest of the Bank Group portfolio because either the PCRs were not available, or the economic and financial environments under which the projects were implemented were so different from that at the period of SARs to rule out any meaningful comparisons and, therefore, no such rates of return could be meaningfully calculated. Other qualitative indicators of inefficiency were used instead.

2.3.2 Capacity under-utilisation was taken as an indicator of an inefficient utilisation of resources, based on the rationale that extremely low rates of capacity utilisation, say below 50%, for prolonged periods of time, made it impossible to attain immediate outputs and long term development objectives. Capacity under-utilisation was pervasive in a substantial part of the Bank Group portfolio: 17 – 27% in cotton ginneries; 15 – 25% in the dairy industry; and practically zero in the coffee factories that were rehabilitated. Animal stocking rates averaged 33% in the RRP, and 44% in the GoU's Stock Farms. Other sources of inefficiency in many projects were lengthy procurement procedures and management, which led to cost overruns and financial losses (as in ginneries, tea factories, ranches). Taking all these factors together, overall performance of the portfolio on the efficiency criterion was unsatisfactory. Only two projects were rated efficient with satisfactory performance (KSW and SIRP).

## **2.4 Institutional Development Impact**

2.4.1 The contribution of projects to institutional development was assessed at the level of the executing agency, which included government departments and semi-autonomous agencies, and at the level of the beneficiaries. The private sector implementing agencies (e.g. KSW and SCOUL) made substantial and focussed in-house efforts to promote institutional development and these were enhanced by the GoU policy stance to promote the private sector. In the rest of the portfolio, with the exception of the SIRP and PAP, institutional development impact was unsatisfactory, due to technical design and complexity problems, or to the absence of implementation guidelines, which detracted the executing agencies from making focused efforts to promote human capacity building and institutional development. In the cash crops sub-sector, for instance, components of capacity building were conspicuously missing.

## **2.5 Sustainability**

2.5.1 Among the key indicators of sustainability of projects and overall Bank Group's assistance strategy to the agriculture and rural development sector in Uganda were eight factors that were considered in assessing the sustainability of project outcomes and results. These were technical soundness; economic and financial viability; institutional, organisational and management effectiveness; government commitment to the future of the projects; socio-political support, beneficiary participation and incentives; environmental impact; and resilience to exogenous events. Based on the analysis of these factors, the performance of four projects, i.e. KWS, SCOUL, SIRP and PAP was rated satisfactory on the basis of sustainability.

## **3. Conclusions, Lessons Learnt, Recommendations and the Way Forward**

### **3.1 Conclusions**

3.1.1 The Bank Group's interventions and the overall portfolio were relevant to Uganda's development objectives and priorities. The projects addressed both

national and specific sectoral and sub-sectoral objectives and issues as stated in the GoU's National Development Frameworks (Development Plan Documents). The assistance strategy was also as broad-based as possible, encompassing both the cash and food crops sub-sectors, agro-processing industry (sugar), livestock, fisheries, integrated rural development, and rural micro finance.

- 3.1.2 Although relevant and well intentioned, a large portion of the portfolio (corresponding to the period 1979-1985) performed unsatisfactorily due to inadequate preparation and appraisal, and due to unstable macroeconomic environment and insecurity. Achievement of objectives and outputs was, therefore, unsatisfactory. Overall performance was also unsatisfactory in terms of efficiency, institutional development impact and sustainability. This overall conclusion is based on the performance assessment of eleven projects that were completed and reviewed in detail in this Study. Only a few projects (KSW and SIRP), which were implemented under conditions of relative stability, performed satisfactorily.

## **3.2 Lessons Learnt**

### **3.2.1 General Lessons**

- 3.2.1.1 The experience from this review evaluation has shown that the consistent use of the evaluation criteria for a diverse group of projects, most of which were completed several years ago, can lead to mixed overall performance results. In the case of Uganda, considerable changes in the policy environment, such as the liberalisation and privatization policies, have affected the way projects that were implemented more than a decade ago should be treated. Policy reforms such as liberalisation should probably have been phased so as not to place some institutions, like Cooperative Unions, at a comparative disadvantage.
- 3.2.1.2 Although all projects were found to be relevant to the country's development objectives and priorities, they performed poorly due to insufficient preparation and appraisal. It was seen that relevance, while necessary, was not a sufficient guarantee that projects would achieve their objectives and outputs. This is because "relevance" tends to focus attention on the macro or national and sectoral level policy and strategy, whereas "quality at entry" focuses on the project level and technical feasibility of the interventions. The combined criterion of "relevance and quality at entry" does not therefore provide adequate weight to the quality of project preparation, and would tend to distort the overall assessment of projects.
- 3.2.1.3 For the Bank Group, whose vision and mission is to be the leading institution in the transformation of African agriculture, continuing policy dialogue with the Borrower (country) was identified as necessary to improve the relevance of its assistance strategy. This would improve the agricultural content and quality of its Country Strategy Papers (CSPs), and would enable the Bank Group identify or create niches for itself in the country. On the other hand, improved technical preparation and analysis, including sector studies, were seen as important for the

improvement of quality at entry.

### 3.2.2 Lessons from the cash crops sub-sector

3.2.2.1 Real experiences in the cotton, coffee and tea sub-sectors have revealed that these industries depend for their success and sustainability on the active participation of the large number of farmers and their organisations, whose immediate benefits and interests must be assured for the national objectives to be achieved. At the levels of project design and implementation, the farmers and Cooperative Unions, which were the direct beneficiaries of the loans, for instance, did not participate in decisions on what would constitute the rehabilitation components of their facilities. They were precluded by the turnkey arrangements, which required them to await the rehabilitated works to be handed to them after completion. In the circumstances, this arrangement proved to be highly unsatisfactory.

### 3.2.3 Lessons from the sugar sub-sector

3.2.3.1 The lessons from the cash crops sub-sector reflected the experiences mainly with the Cooperative and public sector interventions. Interventions by the Bank Group into the sugar industry, on the other hand, represented direct support to the private sector. In this sector, persistence of the private sector implementing agencies was key to the achievement of sustainable outcomes. This persistence emanated from the relative autonomy enjoyed by the implementing agencies. Frequent supervision missions were also necessary to ensure successful completion of projects, especially where complex procurement arrangements were involved.

3.2.3.2 In otherwise successfully completed projects, important components that were not implemented due to poor appraisal would enhance the flow of benefits to society and sustainability if taken up in an “*after care programme*” by the Bank Group and the government, especially where these components have a social dimension which is unlikely to be fully met by the private sector.

### 3.2.4 Lessons from the food crops sub-sector

3.2.4.1 Similar to the sugar industry, an important lesson to be learnt from the Bank Group's assistance strategy for OSRIP and SIRP is the deliberate inclusion of private sector participation as a key component of the projects. This took the form of supporting outgrowers as the central players in increasing production, and encouraging both the private sector (SIRP) and cooperatives (OSRIP) in processing and marketing. As a result, these projects achieved, exceeded, or have the potential to achieve and exceed, their objectives and outputs. At Itek/Okile, there is great potential to exploit the resources of the wider catchment area, estimated to be 900 sq. km. The real issues to be addressed in OSRIP relate to the environment and technical support to farmers for future sustainability.

### 3.2.5 Lessons from the livestock sub-sector

3.2.5.1 The ranch and dairy rehabilitation projects were important interventions by the Bank Group in the livestock sector, both of which had experiences and lessons that are important for new interventions, notably:

- (a) In projects involving large-scale procurement and distribution of livestock, there are many risks, especially associated with insecurity, thefts, transportation, deaths of animals, inappropriate selection of animals, etc. The procurement should, therefore, be handled by experienced organisations that are independent of the executing agency.
- (b) Ranching as a strategy for livestock development requires large tracts of land. While the strategy is quite relevant and can be economically and financially viable, careful evaluation of the social and economic impacts on the wider community requires to be made to avoid risks of social disruption. To be a sustainable strategy, ranching programmes should involve government working with all the relevant stakeholders to design acceptable programmes.
- (c) If the dairy industry were privatised and restructured promptly, the benefits of the project could have been saved and performance could have been rated satisfactory. However, the delayed privatisation process is eroding the benefits that the current high cost structures provide. In addition, the non-involvement of the smallholder milk producers into the privatisation debate is likely to cause them to lose the collection, cooling and transportation network.
- (d) As the liberalisation process deepens in the dairy industry, the project results have tended to be confined regionally in accordance with the publicly supported infrastructure of the Dairy Corporation. A new Dairy Development Authority was established in 1998 and the Dairy Corporation is to be privatised. This scenario repeats the developments in the cotton and coffee industries where, it was seen, the new semi-autonomous bodies are not adequately funded and, therefore, cannot be expected to perform better than the ones they replaced. This is a significant lesson in this evaluation, which has not been learnt by the planners of the dairy industry.

### **3.2.6 Lessons from the micro finance sector**

3.2.6.1 Although the micro finance approach to poverty eradication is relevant and appropriate to Uganda, and is also consistent with the Bank Group's approach to broad-based economic growth and poverty reduction, it can only be sustainable if well managed. In particular, this review evaluation has shown that: a) the management tools for "best practices" in micro finance are complex and changing rapidly, as witnessed by the move, in Bangladesh, to shift from Grameen I to Grameen II; b) the tools need to be further adopted to promote outreach in remote rural areas, and to include financing of smallholder agricultural productive activities in order to be relevant for sectoral transformation; c) the tools need to be further refined to show effectiveness in promoting clients' entrepreneurial skills to accelerate their exit out of poverty; and d) capacity building needs to be planned carefully and adequately funded, to encourage a diversity of IEs to adopt the "best

practices” and become professional, while concurrently serving the rural poor. The key lesson to be learnt is that these important features (a) to (d) will not emerge automatically in a private sector-driven micro finance industry.

### **3.3 Recommendations**

#### **3.3.1 Policy Dialogue, Processing and Implementation Performance and Monitoring**

3.3.1.1 A much stronger dialogue is required between the GoU and the Bank Group to focus upon national agricultural policy and strategy, and to improve the quality and content of future Country Strategic Papers. Although this dialogue is already undertaken in the process of developing the current CSPs, it is strongly recommended that the Bank Group, through its policy dialogue with GoU, strengthens and expands the agricultural sector component of the CSPs. The policy dialogue should be broader, and also it should cover coordination with other donor operations to ensure that the assistance strategy is consistent with both the PEAP and PMA. Like other donors, the Bank Group should build a stronger and closer partnership with GoU to implement the PEAP and PMA. This will require the Bank to have a stronger in-country presence than the current Liaison Office. The Bank Group, through these dialogues and partnerships, would identify the areas in which it has comparative advantage in lending to the agricultural sector in Uganda.

3.3.1.2 While it is recognized that both the GoU and Bank Group have, in recent years, addressed more vigorously the factors that enhance projects’ relevance and quality at entry, it is recommended that the Bank Group continue to give special attention to quality improvement in preparation and design of projects and programmes (ref.7.3.1.2).

3.3.1.3 It is further recommended that the Bank Group and GoU continue to work together in enforcing close and constant monitoring and supervision of their funded projects and programmes in order to avoid the kind of project failures exemplified by the tea factories. The Bank Group should work out an arrangement with the GoU to establish or strengthen its representation in Uganda for the purpose of continuous dialogue and interactions with the Borrower, and for spot checks on field activities involving its assistance.

#### **3.3.2 Specific sub-sector recommendations**

##### **3.3.2.1 Cash crops sub-sector**

3.3.2.1.1 It is recommended that GoU should help farmers to reorganise themselves in Cooperatives or Associations, perhaps with a new vision, mission, and outlook, so that they can effectively and beneficially participate in the current liberalised market environment. The reorganisation of the farmers’ Cooperatives and Associations should be preceded by a comprehensive study of the current status of the cotton, coffee and tea industries to provide the basis for formulating the new policy and strategy for promoting farmers’ organisations. The study should also determine the status of the assets financed by loan funds and recommend whether they could be restructured to reduce losses to society in general

(ref.para.4.5.3, 7.3.2.1.1).

3.3.2.1.2 It is further recommended that the Bank Group should assist the GoU with financing the above-cited study, which should, through a participatory approach, involve all key stakeholders and beneficiaries (ref.7.3.2.1.2.)

### 3.3.2.2 Food crops sub-sector

3.3.2.2.1 It is recommended that the Bank Group should liaise with the Borrower (GoU), the executing agency (MAAIF), the Ministry of Local Government (MoLG) and the farmers to salvage the project, by deciding what to do at Agwata and at Itek/Okile as soon as possible before the newly built infrastructure deteriorates and technical staff gets lost. It is also recommended that GoU should make a stronger effort to salvage the nuclear farm for seed development, rather than scrap the entire Agwata site, to minimise the loss to the beneficiaries from this portion of the ADB loan, which the beneficiaries are still paying back; and that GoU should improve its procedures for the release of funds in order to retain its technical staff and assets not privatised, in good quality.

### 3.3.2.3 Livestock sub-sector

**3.3.2.3.1 It is recommended that for projects involving large-scale procurement and distribution of livestock, and which involve many risks, especially associated with insecurity, thefts, transportation, deaths of animals, inappropriate selection of animals, etc., GoU should let the procurement be handled by experienced and professional organizations that are independent of the executing agency (ref.4.4.6/7, 7.3.2.3.1)).**

3.3.2.3.2 Ranching as a strategy for livestock development requires large tracts of land. While the strategy is quite relevant and can be economically and financially viable, careful evaluation of the social and economic impacts on the wider community requires to be made to avoid risks of social disruption. To be a sustainable strategy, it is recommended that for ranching programmes, GoU should involve, through participatory approach, all relevant stakeholders to design acceptable programmes.

### 3.3.2.4 Sugar sub-sector

3.3.2.4.1 It is recommended that the Bank Group, through a process of continuous dialogue with the Borrower, plays an active role in ensuring that there are “*after care programmes*” that should safeguard or at least minimize the adverse impacts of new policies on the investments it has supported, which would help avoid the projects ending up as “white elephants”. In otherwise successfully completed projects, important components that were not implemented due to poor appraisal would enhance the flow of benefits to society and sustainability if taken up in an “*after care programme*” by the Bank Group and the government, especially where these components have a social dimension which is unlikely to be fully met by the private sector (ref.7.3.2.4.1).

### 3.3.2.5 Micro finance sub-sector

3.3.2.5.1 It is recommended that GoU, while promoting the micro finance industry in the country, should adopt the "Management Tools for Best Practices" to the Uganda situation in order to (i) facilitate and increase rural outreach, (ii) finance smallholder agriculture, and (iii) to reflect new innovations that are focused on building the confidence of the poor and assisting them to systematically climb out of poverty, such as those in the Grameen II model. It is further recommended to the Bank Group that for its future micro-finance projects, institutional and capacity building as well as initiatives to promote environmental sustainability should be systematically incorporated into the poverty eradication strategies, including micro finance strategies.

### **3.4 The Way Forward**

3.4.1 While the future evolution of the Bank Group's agricultural assistance strategy in Uganda will be greatly influenced by (a) its own Ten-Year Agriculture and Rural Development Sector Policy, (b) the GoU's PMA and PEAP frameworks, which have become the comprehensive national development guidelines for Uganda's economic development policy (para. 2.3.5, 3.2.4), and (c) the relative importance of other donor interventions in the sector, the Bank Group's future assistance strategy to Uganda agriculture and rural development sector should, as a way forward and as guided by PMA, focus on those areas in which it has created niches and comparative advantages, namely: rural micro-finance, agro-processing, livestock and fisheries, and small scale irrigation (ref. 7.4).

# 1. INTRODUCTION AND BACKGROUND

## 1.1 Objectives and Scope of the Study

1.1.1 In response to the request by the African Development Bank (ADB) Group, Development Consultants International Limited (DCI) undertook a detailed evaluation review of the Bank Group assistance to the agriculture and rural development sector in Uganda. The Study was carried out between November 2001 and February 2002, with a three-fold purpose:

to assess overall development effectiveness of Bank Group assistance strategy to the agricultural sector in Uganda;

to evaluate efficiency of the assistance through the measured or perceived benefits from the projects, compared to the costs in terms of budgetary implications, aid coordination and monitoring of projects; and,

to draw out lessons and recommendations at policy and strategy levels, for future Bank Group assistance strategy in the agricultural sector in Uganda or in other Regional Member Countries (RMCs).

1.1.2 DCI was requested to review the entire Bank Group agriculture and rural development sector portfolio, guided by the Terms of Reference (TOR) which required the consultants to address the following five specific objectives, namely:

(a) to assess the relevance of the ADB Group assistance strategy to the Ugandan agricultural sector, and how far the objectives of the assistance have been, or are being, realized in terms of their effects on the development of economic activities and the consequent improvements in the well-being of target groups in the projects' impact areas;

(b) to assess whether the original objectives were correctly identified and defined in relation to the overall sector goals, and if not, what steps were taken to refocus the assistance during the course of implementation, country dialogue, and donor assistance coordination;

(c) to assess all aspects of the direct and indirect impact of the assistance, whether economic, social or institutional, including a focus on benefits according to: (i) poverty; (ii) gender imbalance; (iii) environment protection; (iv) private sector promotion; (v) institutional development and capacity building; (vi) regional integration; (vii) community participation; and (viii) identify any negative impacts;

(d) to assess the quality of design of the assistance strategy and to establish how far the views of the various local stakeholders were sought and taken into account during its implementation and monitoring; and

(e) to assess whether, overall, the assistance strategy was the most cost-

effective means of helping to achieve the overall objectives and priorities of the sector.

- 1.1.3 This Study focuses both on the immediate and wider development effectiveness of the Bank Group assistance in terms of overall success, cost-effectiveness and value for money. The evaluation is based on the review of documents and reports provided by the Bank Group's Operations Evaluation Department (OPEV), and on the Key Findings of the Study team during the field mission in November and December 2001. During the field mission, the study team held interviews and consultations with officials of Government of Uganda (GoU) departments and institutions, and with project managers and key stakeholders, including beneficiaries of the projects in a participatory Stakeholders' Workshop held at Colline Hotel, Mukono, Uganda on 26<sup>th</sup> February 2002. The study's Key Findings are given in a separate report on "Technical Analysis of Key Findings".
- 1.1.4 This report is presented in 7 Chapters. Chapter 1 is the Introduction and Background, which provides the objectives of the Study, the country macroeconomic and socio-political context, and an overview of the Bank Group portfolio. Chapters 2 and 3 present overviews and comparative analyses of Uganda's and Bank Group's respective agricultural sector strategies, and highlight the challenge of rural poverty as a factor to consider in the review evaluation of Bank Group assistance strategy. Chapter 4 provides a detailed review evaluation of the overall Bank Group assistance using five evaluation criteria (see subsection 1.4). The Bank Group and Borrower performances as well as donor coordination are reviewed separately in Chapter 5, while Chapter 6 assesses Bank Group's assistance impacts on cross-cutting areas of poverty, gender and women, environmental protection, private sector promotion, institutional development, regional integration, community participation, negative and positive impacts. Chapter 7 presents the main conclusions, lessons learnt, recommendations, and the way forward.

## 1.2

## Country Setting and Macro-Economic Context

- 1.2.1 Uganda is a land-locked country, lying astride the Equator in East-Central Africa, occupying 241,547 km<sup>2</sup>, 18% of which consists of open inland waters (Lakes Victoria, Kyoga, Albert, Edward, George, and the River Nile) and permanent wetlands. It is closely linked by economic and colonial history to Kenya in the East, and Tanzania in the South. To the North and the West lie the Sudan and the Democratic Republic of Congo (DRC), respectively, and further South lies Rwanda. There are cross-border ethnic linkages with nearly all the neighbouring countries, a fact of economic and socio-political interest, which can be positively exploited for mutual regional development and integration.
- 1.2.2 Being land-locked, Uganda faces many challenges of access to international markets. Major international and regional trade routes involve long overhauls through third countries to distant seaports. For good access to regional and international markets, both rail and air transport are particularly and potentially

important for Uganda; so are waterways, especially for regional connections. But these linkages are not well developed.

- 1.2.3 The country has an equatorial climate moderated by altitude, and more than 75% of the land is arable. Three-quarters of the country receives 1000 mm to 1500 mm of rainfall, with two cropping seasons per year. The drier northeastern quarter receives 600 mm – 900 mm of rainfall in a single season, and it is more prone to dry spells that occasionally disrupt crop production and availability of food because there is only one cropping season in a year. Livestock production is particularly important in the drier areas of the north and northeast.
- 1.2.4 Uganda has suffered prolonged periods of intense civil disruptions since 1972, which included gross mismanagement of the economy by governments in power, mass emigration of skilled human resources, and mass murder. Although the Lake Victoria crescent and other southern regions have returned to relative stability since 1986 and are experiencing progressive economic growth, civil disruptions continue across the north and along the western border. More than 800,000 people have been displaced by the ensuing conflicts, and many continue to live in camps for Internally Displaced Persons (IDPs) along with another 200,000 refugees from neighbouring countries.
- 1.2.5 When the National Resistance Movement (NRM) Government came into power in 1986, it launched the Economic Recovery Programme (ERP) which focused on the rehabilitation of the productive sectors and the socio-economic infrastructure. Inflation (over 200% in 1987) was reduced by imposing strict controls on budget spending and curbing monetary expansion. The average annual rate of inflation fell from more than 24% in 1990/91 to near zero in 1998/99, and to approximately 2.4% in 2000. The balance of payments deficit was reduced with the help of foreign assistance. The Uganda Shilling was devalued by 77% in 1987, followed by other devaluations and the gradual relaxation of exchange controls until the exchange rate became market-determined in 1993. Import restrictions were progressively removed, as was the anti-export bias in taxation. Commodity markets were liberalized and state enterprises privatized. Efforts have been made to attract foreign private investment, which is seen as crucial to the continuation of economic growth. However, the low level of domestic tax revenues (11% to 12% of gross domestic product, compared to 20% in Sub-Saharan Africa) remains a constraint on the financing of government programmes.
- 1.2.6 Economic performance has been quite impressive in the past ten years, given the long history of turbulence that the country has gone through. However, the country remains among the poorest in the world, with per capita gross domestic product at US\$ 330 (1999/2000) compared to an average of US\$ 500 – 550 in Sub-Saharan Africa. This is despite the fact that the average annual rate of real GDP growth for the decade 1990/91 to 1998/99 has been the highest in Sub-Saharan Africa, at 6.3%, resulting in an annual 3.7% increase in GDP per capita.

### 1.3 Overview of Bank Group Operations

1.3.1 The African Development Bank first extended financial assistance to Uganda in 1968, with a series of studies and projects in the public utilities sector – water and sewerage, including support for an ambitious 20-year Master Plan Study for the development of water supply and sewerage systems for 73 urban centers, excluding Kampala and Jinja. Since then, the ADB Group has approved a total of UA 643.06 million in loans and grants to finance 46 projects and 20 studies. The total amount disbursed has been UA 408.99 million (63.6% of the total approved) as of 30<sup>th</sup> June, 2001.

1.3.2 The Bank Group assistance to the agriculture and rural development sector consisted of a wide range of projects and other interventions. The approved lending, which totalled UA 150.51 million constituted 23.4% of the total Bank Group's approved country portfolio. Total approved agricultural loans and grants, net of cancellations, were 23% of the total Bank Group, net loans and grants, while disbursement to the sector (UA 104.65 million) constituted 25.6% of total Bank Group disbursements. Although the social sector surpassed the agricultural sector in terms of approved portfolio (24.3% of the total), its disbursements were only 17.8% of the total. The agriculture and rural development sector therefore led in total Bank Group disbursements to Uganda (see Annex 1).

1.3.3 The Bank Group started lending to Uganda during the latter half of the 1960s when the economy was rapidly growing and when expectations of further growth were high. The macroeconomic and socio-political environment, however, became unstable during most of the 1970s and 1980s. About 50% of the projects financed by the Bank Group in the sector were approved between the mid-1970s and the mid-1980s when insecurity was rife over most of the country, and when the overall economic conditions were unstable. The performance of most of these projects was, adversely affected as a result. Since the mid-1980s, the Bank Group approved only two projects during the latter half of the 1980s, and four projects between 1991 and 2001. During these latter years, the macroeconomic conditions had improved and the approach to development assistance had changed quite significantly. Table 1 summarizes the build up of the number and value of Bank Group approved loans and grants (as of 30<sup>th</sup> June, 2001).

**Table 1: Summary of Bank Group Operations by Period of Approval (UA million)**

| Approved period | Total Bank Group (UA million) |                 |                  | Of which Agriculture (UA million) |                 |                  |
|-----------------|-------------------------------|-----------------|------------------|-----------------------------------|-----------------|------------------|
|                 | No*                           | Amount Approved | Amount Disbursed | No*                               | Amount Approved | Amount Disbursed |
| 1968-1979       | 8                             | 22.83           | 21.48            | 2                                 | 9.80            | 9.15             |
| 1980-1989       | 26                            | 222.08          | 206.50           | 12                                | 96.88           | 87.58            |

|              |           |               |               |           |               |               |
|--------------|-----------|---------------|---------------|-----------|---------------|---------------|
| 1990-1992    | 14        | 170.49        | 124.69        | 1         | 6.45          | 6.30          |
| 1993-1995    | 10        | 43.85         | 34.30         | 4         | 2.21          | 1.62          |
| 1996-1998    | 8         | 68.50         | 22.02         | 2         | **7.90        | -             |
| 1999-2001    | 11        | 115.31        | 0.00          | 2         | 27.27         | 0.00          |
| <b>Total</b> | <b>77</b> | <b>643.06</b> | <b>408.99</b> | <b>23</b> | <b>150.51</b> | <b>104.65</b> |

Note: \* Number of projects as approved during the period. \*\* Loan and grant were cancelled.

#### 1.4 Study Methodology and Approach

1.4.1 The scope of this Study has been quite broad and complex, covering the entire Bank Group's agriculture and rural development sector portfolio. Eleven completed projects were reviewed in detail and the results of the analysis are presented in a separate report on "Detailed Technical Analysis of Study Key Findings". Five projects, which were approved between 1999 and 2001, were also reviewed, albeit in summary form, to reflect the most recent developments in the Bank Group assistance strategy to Uganda's agricultural sector, and to assess the extent of departure from past projects. Two of these projects - North West Smallholder Development (NWSDP) and Rural Micro finance Support Project (RMSP) - are being implemented, while another two - the Area-Based Agricultural Modernization Programme (ABAMP) and the Fisheries Development Project (FDP) were approved in 2000 and 2001 respectively and were awaiting official launching at the time of the Study. These projects were not assessed for performance and therefore, the conclusions on the overall performance assessment of the Bank Group are based on the eleven completed projects.

1.4.2 For the convenience of the presentation of the review evaluation, the completed projects have been clustered into five sub-groups as follows: (a) Cash crops – cotton, tea, coffee; (b) Sugar Industry – Lugazi, Kakira; (c) Food crops – Olweny rice scheme, seeds industry; (d) Livestock – dairy, ranches; and (e) Micro-Finance – agricultural line of credit to Uganda Commercial Bank (UCB), Poverty Alleviation Project (PAP). Using this framework, the Study assessed the causes and impacts of the Bank Group's assistance performance under five evaluation criteria, namely: relevance and quality at entry; achievement of development objectives and outputs (efficacy); efficiency of allocation and utilisation of resources; institutional development impact; and sustainability of benefits and outcomes. The methodology used in the evaluation consisted of the application of these evaluation criteria at the individual project level, and summing up the results at the cluster and aggregate levels to derive conclusions, lessons and recommendations at the policy and strategy levels.

## **2. COUNTRY/GOVERNMENT AGRICULTURE AND RURAL DEVELOPMENT SECTOR STRATEGY**

### 2.1 Evolution of Government Agriculture Sector Strategy

2.1.1 Throughout the past four decades since attaining political independence in 1962, Uganda's agriculture sector policy has focused on six broad objectives: (a) increased agricultural productivity and the maintenance of adequate food supply to meet food security requirements; (b) increased production and diversification of export crops; (c) increased incomes and promotion of employment opportunities; (d) import substitution; (e) increased production of raw materials to meet the needs of local industries; and (f) conservation and sustainable use of natural resources. The underlying national goal has been poverty reduction or eradication. These basic elements of agricultural sector policy have changed little, and have in fact recurred over time with even greater emphasis, reflecting the fact that Uganda has never satisfactorily achieved all or most of these objectives. With population doubling almost every twenty five to thirty years, the pressure to achieve higher economic growth rates has been increasing (the population of Uganda was 9.5 million in 1969, and was estimated at about 22 million in 2001).

2.1.2 The Bank Group began lending to Uganda's agriculture and rural development sector in the mid-1970s, and to date has had over two decades and a half of lending experiences in the country. For the purpose of analysing the evolution of Uganda's agricultural sector strategy, therefore, three distinct periods (decades) can be identified: (a) 1971-1980 was a period closely associated with the era of the Military Regime, during which substantial economic decline occurred; (b) 1981-1990 was a period during which major structural reforms of the economy were introduced; and (c) 1991-2001 was a period of consolidation and deepening of the economic reforms.

### **2.1.3 1971-1980: Period of Economic Decline**

2.1.3.1 When the military took over government in 1971, Uganda's Third Five Year Plan 1971/72-1975/76 (Plan III), which was the second phase of a 15-Year Perspective Plan (1966-1981) whose goal was eradication of poverty, ignorance and disease and the doubling of per capita income in fifteen years, was about to be launched. The major objective of this plan was to secure rapid, steady and sustained growth of production, transform the economic structure, and modernise the economy. In the agricultural sector, the objective was to achieve: (a) a sustained increase of production averaging 4.9% per year; (b) expansion of agricultural exports at a maximum feasible rate, of at least 4.5% per year; (c) reducing the subsistence share of the economy from 31% in 1967-69 to 28% by 1976; and (d) maintaining food self-sufficiency.

2.1.3.2 In the early 1970's these objectives were considered feasible. The economy was still buoyant and outputs in all sectors had reached new records: coffee production was 200-250,000 metric tons per year; cotton production was 400-450,000 bales, tea production peaked at 23,000 metric tons in 1972/73, and food production reached an all-time high in 1974/75. This impressive performance was largely a spill over from the late 1960s. In addition, the Military Regime was still maintaining in place the highly skilled technocrats of the civil service.

2.1.3.3 The situation changed with the Declaration of the Economic War in 1972, a move designed by the Military Regime to consolidate and exert greater control over the country's economic resources and political power. The short-term impact of this action was the loss of managerial capacity in commerce, industry, and the civil service as skilled personnel fled the country. The medium and long-term impacts were massive dis-investments in all sectors, decline in industry and commerce, and the fall in agricultural production and exports. The Military Regime's own 3-Year Action Programme 1977/78-1979/80 could not be implemented because the political and economic situation was deteriorating very fast, culminating in the War of 1978/79. Agricultural production shrank and farmers retreated into subsistence production. Uganda's economic performance was at its lowest level by the end of the decade in 1979/80. Most of the projects implemented during this period suffered from the massive dis-investment during and after the War.

#### **2.1.4 1981-1990: Period of Economic Recovery and Reforms**

2.1.4.1 Immediately after the fall of the Military Regime in April 1979, a report on "The Rehabilitation of the Economy of Uganda", which was prepared in June 1979 to establish economic re-orientation in the aftermath of the war, served as the basis for donor interventions to provide emergency aid to Uganda. Substantive economic reforms, however, did not begin until the new regimes came to power in the following decade (Obote II 1981-1985 and NRM 1986 to the present). Beginning with the Recovery Programme 1982-84 under Obote II Government, but greatly enhanced and deepened by the Economic Recovery Programme (ERP) 1986/87-1990/91 under the NRM Government, the strategy for economic recovery included restoration of price stability by removing price controls and reducing inflation, currency devaluations, improvement of producer incentives, budget discipline and accountability, and rehabilitation of existing infrastructure and installed capacity. In the agricultural sector, the underlying objective was increased food production to enhance food security, in addition to increased and diversified production of export crops.

2.1.4.2 Between 1986 and 1990 the Government focused attention on developing and establishing a firm and comprehensive framework for agricultural sector policy. Several task forces were set up to critically examine the various aspects of the sector and make recommendations, which would be the basis for policy actions. The implementation of the Agricultural Sector Policy Agenda between 1989 and 1990 set the stage for an "Agricultural Sector Adjustment Programme" (ASAP) during 1991-1995 (supported by the World Bank, USAID, UK, EU).

#### **2.1.5 1991-2001: Consolidation of Reforms Through Structural Adjustment**

2.1.5.1 During this period, the ERP was transformed into a 3-year rolling Structural Adjustment Programme (SAP) for the consolidation and deepening of the economic reforms. Aggressive liberalization and institutional restructuring of the economy were the key elements of the reforms. More specific targets were set for

Gross Domestic Product (GDP) growth, reduction of the levels of inflation, and greater liberalisation of the exchange and interest rate markets were achieved. In the agricultural sector, while the focus continued on increased productivity and diversification of exports, there was an increasing shift towards strengthening agricultural support services, particularly research, extension, education and sectoral planning. There was also increasing recognition of the fact that poverty was pervasive in the Ugandan society, and that economic development could not be achieved and sustained under such conditions. Poverty had, therefore, to be directly addressed. The vast majority of the poor are engaged in smallholder agriculture.

## 2.2 Recent Developments in the Agriculture and Rural Development Sector

- 2.2.1 The major focus of ASAP was on the rehabilitation and revival of traditional export and cash crops (coffee, cotton, tea, tobacco, sugar), developing non-traditional exports to diversify the export base, and the removal of the physical, technical and institutional constraints to sustainable agricultural development. ASAP was, however, also the beginning of a process that ushered in the Plan for Modernisation of Agriculture (PMA), whose preparation began in 1995 and was completed in April, 2000. The PMA represents a substantial shift in both the process and content of agricultural sector policy. The new policy is holistic and its components embrace the rural sector as a whole.
- 2.2.2 The PMA provides the strategy and operational framework for modernising the country's agricultural sector. It delineates the appropriate roles of the different stakeholders and defines priority intervention areas that are consistent with the promotion of the private sector. The vision of the PMA for the agricultural sector is stated as "*a profitable, competitive, dynamic and sustainable agricultural and agro-industrial sector*". The mission of the PMA is "*to transform subsistence agriculture to commercial agriculture*". The specific objectives of the PMA are to eradicate poverty, ensure food security, create gainful employment, and manage the resource base on a sustainable basis.
- 2.2.3 To achieve the PMA objectives, the following strategies have been agreed upon by stakeholders through a participatory and consensus building process: (a) deepening decentralisation in public service provision; (b) increasing stakeholder involvement and ownership in the planning, implementation, and evaluation of programmes; (c) reducing public sector involvement and supporting development of the private sector in all commercial activities; (d) supporting the spread and uptake of profound technologies; (e) addressing food security issues through the market rather than through self-sufficiency; and (f) addressing gender issues in the public service design and delivery.
- 2.2.4 The PMA has transformed and widened the scope of the agricultural sector policy, to embrace agriculture and rural development, and to involve the private sector more vigorously. The PMA has identified and separated clearly priority areas of action by the public sector to include: (a) Research and Technology Development; (b) National Agricultural Advisory Service; (c) Agricultural Education, (d) Improved

Access to Rural Finance; (e) Agro-processing and Marketing; (f) Sustainable Natural Resource Utilisation and Management; and (g) Physical Infrastructure. The private sector will be empowered through their involvement in sector plans and by being contracted for direct service delivery of public services to farmers on a commercial basis. Opportunities will also be explored for the involvement of the private sector in research and delivery of advisory services.

### 2.3 The Challenge of Rural Poverty

- 2.3.1 The Government of Uganda began to systematically monitor poverty in 1992/93, when it first carried out the Integrated Household Survey. Subsequently, the government regularly published reports on “poverty trends” obtained from analysis of “annual monitoring surveys” which were carried out by the Bureau of Statistics. These reports showed that there was a marked drop in the overall percentage of Ugandans reported to be poor, i.e. below the national poverty line, from 56% in 1992/93 to 44% in 1997/98 and to 35% in 1999/2000. These improvements were a result of the substantial reforms in the economy, which promoted economic growth since the early 1990s, and to the specific measures taken by government to reduce poverty.
- 2.3.2 Despite the considerable efforts to reform the economy, however, the overall welfare of the farmers and the rural population did not improve substantially. Although the indicators of poverty in the urban and rural areas showed that in 1999/2000 only about 10% of the urban population were below the poverty line and the mean income for the lowest decile of the urban population was above the absolute poverty line<sup>2</sup>, 39% of the rural population was below the poverty line and slightly over 20% were below the absolute poverty line. This implied that 20% of the rural population had insufficient income (including the value of their own food production) to provide 3,000 calories per adult male equivalent, which corresponds to approximately 2,283 calories per capita (Appleton – Poverty in Uganda, 1999/2000: *Preliminary Estimates From The UNHS*).
- 2.3.3 Approximately 35% of the total population and 39% of the rural population were therefore below the poverty line. This meant that they did not have sufficient income to both provide the level of food consumption targeted by the absolute poverty line and also meet the average expenses for non-food necessities. Although the situation had improved significantly since 1992 when nearly 40% of the rural population was below the absolute poverty line and 60% of the rural population was below the poverty line, there was still a long way to go before the rural population had sufficient income to access food and other necessities.

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<sup>2</sup> Absolute Poverty Line, also called the Food Poverty Line, was defined by Appleton as the income required to purchase a basket of food products in prescribed quantities that provides 3,000 calories per day per adult male equivalent. Poverty Line is based on Food Poverty Line, but adds an additional amount that people at the Food Poverty Line spend on non-food necessities, e.g. housing, health care, transportation, etc.

- 2.3.4 While poverty is mainly a rural phenomenon, there are differences in poverty levels among farmers as well as among different regions of the country, reflecting differences in prospects for cash income opportunities. Farmers who grew coffee, for instance, fared better than other crop farmers. From 1995/96 to 1999/2000 the poverty rate among coffee growers declined from 46% to 30%, mainly attributed to the coffee boom of 1994/95. Crop farmers not cultivating coffee (predominantly food crop farmers) had their poverty rates decline from 62% to 46% during the same period. Farmers participating in non-crop agriculture (livestock and fishing) saw their poverty rate stagnate at about 40% but remained better off than the food crop farmers who generally lack well developed marketing channels for their products. At the regional level, approximately 65% of the population in the North were below the poverty line. This compared with 37% in the East, 28% in the West, and 20% in Central Region. Poverty is therefore more intense in the North. The main factor is the prolonged war, besides the fewer opportunities for employment and cash crops in the region.
- 2.3.5 Recognising that the pervasiveness of poverty prevents effective economic growth, Government launched the Poverty Eradication Action Plan (PEAP), which has become the Comprehensive National Development Framework for Uganda's economic development policy. The PEAP is structured around four overarching goals: (a) rapid and sustainable economic growth and structural transformation, (b) good governance and security, (c) increased ability of the poor to raise their incomes, and (d) enhanced quality of life of the poor. These goals have attracted considerable support for the PEAP from various donor agencies. The World Bank and IMF have taken the lead in direct support for the PEAP, and have for this purpose introduced the Poverty Reduction Strategy Paper (PRSP) and the Poverty Reduction Strategy Credit (PRSC) to support PEAP implementation via the budgetary process, with emphasis on improving service delivery.
- 2.3.6 The overall PRSP is based on the principles that: (a) the public sector's role is to intervene in areas where markets function poorly or would produce very inequitable outcomes; (b) where the public sector intervenes, it should use the most cost-effective methods, including the use of NGOs for service delivery where appropriate; (c) poverty eradication is a partnership and should involve the closest possible integration of the efforts of government with its development partners; (d) all government policies should reflect the importance of distribution considerations, of gender, of children's rights and of environmental impacts; and (e) each area of public action should be guided by the formulation of desired outcomes and the designs of inputs and outputs to promote them.
- 2.3.7 Other donors are supporting the PEAP through Poverty Reduction Support Loans (PRSL). The ADB Group has recently (October 2001) appraised such a loan of US\$ 40.46 million as a contribution to the overall package totalling UA 371.02 million to be financed by the International Development Association (IDA), Ireland, and the UK Department for International Development (DFID). There is, therefore, an emerging opportunity for the Bank Group to have a well-focused intervention strategy now that the policy environment is well articulated, and for

increased donor cooperation and coordination.

### **3. THE BANK GROUP AGRICULTURE AND RURAL DEVELOPMENT SECTOR STRATEGY**

#### 3.1 Evolution of the Bank Group Agriculture Sector Strategy

##### **3.1.1 Past Approaches Following Country Development Plans**

3.1.1.1 The evolution of the Bank Group's assistance strategy has been assessed from the build up of its operations in Uganda over time, and by analysing the types of projects and purposes of the assistance extended. Economic Prospects and Country Programming (EPCP), Country Strategy Papers (CSPs) and Country Portfolio Review Reports (CPRRs) were documents that contained specific Bank Group Uganda Country assistance strategy. During the 1970s and 1980s, the Bank Group did not or had not developed its own assistance strategy to Uganda's agriculture and rural development sector, but its assistance or lending strategy evolved by closely following the policies and strategies of the government as enshrined in the various development plan documents. The rationale of the Bank Group interventions were based on the fact that the identified projects were on the high priority list of the government's development programmes. In addition, the Bank Group also sought for opportunities to invest in projects that would generate high economic returns both under the hard ADB and the soft ADF Windows, respectively. During these periods, the government's own approach to seeking external assistance was mainly through preparation and documentation of priority shopping lists of projects (prepared and issued as second or accompanying volumes to the main plan documents), which formed the basis for dialogue with the donors.

3.1.1.2 The Bank Group's strategy during the mid 1970s to early 1980s focused on the export crops sub-sector, principally to increase the country's foreign exchange earnings and to contribute to Uganda's long-term prospects for improved balance of payments. The projects approved during the early 1970s included ginneries rehabilitation and tea factories construction. These projects went for the hard ADB window. The coffee and ranch rehabilitation projects which came later in 1980, and the supplementary support (loans) for the tea factories and ginneries in 1980 and 1981, respectively, went for the soft ADF window because the economy had declined considerably. The ranch rehabilitation project had an element of increasing food production (beef) for local consumption and improvement of the quality of local herds. The basic rationale and strategic context of all these projects was the potential to achieve rapid economic growth and generate high economic and financial returns.

3.1.1.3 During the 1980s, both the Obote II (1981-1985) and the NRM (1986 - 1990) Governments focused on substantial economic reforms. The Economic Prospects and Country Programming (EPCP) Missions were the most important means of dialogue between the Bank Group and the governments in power, to determine the priority lending programme in the medium-term. The Bank Group identified

and approved the largest number of projects for Uganda during this period – a total of 26 projects of which 8 were in the agricultural sector. During this time, the Bank Group shifted its assistance strategy from supporting the export crops sub-sector to supporting the food crops sub-sector and food security. There was also a greater focus toward import substitution and conservation of foreign exchange.

3.1.1.4 Another important development was a shift in the use of lending instruments. All the new projects went for the soft ADF window as the hard ADB window was abandoned. This shift recognised the fact that the Ugandan economy had declined quite seriously and could not support hard loans. The Government had also, recognising the fragility of the economy and the weak revenue base, taken the decision to encourage borrowing from concessionary sources, wherever and whenever these could be accessed, so as to reduce the build up of hard external debts and arrears which were the emerging problems at the time.

### 3.1.2 Country Strategy Papers (CSPs)

3.1.2.1 Up to the early 1990s, the EPCPs were the main Bank Group strategy documents. Thereafter, beginning with the period 1993-1995, the Bank Group laid down its medium term lending strategies in Country Strategy Papers (CSPs) and there have been three such papers: 1993-1995, 1996-1998 and 1999-2001. Like the EPCPs, CSPs outline the Bank Group's three-year lending programmes and are based on a detailed review and analysis of Uganda's macro-economic and social conditions, prospects for medium term developments and resource requirements, and the government's medium term development strategy. The CSPs also assess the Bank Group's past and current portfolio performance and, based on these analyses, lay down lending strategies for the next three years.

3.1.2.2 The three (1993-1995, 1996-1998, 1999-2001) CSPs closely followed the Government's three-year rolling Structural Adjustment Programme (SAP) and consequently the emphasis of the Bank Group's lending was towards supporting the government's reform objectives. During 1993-95 and 1996-98, the Bank Group scaled down its commitments to new projects in the agricultural sector and, instead, decided to consolidate and improve the performance of on-going projects. Consideration of future commitments was to await the results of four on-going studies that the Bank was financing through the ADF/TAF grants<sup>3</sup>. The four studies have since matured and the Bank Group subsequently approved two projects (Northwest Smallholder Development Project and Fisheries Development Project). The Livestock Development Project is awaiting appraisal, while the Kakira Sugarcane Outgrowers' Scheme was financed by the beneficiary (KSW). These projects show a further deepening of the Bank Group's strategy towards poverty eradication, improved food security, as well as agricultural growth and diversification.

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<sup>3</sup> The four studies, approved in 1993 but executed up to the late 1990s, were Kakira Sugar Cane Outgrowers' Scheme Study; Study of Smallholder Agriculture in the North West; Meat Production Master Plan Study; and Fisheries Master Plan Study.

### **3.1.3 The 1990 Bank Group's Agriculture Sector Policy**

3.1.3.1 With the accumulated experience from two decades of lending to the African Agriculture, the Bank Group in 1990 published its first “Agricultural Sector Policy” designed to, amongst other things, provide a strategy by which the Bank Group’s agricultural lending programme could systematically address the problems of African Agriculture over time. In its policy statement, the Bank Group noted that its lending to the agricultural sector in African countries accounted for about 30% of its total commitments, and intended to keep this level in the future. In Uganda, the level of Bank Group commitments to the agricultural sector constituted about 23% of total approved portfolio, which is below the African average. This could improve with the new projects coming on-stream in 2002.

3.1.3.2 The 1990 Agricultural Sector Policy identified the opportunities for constructive investment in African Agriculture. To respond to these opportunities, the Bank Group set out its broad objectives to include: (a) improving agricultural productivity in Africa; (b) improving the nutritional status of Regional Member Countries’ (RMCs) populations through the contribution of a dynamic agricultural sector to local, national and sub-regional food security; (c) generating surplus capital in the agricultural sector in order to productively invest it in other sectors of the economy; (d) providing raw materials for industry; (e) enhancing the ability of RMCs to meet their basic human needs through increased levels of public revenues and export earnings; (f) raising real levels of personal disposable income in regional member states through increased productive employment; (g) protecting the continent’s natural resource base for sustained productive use by future generations; and (h) increasing the aggregate productivity of development investment in RMCs (See Agricultural Sector Policy, 1990).

3.1.3.3 These objectives, which were derived from the Bank Group’s interactions and vast experiences with lending to African Agriculture, also broadly reflect Uganda’s own experiences (see para 2.1.1). The trend of Bank Group’s interventions in Uganda’s agriculture, however, shows a significant scaling down of its commitments to new projects. As pointed out earlier, the Bank Group preferred to consolidate on the on-going projects while awaiting the outcome of studies that were being carried out in specific sub-sectors. This consolidation and search for new approaches was necessary where achievement of rapid economic growth, poverty eradication and improvement of food security, institutional and capacity building, and natural resources and environmental management have become the yardstick for measuring progress.

### **3.1.4 The 2000 Bank Group’s Agriculture and Rural Development Sector Policy**

3.1.4.1 In April 2000, the Bank Group launched its second comprehensive Ten-Year “Agriculture and Rural Development Sector Bank Group Policy”, which is both a continuation and a major revision of the 1990 Agricultural Sector Policy. The current policy differs from the earlier policy in several aspects, but notably, it articulates a clear Bank Group’s vision for African Agriculture, and expands the scope of this vision to incorporate “agriculture and rural development” and not just

agriculture.

3.1.4.2 The overall Bank Group vision is “to strive to become the leading development finance institution in Africa, dedicated to assisting African regional member countries in their poverty reduction efforts”. This vision focuses on the goal of poverty reduction. The agriculture and rural development sector vision, which derives from this overall vision, is “to assume a leading catalytic role, within the next decade, in supporting the technological, institutional, and policy changes that would trigger a lasting transformation of the rural economies of regional member countries (RMCs) by empowering their rural populations to improve their productivity and real incomes in an equitable and environmentally sustainable manner (*ADB/ADF: Agriculture and Rural Development Sector Bank Group Policy - OCOD January 2002*)

3.1.4.3 The new Bank Group sector policy also defines guiding principles for agricultural lending, which focus on the four pillars of its development strategy, namely: poverty reduction and food security; accelerated economic growth; natural resource management and environmental protection; and human and institutional capacity building. The priority areas for core Bank Group assistance are defined in the policy statement as the provision of rural infrastructure; expansion of private sector agri-business; development and capitalisation of more effective private sector financial networks; improved natural resource management; capacity building; and increased regional integration.

### 3.2 Congruence of Government and Bank Group Agriculture Sector Strategies

3.2.1 Although the Bank Group did not have an explicitly and separately documented strategy for Uganda’s agriculture, it can be inferred from the discussions in section 3.1 that the Bank Group’s agricultural sector interventions were broadly congruent with the government’s strategy. By closely following Government policies in determining its lending programme, the Bank Group ensured that its overall assistance strategy was relevant to and consistent with the country’s overall development strategy.

3.2.2 The Bank Group continuously improved its dialogue with the government through the CSPs. For instance, the preparation of the Bank Group’s 1999-2001 CSP coincided with the Consultative Group meeting for Uganda in 1998, in which the Bank Group was represented. Hence, the CSP contains elements and/or reflections of the new GoU strategy, and a matrix of actions and performance indicators. The Bank Group’s medium-term strategy for Uganda aims at re-invigorating rural development - including investment in agriculture as guided by the PMA and increased access to credit by the poor - accelerating the development of human capital through health and education, and promoting the private sector to serve as the engine of economic growth.

3.2.3 The Bank Group’s overall strategy for 1999-2001 built on Uganda’s past achievements and was guided by the Government’s two-pronged strategy to

eradicate poverty through growth, and by the Bank Group's own vision as well as its operational focus under ADF VIII. It took into account the performance and status of the Bank Group's portfolio, the interventions of other donors and the country's absorptive capacity, and drew on the discussions with the Government before and during the Donors' Consultative Group Meeting held in 1998.

3.2.4 Future evolution of the Bank Group's agricultural assistance strategy in Uganda will be greatly influenced by (a) its own Ten-Year Agriculture and Rural Development Sector Policy that evolved since 1998 and was launched in 2000, and (b) by the government's PEAP and PMA frameworks, which since March 2000 has been sharpened into the Poverty Reduction Strategy Paper (PRSP) supported by the Poverty Reduction Support Credits (PRSC I, PRSC II). Both the PRSP and PRSCs are key instruments being used by the GoU and the Bretton Woods Institutions (IMF and WB) to directly support the PEAP.

3.2.5 Despite the reasonable degree of congruence of Bank Group and GoU agricultural sector strategies discussed above, there was no evidence, prior to the 1990s, that the Bank Group undertook detailed sector analysis to support its lending programme for the country's agricultural sector. It may be argued that, if the Bank Group had developed its own strategy for the agricultural and rural development sector, this would have increased and improved its opportunities for greater dialogue with the government on issues that were specific to agriculture and rural development. It would also have improved the Bank Group's chances of better monitoring of its agricultural and related operations in Uganda, and strengthened its coordination arrangements with other donors.

#### **4. OVERALL ASSESSMENT OF BANK GROUP ASSISTANCE TO THE AGRICULTURE AND RURAL DEVELOPMENT SECTOR**

##### 4.1 Overall Rating of Projects

4.1.1 Only eleven completed projects have been given ratings, based on the five evaluation criteria used in this Study. These ratings are summarised in Table 2 below. Details are given in Appendix 4 of the Report on Detailed Technical Analysis of Study Key Findings. The discussions below are based on the key findings.

##### 4.2 Relevance and Quality at Entry

4.2.1 The Bank Group assistance to Uganda's agriculture and rural development sector was relevant to the country's national and sectoral objectives, and the entire portfolio reviewed was consistent with the country's overall development strategy. The policy issues addressed in the various operations were relevant and within the context of the GoU's and the Bank Group's broad development guidelines. The Bank Group's approach was to study the country's strategy and then select those projects that addressed Uganda's development priorities as they evolved

over time. These priorities included expansion of the country's capacity to earn foreign exchange, import-substitution, poverty eradication, equitable income distribution, food security and nutrition.

**Table 2: Bank Group Assistance to Uganda Agriculture –Summary of Project Ratings**

| S/N                                | Project                        | Indicators and scores        |          |            |                           |                | Outcome rating Score <sup>1</sup> |
|------------------------------------|--------------------------------|------------------------------|----------|------------|---------------------------|----------------|-----------------------------------|
|                                    |                                | Relevance & Quality at Entry | Efficacy | Efficiency | Institutional Development | Sustainability |                                   |
| 1                                  | Cotton                         | 2                            | 2        | 2          | 2                         | 2              | 2                                 |
| 2                                  | Ginneries                      | 2                            | 1        | 1          | 1                         | 1              | 1                                 |
| 3                                  | Tea Factories<br>Coffee Rehab. | 2                            | 2        | 2          | 2                         | 1              | 2                                 |
| 4                                  | Lugazi                         | 2                            | 2        | 2          | 3                         | 3              | 2                                 |
| 5                                  | Kakira                         | 3                            | 3        | 3          | 3                         | 3              | 3                                 |
| 6                                  | Olweny Rice                    | 2                            | 3        | 2          | 2                         | 2              | 2                                 |
| 7                                  | Seeds                          | 3                            | 3        | 3          | 3                         | 3              | 3                                 |
| 8                                  | Ranches                        | 2                            | 1        | 1          | 1                         | 1              | 1                                 |
| 9                                  | Dairy                          | 2                            | 2        | 2          | 2                         | 2              | 2                                 |
| 10                                 | UCB Line                       | 2                            | 1        | 1          | 1                         | 1              | 1                                 |
| 11                                 | PAP                            | 2                            | 3        | 2          | 3                         | 3              | 2                                 |
| <b>Aggregate Score<sup>2</sup></b> |                                | <b>2</b>                     | <b>2</b> | <b>2</b>   | <b>2</b>                  | <b>2</b>       | <b>2</b>                          |

Note: (1) Outcome Rating Score = the average measure that takes into account the ratings of relevance, efficacy and efficiency; (2) Aggregate Score = Sum of individual project scores, down the columns, divided by 11, rounded to 2 or 1. The performance indicators are rated on a four-point ordinal scale, ranging from 1 to 4, with 1 indicating highly unsatisfactory performance and 4 indicating highly satisfactory performance.

4.2.2 In the early period of its interventions, the Bank Group focused its assistance on expanding the processing facilities for the country's leading cash and export crops, starting in 1974 with the rehabilitation of 9 ginneries and construction of 3 new ones to expand cotton ginning, the construction of 3 tea factories for smallholders in 1976, and the rehabilitation and renovation of 21 coffee factories (hulleries) and reconstruction of 2 others which had been destroyed during the 1978/79 war. This was extended when inflows from official development assistance and private foreign investment were at their lowest ebb because of the civil disturbances in the country. The Bank Group assistance to this sub-sector was therefore timely, and over the long term kept the ginning and coffee industries afloat, thereby enabling subsequent assistance to take root. However, in the 1980s, the focus was on substantial economic reforms (ref. 2.1.4.1).

4.2.3 In the 1990s, the pervasiveness of poverty was a major development issue and the Bank Group, through the Poverty Alleviation Project (PAP) supported the GoU's objectives of poverty eradication. PAP was implemented from 1994 to 1998 and is currently being continued as the Rural Micro finance Support Project (RMSP) to provide access to financial services by the working poor to raise their productive capacity. Other projects addressed the problem of equitable income distribution

(OSRIP, NWSDP, Sugar Cane Outgrowers and RFS), while food security was addressed in OSRIP, SIRP, Dairy Rehabilitation Project (DRP) and the Ranch Rehabilitation Project (RRP). Some of the projects promoted the private sector (SCOUL, KSW and SIRP) and supported government's efforts in poverty reduction (PAP, RMSP) and human resources development, including reduction of gender inequality (PAP and OSRIP). The most recently approved projects (NWSDP, ABAMP, FDP) are geared towards the overriding policy to eradicate poverty, and are in compliance with the GoU's PEAP and PMA, and they are environmentally sensitive.

- 4.2.4 While relevance and congruence of GoU's and Bank Group's strategies were addressed, a combination of factors (e.g. insufficient appraisal, complexity and poor technical design) affected the quality at entry of a large number of the completed projects. On the combined criterion of relevance and quality at entry, only two projects (KSW, SIRP) had satisfactory performance. These projects were well appraised and supported by comprehensive feasibility studies, and had clearly defined components which facilitated easy implementation. In the case of the seed project, for example, although there were seven components, they were coherently defined with clear implementation modalities. The seed project could have been rated highly satisfactory, but because it under-rated the risk of delayed privatization by the GoU, its rating was reduced by this factor. KSW's components were also clearly defined and budgeted for, i.e. the rehabilitation of the sugar estate, the social and physical infrastructure; and the promotion of the outgrowers scheme and could have been rated highly satisfactory but for the poor assessment of irrigation costs, whose key components were estimated at US \$ 2.0m at the SAR, whereas in competitive bids the costs were put at US \$ 15m. This huge difference in costs led to the dropping of the irrigation component.
- 4.2.5 The KSW and SIRP allowed for the active participation of the beneficiaries: for farmers as outgrowers and for private sector companies as both producers and processors. For the KSW, private sector ownership was key to motivation and persistence to implement the components. The Bank Group, through regular supervision missions, encouraged the company to make necessary modifications to the project during implementation.
- 4.2.6 Nine projects had unsatisfactory performance because they lacked two or more elements of "good quality" preparation. The degree of quality preparation varied from one project to another, but the main causes of poor quality were: (a) too many incoherent components (DRP, RFS, SCOUL, PAP); (b) inadequate appraisal of the technical and rehabilitation requirements and of political/war risks (ginneries, tea factories, coffee factories, SCOUL, ranches); (c) inadequate planning of implementation, including, baselines and monitoring matrix (PAP, RFS, RRP), and (d) insufficient or non-involvement of beneficiaries (ginneries, tea factories, coffee, dairy, ranches). These projects were not supported by detailed feasibility studies and the rehabilitation requirements of many of the sub-projects were not comprehensively assessed for machinery, equipment and civil works, while the non-involvement of the factory or ginnery owners in procurement of the items resulted in the supply of inappropriate technology (e.g. saw gins in Lango,

Paul Kaak hullers in coffee factories).

- 4.2.7 In the overall assessment of the Bank Group's assistance on the criterion of relevance and quality at entry, this Study has shown that, whereas all projects were relevant and consistent with the country's overall strategy, many had poor quality at entry due to inadequate preparation and appraisal, and hence performed unsatisfactorily during implementation. Therefore, relevance, while necessary, is not a sufficient guarantee of satisfactory performance, because it tends to focus more attention on the macro or national and sectoral level policy and strategy, whereas quality at entry focuses on project level and technical feasibility of the interventions. This includes making realistic assumptions about the likely success of projects in environments subject to macroeconomic and socio-political changes and risk of civil disturbances to which Uganda has been subjected in the past.
- 4.2.8 In the last 10 to 15 years, the Bank Group has steadily improved the quality of project preparation. This is reflected in the projects that performed satisfactorily (SIRP, KSW). In the past five to six years, as illustrated in the most recently approved projects (1998-2001), the Bank Group has increasingly appraised projects on the basis of feasibility studies financed by itself (NWSDP, FDC LDR), and has incorporated some, if not all, of the other project preparation best practices – better skills mix, beneficiary participation, mainstreaming of cross-cutting issues (gender, environment, etc). Quality at entry of these projects has, therefore, vastly improved.

### 4.3 Achievement of Objectives and Outputs (Efficacy)

- 4.3.1 All the projects reviewed in this Study addressed one or more or all of the key national development or long-term objectives, namely increased agricultural production and improved food security, increased rural incomes and poverty reduction, increased employment, and increased foreign exchange earnings or conservation. All the projects had clearly stated output targets at appraisal stage. The output targets of the agricultural related projects were stated in terms of total or incremental production, or increased production and capacity utilisation (ginneries, sugar factories). For the finance and social sector projects (UCB line of credit and PAP), the targets were stated in terms of beneficiaries or borrowers accessing the loans for the purposes they were intended.
- 4.3.2 Taken in the aggregate, and allowing for the time factor and the circumstances in which the projects were implemented, the overall achievement of objectives and outputs was only partial. Only part of the Bank Group portfolio attained substantial planned outputs as per the SARs (KSW and the SIRP) at the time of the PCR. The immediate outputs of the SIRP were the rationalisation of the public sector regulatory functions and the preparation of the private sector for production, processing and marketing functions, including the privatisation and commercialisation of the Uganda Seeds Project. Seed production by 200 outgrowers, trained in seed multiplication, was another key output. The immediate outputs of the sugar industries consisted of the rehabilitated

processing capacity, the number of jobs created, training programmes for technical personnel and sugar cane outgrowers, estates and related physical and social infrastructure and sugar output.

- 4.3.3 The Bank Group portfolio comprising the DRP, OSRIP and PAP also attained intermediate outputs. The objective of the DRP was to contribute to self-sufficiency in milk and dairy products to raise the nutrition status of the Ugandan population, and this was achieved through increased milk production from 300 million litres per year in 1983 before the project to 700 million litres in 2000. The DRP set up 70 milk collection centres in the SouthWestern region, and rehabilitated the milk processing plant in Kampala.
- 4.3.4 For the OSRIP, the planned immediate output was 800 hectares (ha) of rice fields for 3,000 smallholder farmers, while the long term development objectives were improved food security and equitable income distribution, with a gender balance that involves women farmers. Following redesigns and relocation of the major part of the project to a new site at Itek/Okile swamp where 760 ha have been developed, the project will achieve 810 ha of rice farms, thus meeting the original planned immediate objective of 800 ha of rice fields. The major constraints to achievement of long-term objectives are technological and environmental problems at both Agwata and Itek/Okile, which may limit the full utilisation of irrigated land. Actions taken to reduce these constraints at the Itek/Okile site include a re-study to maximise utilisation of irrigation water by re-channeling the excess water through aqua-ducts to re-charge interception drains.
- 4.3.5 For PAP, the planned outputs were the provision of credit to 26,000 clients, the training of intermediary entities (IEs) to deliver the credit to the grassroots, the training of clients in entrepreneurial skills, and promoting community participation to increase ownership and commitment to development activities and thus enhance sustainability. Only part of the immediate objectives were achieved: credit was extended to 23,400 clients (over 90% of the planned 26,000), and capacity building was provided to 70 IEs. The training of the clients and promotion of community participation were not attained. Among the 23,400 clients reached, 62% were women. There was no information about the other vulnerable groups reached because the Staff Appraisal Report (SAR) lacked definite plans, a baseline, and mechanisms to monitor delivery of those services to the respective groups.
- 4.3.6 Three projects in the cash crops sub-sector (cotton ginneries, tea factories, coffee rehabilitation) and one project in the livestock sub-sector (ranch rehabilitation) had varying levels of achievement. Both the tea factories construction and ranch rehabilitation projects did not achieve their objectives. The tea factories were never completed, while in the case of the ranches, although the cattle were imported and distributed to the ranches they were later stolen or looted. Most of the ranches were destroyed or looted during the 1981/85 war and the subsequent

turmoil in rural areas.

- 4.3.7 Both the ginneries and coffee rehabilitation projects achieved intermediate outputs - cotton ginneries and coffee factories were rehabilitated, but long-term production levels were not achieved by the Cooperative Unions. In the case of Coffee Unions, the combined outputs of the rehabilitated factories, declined from 42,700 metric tons at the beginning of the project (1981/82) to 36,000 metric tons at the time of the PCR (1986/87). The combined sales of the six Cooperative Unions, which were the direct beneficiaries of the project, declined from 73,000 metric tons to 47,000 metric tons during the same period. This phenomenon of declining output of the rehabilitated facilities occurred also in the cotton ginneries, where the combined production of the rehabilitated ginneries declined drastically from 128,300 bales when the project was first appraised in 1974 to only 42,300 bales in 1999-2001.
- 4.3.8 The overall conclusion on the efficacy of the Bank Group assistance is that, while the immediate objectives or outputs were partially attained, there is doubt about the attainment of the long-term development objectives. The portfolio with unsatisfactory attainment of objectives, i.e. where achievements were either very short-lived (ginneries, coffee factories), or project assets were destroyed as in Ranch Rehabilitation Project (RRP), or lacked data to measure whatever outputs were attained (RFS), or completely failed to deliver any outputs (the 3 tea factories), reduced the overall performance of the assistance to unsatisfactory.

#### 4.4

#### Efficiency of Allocation and Utilisation of Resources

- 4.4.1 While the best indicators of efficiency would have been the economic and financial rates of return (EIRR, FIRR), calculated at the time of the SAR to justify the allocation of resources, and at the PCR to ascertain whether the resources were efficiently utilized, comparable calculations were only available for SCOUL where an FIRR of 20% at the SAR was adjusted down to 15.3% at the PCR due to the implementation problems that lowered the returns to SCOUL's financial resources (late and intermittent releases of funds from donors, late commissioning of the plant that delayed earnings from sugar sales, and extra financial outlays from SCOUL's own resources due to poor appraisal of old machinery at the factory and under-estimation of the acreage of the overgrown swamp to be drained). The 20% EIRR calculated at the SAR was, however, later adjusted upwards to 25% because of SCOUL's substantial contributions to the long-term development objectives: creation of employment, saving of foreign exchange, promoting the outgrowers' schemes, and economic stimulus to Lugazi township where SCOUL is the major Employer. The 25% EIRR, therefore, represented an efficient utilization of resources.
- 4.4.2 For the SIRP, neither the SAR nor the PCR calculated the EIRR. Instead, a broad range of benefits were identified, including the saving of foreign exchange on imported seed, creating employment for seed growers, processors and traders, and enhancing food security. The benefits were discounted at 12% over the 20

years life of the project, to justify a 37% FIRR, representing a highly efficient utilization of resources. Further comparisons of the EIRR and FIRR could not be used to assess efficiency for the rest of the Bank Group portfolio because either the PCRs were not available (GRP, tea factories, OSRIP, DRP), or the economic and financial environments under which the projects were implemented were so different from that at the SAR to rule out any meaningful comparisons (cotton and coffee factories, RRP).

- 4.4.3 For the micro-finance projects (RFS and PAP), the SARs made no calculations of FIRR and EIRR. The study team, therefore, developed two criteria to guide the evaluations, namely: repayment rate of the credits by the working poor, and allocation of resources to the intended beneficiaries. Rates of loan recovery are indicators of efficiency. They suggest that the credits were utilized profitably by the borrowers and supervised by the IEs. On this criterion, PAP efficiently allocated credit, with an overall loan recovery rate of 92%. The RFS, on the other hand, had a loan recovery rate ranging from 38% to 45% largely due to poor administration by the over-stretched credit officers whose workload was doubled from 25 pilot branches to 52 because of political pressure. However, loan recovery did not indicate the possible debt burden imposed on the borrower from expensive micro-finance since loans could be repaid by decumulating and selling assets in distress. This situation needs to be watched in the RMSP, because it can exacerbate rather than reduce poverty.
- 4.4.4 The RFS "inefficiently" allocated resources to the intended beneficiaries. The Revolving Loan Fund, intended for smallholders (US \$ 10.0 million), was unutilised and moved to the Bank of Uganda when the Scheme was closed. There were complaints of loans given under political pressure to unintended clients. Crop farmers who constituted the majority (74%) were allocated only 19% of the credit, while livestock farmers (14%) received 33%, fisheries (11%) received 22% and housing (of unknown number of beneficiaries) received 26%.
- 4.4.5 The PAP did not demonstrate the allocation of credit, except for the rough division between men and women. The allocations to the other five groups of the working poor were not mentioned, i.e. the disabled, orphans, widows, retrenched and demobilised soldiers. The PAP also did not demonstrate the allocation of resources for capacity building, for the loanees to learn entrepreneurial skills, and for extension services to local communities. In both cases, failure to track down the allocation of resources to the intended groups arose from lack of a baseline and monitoring system to guide project implementation. Even though PAP was a "pilot" project, the key lesson to be learnt is that such a baseline and monitoring system is necessary for the assessment of implementation progress. This weakness is being rectified in the on-going RMSP, which has drafted worksheets to monitor the flow of benefits to individual clients and the impact on poverty reduction.
- 4.4.6 Procurement of inappropriate and/or highly costly inputs represented inefficient utilization of resources in the affected Bank Group portfolio. Examples included the 300 KV transformer at Kachumbala ginnery instead of the 500KV paid for by

the project; the high speed saw gins delivered to Iceme ginnery which was not suited to gin medium staple Ugandan cotton; the mismatching Nipha Gin feeders in many ginneries; the large inefficient vertical type Paul Kaak hullers for the coffee factories compared to the low cost horizontal type hullers of the Brazilian model used by the private sector; and the obsolete swing hammer and boilers wrongly appraised and subsequently discarded by SCOUL.

4.4.7 Lengthy or inappropriate procurement procedures also represented an inefficient utilization of resources. Lengthy procurement procedures led to 2% escalation of costs at KSW, and they were partly responsible for the 11% costs escalation at SCOUL, where during the waiting time the exchange rate rapidly depreciated, requiring more local funds to meet foreign exchange costs. In another example, the UCB lacked knowledge of the procurement procedures for agricultural inputs (especially chemicals with specific expiration dates), leading to late arrival of the inputs, sometimes so close to the expiration date that they had to be sold off at below cost prices. The poor procurement procedures created inefficiency that constituted the single most important cause of highly unsatisfactory performance of the RFS. A combination of inadequate supervision by the Bank Group and the Borrower and mismanagement of the procurement system led to heavy project losses (as in tea factories, ranch rehabilitation, and coffee and ginneries rehabilitation as well as the RFS).

4.4.8 Capacity utilization was also taken as a summary indicator of an inefficient utilization of resources, based on the rationale that extremely low rates of capacity utilization, say below 50%, for prolonged periods of time, make it impossible to attain immediate outputs and long term development objectives. Capacity under utilization was found to be pervasive in a substantial part of the Bank Group portfolio: 17 – 27% in the cotton ginneries; 15 – 25% in the DC milk processing plant in Kampala; and practically zero in the coffee factories that were rehabilitated but subsequently lost business and were closed. Animal stocking rates were below the optimum levels under proper management, and averaged 33% for the RRP, and 44% for the Restocking Farms. While plans are currently underway to rectify the OSRIP technical difficulties, the causes of capacity under utilization in the cotton, coffee, DRP and the RRP have persisted for a long time and created problems for the project beneficiaries, such as accumulation of debt for the cotton and coffee Unions and for five of the RRP ranches which were transferred to the Non-Performing Assets Recovery Trust (NPART) for debt collection.

4.4.9 In the aggregate, and taking into account the above discussions, the Bank Group assistance performed unsatisfactorily in terms of efficiency of resource allocation and utilisation. The most recurrent indicator of inefficiency was the low rate of capacity utilisation. The very low rates of utilisation of resources severely limited the flow of outputs and benefits to the economy. They represented inefficiency, which restricted the economy inside the production possibility frontier, and negated accelerated economic growth.

#### 4.5 Institutional Development Impact

4.5.1 Agreement over what constitutes the contribution of projects to institutional development is still evolving, from the earlier concept of provision of logistical and administrative support, to a more embracing view of improving the overall environment for the achievements of project objectives and the flow of benefits to the beneficiaries and to society at large, even long after the project has ended. This review evaluation uses the broader concept and examines institutional development at two levels: at the executing agency level, which includes both the GoU departments and autonomous institutions or private sector agencies, and at the beneficiaries' level. At the executing agency level, institutional development would encompass improved capacity for project planning and management, including continuous dialogue among stakeholders, while at the beneficiary level it would embrace the creation of awareness and capacity to participate in or identify with project activities, including positive contribution to project costs and benefits. Institutional development, viewed in this context, constitutes a major policy action that can create a conducive environment for successful project implementation, and has been given due attention in this Study.

4.5.2 Because of the diversity of projects and the varying circumstances in which the Bank Group's project assistance was extended, institutional development impact has been assessed by project clusters to underscore the broadly similar institutional development issues and the effects of changes, over time, in the political and macroeconomic environment. The five clusters reviewed provide a convenient structure for a comparative assessment of, firstly, the different modes of execution of projects (executing agencies) and, secondly, the relationship between the specific efforts within the different portfolios to promote institutional development, and whether institutional development enhancement was contributed by the broader policy changes that affected the agriculture and rural development sector over time.

#### 4.5.3 *The cash-crops projects and institutional development*

4.5.3.1 The executing agency for the ginneries rehabilitation and coffee rehabilitation projects was the Cooperative Bank Ltd (CBL) while the direct beneficiaries were the cotton and coffee Cooperative Unions and their member Cooperative Societies. The Uganda Tea Growers Corporation (UGTC), whose clients were smallholder tea growers, executed the tea factories construction project. In all the three projects, the GoU (the Borrower) passed on the loans to these organisations on the assumption that the existing institutional structures had the capacity to administer the loans in the interest and on behalf of their grassroots members, namely the Cooperative Unions and the smallholder producers.

4.5.3.2 At the time, however, these institutions had neither the capacity nor the experience to supervise and monitor the projects. The Cooperative Department in the Ministry of Cooperatives and Marketing (MCM), the Coffee Marketing Board (CMB), the Lint Marketing Board (LMB), the UTGC and the Uganda Cooperative Central Union (UCCU), which were the national organisations that played key

roles in the implementation of these projects, had little capacity in business planning and management, investment appraisal, monitoring and evaluation. Components of capacity building to manage the cash crops sub-sector were, unfortunately, conspicuously missing in the SARs, because it was assumed that existing structures were adequate. This assumption proved fatal for the institutions in the sub-sector as many of them later collapsed under pressure from external competition when the sub-sector was liberalised.

4.5.3.3 A more serious problem was the lack of effective participation by the beneficiary institutions in the selection of the machinery and equipment for the projects they were directly benefiting from. The projects were designed as turnkey projects and the beneficiaries were handed the resources without their awareness of the suitability of these resources for the jobs to be done and the operating costs involved. The least cost alternatives on the local and international market, including what adjustments were feasible during installation, were not offered for consideration. Many of the Cooperative Unions ended up with unsuitable machinery and equipment and, having missed the opportunity to acquire capacity to efficiently manage their businesses, could not later compete with other players when the local procurement and processing market was liberalised in the 1990's.

4.5.3.4 Possible contribution to institutional development by the projects financed by the Bank Group in the cash crops sub-sector should also be seen in the light of the legal system that governed the sub-sector. The sub-sector was one of the most highly regulated in Uganda - there were specific laws and institutions governing the production, processing and marketing of the crops, and the laws and regulations of the Cooperative movement were geared towards the primary and secondary marketing of the crops. While these laws protected the institutions in the 1970s and 1980s, they placed them at a considerable comparative disadvantage vis-a-vis the private sector in the wake of the liberalisation of economic activity that followed in the 1990s. The Bank Group assistance to this sub-sector, coming in the late 70s and early 80s, could not be expected to have foreseen these developments. However, the GoU could have enhanced the Cooperative Unions' performance by reforming the Cooperative Societies Statute and Regulations which, unfortunately, continued to restrict the autonomy of the Cooperatives. As a farmers' organisation, the lack of complete autonomy and the accumulation of debts, eroded rather than assisted, institutional development of the Cooperative movement.

4.5.3.5 The cash crops sub-sector represents a case in which, in the wake of the liberalisation and privatisation policy, new semi-autonomous bodies were legislated into place to promote and regulate the industries. The key institutions are the Uganda Coffee Development Authority (UCDA) for the coffee industry, the Cotton Development Organisation (CDO) for the cotton industry, and the Tea Unit (TU) in MAAIF, which is working towards establishment of a Tea Development Authority. During the field mission, many stakeholders resented some of the new legislative developments and the working of these institutions. The TU, for instance (compared to the UTGC) was said to have no infrastructure or capacity

to distribute better planting materials to smallholders. Neither the TU nor NARO had seriously undertaken research to raise smallholder productivity as a priority. The new changes were, therefore, viewed as creating conflicts by putting in place a TU to raise overheads for the stakeholders who have to sustain these costs, without tangible benefits or solutions from the TU regarding the problems facing the industry.

4.5.3.6 Similar sentiments were noted among the Cooperative Unions and cotton farmers, who complained that they had no effective representation in the new institutions set up in the industry – the CDO, and the Uganda Ginners and Cotton Exporters Association (UGCEA) – which dominated the decisions on indicative prices that were set for each cotton buying season. These prices were usually set below cost of production, and CDO, on the other hand charged higher prices for the chemicals it distributed to farmers to spray destructive pests, much more than prices of the same chemicals sold in the open market. CDO also levied onto the ginners and farmers a multiplicity of other charges to support its overheads.

4.5.3.7 The CDO and UCDA are key regulatory and promotional institutions in the cash crops sub-sector. But they had not effectively achieved their objectives. The CDO, for instance, has had difficulty in promoting and achieving a higher volume of cotton output, which has averaged only about 80,000 bales during the period 1995/96 – 2000/01. UCDA, on the other hand, was unsuccessful in regulating the quality of coffee procured for export, during the early and mid 1990s.

4.5.3.8 One of the key lessons of this review evaluation is that, whilst it was a well-intentioned decision to restructure the cash crop industries in the wake of the liberalisation and privatisation policy, the overall results in terms of the operational capacities of the new institutions and their impact on the achievement of the objectives they were set out for, have not been substantive. The new institutions cannot generate sufficient revenues from levies on the industry, and yet stakeholders in the industry complain of multiple charges to meet the high overhead costs of the institutions. It would be preferable, in the circumstances, for the GoU to support these organisations directly through regular and predictable budgetary provisions, to eliminate conflict between them and the clients that they regulate.

4.5.4 The private sector portfolio and institutional development impact

4.5.4.1 The rehabilitation of the two sugar industry complexes at Lugazi and Kakira constituted the main private sector portfolio of the Bank Group assistance. The private sector companies (SCOUL, and KSW) which owned the complexes directly executed the projects. These companies made substantial in-house efforts to promote institutional development. Both recruited and trained technical staff to build human capacity to operate the factories and to reduce the number of expatriates. Both developed management mechanisms that steered their businesses: the Mehta Group put in place a budgeting, accounting and audit system for SCOUL, while the KSW put in place a supervision unit that picked up

the skills during project implementation, including procurement capability for large machinery if required in the future. Both have annual maintenance routines to preserve their physical assets. A related contribution to institutional development consisted of the smallholder outgrowers' schemes. For KSW, the Bank Group contributed through a Study outlining contractual obligations and a pricing formula to promote the outgrowers' scheme.

4.5.4.2 The in-house private sector efforts were enhanced by the GoU policy to promote and facilitate the private sector. For instance, the Expropriated Properties Act, passed in 1983, facilitated former owners to repossess their properties. The GoU gave greater autonomy to the two sugar companies: the KSW which started rehabilitation much later than SCOUL had 100% ownership of its company, while that of SCOUL (which commenced rehabilitation in the early 1980s with ownership of 51% by GOU and 49% by Mehta) was re-structured in 1994 to 30% GoU and 70% Mehta Group, and again in 1998 to 24% GoU and 76% Mehta Group. Overall, therefore, the focused private sector in-house efforts, enhanced by the GoU policy stance, led to satisfactory performance on the institutional development impact criterion.

4.5.5 Institutional development impact of the portfolios restructured

4.5.5.1 Four projects constituted this portfolio, namely SIRP, OSRIP, DRP and RRP, i.e. the food crops and livestock sub-sectors. When the seed industry was restructured and rationalised by the project, a separate regulatory body was created with appropriate legislation and training for the required skills provided. Whether an institutional development impact, will follow, will depend on adequate funding from the GoU to enable the regulatory authority effectively regulate the seed industry. Although the SIRP also made preparations to privatize the commercial functions of the seed industry, this was delayed by the GoU insisting on majority share holding in the new private company.

4.5.5.2 In the case of OSRIP, although the farmers received extension service plus some capacity building, the technical problems to control flood and allow full utilization of irrigated land are beyond their capacity. The GoU currently provides technical personnel, and the District Local Government (DLG) funds the extension staff under the new policy of decentralization. Overall, however, the institutional development impact from training the outgrowers under their Cooperative societies at both sites, will depend on successful resolution of the irrigation problems, which in turn will depend on the continued presence of the technical back up staff who are adequately funded by the GoU and the DLG, both of which have serious budgetary constraints.

4.5.5.3 The DRP portfolio had a complex structure, with the public sector component implemented by MAAIF and the commercial component implemented by the Dairy Corporation (DC). While the DC built up the human skills to produce milk and milk

products, the current milk supply system in Western Uganda is run at a cumulative loss (Ug.Shs 7 billion in 1999 according to Agricultural Policy Secretariat Report 1999/2000) and is not sustainable. A lower cost, high quality milk supply network, organized by smallholder milk producers within the vicinity of processing plants, is the missing institution that the DRP failed to promote.

4.5.5.4 Meanwhile, the MAAIF is restructuring the three stock farms (Rubona, Njeru and Nshaara) to be incorporated into the existing semi-autonomous Animal Breeding Center (ABC) at Entebbe, under a new project partly funded by DANIDA, which also includes the training of farmers in animal breeding management, and improvement of the Artificial Insemination (AI) services. However, an institutional mechanism to remit timely funding for technological development activities, and emergency expenditure to the farms, including adequate remuneration to retain technical staff, is not articulated in the new project. Overall, the restructuring of the DRP at the completion of the project deprived this portfolio of direct financing and technical assistance from the Bank Group to promote timely and sustainable institutional mechanisms.

4.5.5.5 The Ranch Rehabilitation Project (RRP) at the SAR provided for no human resource or institutional development. During implementation, resources were either looted or destroyed or both. Many ranches were restructured to recover debts, which practically wrecked the Uganda Development Bank (UDB), the executing agency. Civil disturbances in the ranching areas led to a massive squatter occupation that prompted the GoU to launch a Ranch Reconstruction Board (RRB) in 1992/93, which sub-divided the ranches between squatters and former owners into uneconomic sizes.

4.5.5.6 Overall, with the exception of the SIRP, the performance of the restructured portfolio on the criterion of institutional development impact was unsatisfactory. The projects in this portfolio had low quality at entry due to technical design or complexity issues, or lacked implementation guidelines. These defects detracted the executing agencies from making focused efforts to promote sustainable human capacity building and institutional development.

4.5.6 The social sector and institutional development impact

4.5.6.1 The RFS introduced in Uganda the concept of lending on the basis of character and familiarity of the enterprise, instead of collateral. The highly unsatisfactory performance of the RFS left no institutional capacity to administer this type of credit. However, PAP which followed later in the mid 1990s, built on the RFS concept to provide credit to the poor and vulnerable groups, and to build institutional capacity at four levels: the project staff at the Income Generating Support Unit (IGSU), the 70 IEs which retailed credit to the grassroots beneficiaries, the recipients who were to receive entrepreneurial skills, and the communities who were to enhance the poverty reduction initiative.

4.5.6.2 PAP was succeeded in 1999 by the RMSP, with a “new focus to establish a rural micro-finance capacity in Uganda” (PCR). The capacity built at the IGSU

provided the basis to build the Micro finance Support Center (MSC). However, of the 70 IEs that operated under PAP only 13 continued to join the RMSP, while another 16 were using their own resources or were getting assistance from other donors. Capacity built for the rest of the 41 IEs is likely to be lost. For the clients and the communities, capacity building was not adequate. Some of PAP's critical institutional weaknesses such as lack of a management information system, a baseline and monitoring mechanism for the flow of credit to the different groups, are just beginning to be specifically addressed by the RMSP. Therefore, the institutional development impact of PAP can only be assessed at a pilot stage.

- 4.5.6.3 In concluding the assessment of institutional development impact, it can be said that this was satisfactory in respect of the sugar industry and seeds projects, while in the micro finance sector this is still evolving. Among the projects that had nil or negligible contribution, the following weaknesses were observed: a) the SARs lacked a training component for human skills training and capacity building (cash crops sub-sector projects are examples); b) legislative changes eroded institutional capacities (the Cooperative Act 1970, and Statute 1991 that eroded autonomy of Cooperatives); c) where training and capacity were built, funding to retain capacity was not adequate (the Dairy Rehabilitation Project is an example); d) legislation that created semi-autonomous bodies under the MAAIF without adequate funding, led to conflicts rather than institutional development; and e) institutional development for farmers organisations, through which benefits could be channelled to the grassroots, were either nil or negligible.

#### 4.6

#### Sustainability of Project Outcomes/Results

- 4.6.1 Sustainability was a key criterion in the review evaluation of the Bank Group's assistance strategy to the agriculture and rural development sector in Uganda, and eight factors were considered in assessing project outcomes and results under this criterion. These were technical soundness; economic and financial viability; institutional, organisational and management effectiveness; government commitment to the future of the projects; socio-political support, beneficiary participation and incentives; environmental impact; and resilience to exogenous events. All or some of these factors were also components of the other evaluation criteria, i.e. relevance and quality at entry, efficacy, efficiency and institutional development impact.
- 4.6.2 Among the indicators of sustainability of projects and overall Bank Group assistance are levels of current production of the different sub-sectors, and whether the projects that were supported contributed to the overall production and income streams. But, as seen today, many years after the projects were implemented, the intended outcomes and benefits of the projects are not quite obvious. To facilitate the presentation of the results, projects have conveniently been grouped and assessed in sub-sector clusters. The material used to summarise this assessment is found in detail under the Report on Key Findings.
- 4.6.3 Cash Crops Sub-sector

- 4.6.3.1 The major undertakings in this sub-sector were ginneries rehabilitation, tea factories and coffee hulleries rehabilitation. Taken as a group, the projects under this sub-sector have not produced sustainable results. These projects were satisfactory in terms of relevance but unsatisfactory in terms of all other evaluation criteria. The most significant considerations in arriving at this conclusion are that the projects cannot be said to have contributed to the current levels of production. In the case of tea and coffee, although national production rose during or after these projects were implemented, this was because of substantial policy reforms in these industries, which created incentives for increased production. In the case of tea, because no tea factories were built there could be no benefits to be attributed to the project. In the case of coffee, all the beneficiary coffee unions, except Bugisu Cooperative Union, lost their coffee business lines and were either out of any business at all or were having their assets sold to repay debts.
- 4.6.3.2 In the cotton industry, overall cotton production has not increased at all in the past 30 years. However, two new ginneries built by the Bank Group (i.e. Nyakatonzi and Nyakesi ginneries) are operating and have maintained production even though at less than installed capacity. There are good prospects for sustainability of project benefits in those ginneries and these are scored as satisfactory. However, the whole cluster is reduced to unsatisfactory level as a result of the failures of the rest of the Cooperative Unions. Indeed, almost all the rest of the cotton and coffee Unions that accessed ADB loans are unlikely to achieve any positive sustainable results.
- 4.6.3.3 From the institutional and organisational view point, the key institutions including farmers' organisations that were involved in these projects have collapsed, i.e. the CBL, UCCU, CMB, LMB. In their place, new semi-autonomous institutions have been established but their sustainability is doubtful due to inadequate budgetary support by government. One of the unintended adverse impacts of the collapse of the Cooperative Unions is the loss by farmers of the opportunity to organise and sustain their Primary Cooperative Societies. The Cooperative Unions acted as apex organisations for the farmers' primary Cooperatives at the lower level, and provided collective services especially of processing, crop finance and credit to their members. The farmers, in the absence of strong Cooperatives, are exposed to unfair competition from the private sector operators.

#### 4.6.4 The Sugar Industry

- 4.6.4.1 The projects in this sub-sector achieved outcomes which can be sustained. The conditions for sustainability were evident, in particular overall relevance was satisfactory in all projects, while quality at entry was satisfactory at Kakira Sugar Works. SCOUL, over time, also improved the conditions for sustainability. Kakira Sugar Works has done particularly well in addressing all the factors that lead to sustainability. A key factor in the sustainability of these two projects was the ability of management to create a conducive environment for future growth.

#### 4.6.5 The Food Crops Sub-Sector

- 4.6.5.1 Overall performance of the projects in the food crops cluster on the criteria of sustainability was satisfactory only for SIRP. Olweny was rated unsatisfactory largely on account of: (a) the likelihood that the Agwata site could not be sustainable, (b) the fact that environmental issues at Itek/Okile could not be addressed satisfactorily without agreement with NEMA, and technical support to the farmers' Cooperative, (c) the farmers' Cooperatives in both areas were very weak, and (d) there was uncertainty about the capacity of the Local Government to take over and operate the project efficiently.
- 4.6.5.2 The seed project was, however, considered to have resulted in satisfactory outcomes because it achieved satisfactory levels in all the other evaluation criteria. It was efficient with a 37% FIRR. Another key factor was the entry of the private sector into seed production and marketing. While there is apparent uncertainty in the privatisation of the processing plant at Masindi, by the government, it is likely that the private sector will eventually establish its own network which could make the government programme irrelevant.

#### **4.6.6 Livestock Sub-sector**

- 4.6.6.1 Both the dairy and ranch rehabilitation projects were considered unsustainable. While both were relatively satisfactory in terms of relevance, both were unsatisfactory in terms of quality at entry and highly unsatisfactory in terms of other evaluation indicators, particularly efficiency. As a consequence, both could not be expected to have achieved results that could be sustained. This conclusion might appear particularly harsh on the Dairy Corporation component of the project, given the perceived increase in overall milk supply. But it was clear from the study team's observations that the privatisation of the Dairy Corporation was not progressing well. The ability of the dairy farmers to take over the milk collection network and operate it efficiently was being challenged by the informal milk operators in the open market who could sustain their low cost operations. Farmers in the milkshed areas of the Southwest did not indicate strong interest in contribution to the purchase and maintenance of the milk collection network established by the DC.

#### **4.6.7 Micro-Finance**

- 4.6.7.1 This cluster has posed the most challenge in the review evaluation. This is because of the fact that, while there was strong socio-political interest and government support for the sub-sector, the projects did not fulfil most of the indicators for sustainability. The UCB line of credit or the Rural Farmers' Scheme (RFS) was unsatisfactory in all indicators except relevance. The Poverty Alleviation Project (PAP) was, however, found to be a special case of a project which most people considered to have contributed to the transformation of the micro finance industry and subsequently led to the current Rural Micro finance Support Project which is being implemented throughout the country.

#### **4.6.8 Aggregate Performance on the Sustainability Criterion**

- 4.6.8.1 On the criterion of sustainability, the portfolio of the eleven completed projects reviewed by this Study was unsatisfactory in the aggregate. Four projects were found to be highly unsatisfactory (tea factories, ranches, coffee, RFS) while three were found to be unsatisfactory (ginneries, OSRIP, DRP). Four projects were found to be satisfactory (SCOUL, KSW, SIRP and PAP).

#### 4.7 Overall Bank Group Assistance Outcome

- 4.7.1 The overall performance of the Bank Group's portfolio of agricultural and rural development projects was unsatisfactory in the achievement of long-term development objectives. This conclusion is based on the key findings in the review of eleven completed projects, the majority of which were appraised and implemented during the late 1970s and throughout the 1980s. Viewed from today's standards of stakeholders' involvement in the project cycle, it can be inferred that these projects were inadequately prepared and appraised. The projects in the Study also lacked adequate supervision and monitoring. Four projects - SCOUL, KSW, SIRP, and PAP – performed satisfactorily, while five others, namely GRP, OSRIP, Coffee, DRP, and RFS, performed unsatisfactorily. Two projects, namely tea factories and ranches, were rated highly unsatisfactory.
- 4.7.2 Several inter-linked factors contributed to the overall unsatisfactory performance of the projects reviewed in this Study, making an overall performance assessment (by way of a single aggregate measure) of the Bank Group assistance to the agriculture and rural development sector fraught with many difficulties. Time has been an important factor in this evaluation - the Bank Group's assistance was spread over a period of more than two and a half decades, during which considerable changes have taken place in the macroeconomic, socio-political and policy environments. Both the GoU and the Bank Group have, based on their experiences of several decades of agricultural development, evolved new policies and strategies to overcome the failures of the past. Although these developments are fully recognised in this Study, their impacts are, or will be, restricted to mainly the new projects identified and appraised in recent years, and those which have just come on-board or are in the pipeline for future financing.

## **5. IMPLEMENTATION PERFORMANCE**

### 5.1 Overview of Implementation Performance

- 5.1.1 The implementation performance of the Borrower and the Bank Group should be seen against the background of long drawn-out time lags and lead times, which characterized the implementation of most of the projects reviewed in this Study. A sample analysis of 13 projects and loans revealed that it took an average of 15 months from the time projects were approved to the time loans became effective. The shortest time was 4 months for the RFS, while the longest time was 45 months in the case of SCOUL (Table 3). Only four projects were effective within ten months from the date of their approval (coffee rehabilitation, KSW, RFS, PAP). Table 3 shows the lagged implementation of projects. The main explanation

for the lagged time between the approval and effective dates was the delay by the Borrower in meeting some of the conditions precedent to the loans, although several instances were also reported of delayed responses by the Bank Group.

5.1.2 Prolonged completion dates also characterized many projects - from an average of 4.5 years in 3 projects (coffee rehabilitation, SCOUL, PAP) to 10.5 years in 7 projects - from the time of approval to the actual completion date. Among the projects with prolonged implementation periods SIRP took 8 years and DRP 14 years. On the other hand, the average estimated length of implementation time at the SARs of most of the projects was 3.5 years. Therefore, projects were delayed by an average of 5 years. The main reasons for these long delays were: (a) lengthy procurement procedures involving international (ICB) and local (LCB, CTB) processes, and (b) delayed activities due to factors beyond the control of project implementers, notably insecurity, unavailability of financial and other resources, etc. The slow procurement process, coupled with delayed fulfillment of certain conditions precedent, led to escalation of costs in many projects, which reduced the gain from purchasing at lower prices. In some cases, poor management of the procurement system resulted in the supply of inappropriate machinery and equipment.

**Table 3: Lagged Implementation Time of Projects/Loans**

| Project                      | Approval Date (ADs) | Signature Date (SDs) | Effective Date (EDs) | Lagged EDs (months) | Completion Dates (CDs) | Lagged CDs (years) |
|------------------------------|---------------------|----------------------|----------------------|---------------------|------------------------|--------------------|
| Ginneries rehabilitation     | 21/11/74            | 30/11/74             | Na                   | Na                  | No PCR                 | 14                 |
| Tea factories construction   | 28/10/76            | 14/03/77             | 31/01/81             | 7                   | May 1984               | 4                  |
| Coffee rehabilitation        | 17/06/80            | 26/06/80             | 19/02/82             | 14                  | April 1985             | 4½                 |
| Tea factories: supplementary | 19/12/80            | 23/01/81             | 19/03/83             | 27                  | NO PCR                 | 6                  |
| Ginneries: supplementary     | 23/06/81            | 20/10/81             |                      |                     |                        |                    |
| SCOUL                        | 06/09/82            | 08/11/82             | 19/05/85             | 45                  | Dec 1987               | 5                  |
| KSW                          | 23/12/87            | 11/03/88             | 07/10/88             | 10                  | Dec 1998               | 11                 |
| Olweny Swamp Rice            | 22/12/86            | 13/02/87             | 02/12/87             | 10                  | Dec 1999               | 13                 |
| Seed Industry                | 28/08/91            | 12/05/92             | 25/02/95             | 18                  | Dec 1999               | 8                  |
| Rationalisation              |                     |                      |                      |                     |                        |                    |
| Ranches                      | 17/06/80            | 26/06/80             | NA                   | Na                  | Dec 1989               | 9½                 |
| Dairy                        | 17/06/85            | 26/07/85             | 19/07/87             | 13                  | Dec 1999               | 13½                |
| RFS                          | 26/11/85            | 31/12/85             | 25/03/87             | 4                   | Dec 1996               | 9                  |

|       |                    |                    |                         |    |          |    |
|-------|--------------------|--------------------|-------------------------|----|----------|----|
| PAP   | 87<br>31/08/<br>93 | 87<br>18/10/<br>93 | 88<br>20/06/<br>94      | 9  | Feb 1998 | 4½ |
| NWSDP | 15/12/<br>99       | 20/11/<br>00       | -/05/01<br>25/02/<br>00 | 18 | On-going | -  |
| RMSP  | 24/11/<br>99       | 25/05/<br>00       | -/12/01                 | 15 | On-going | -  |
| ABAMP | 13/09/<br>00       | 25/05/<br>01       |                         | 15 | On-going | -  |

Note: Lagged time is total time from approval date. \* Estimated

## 5.2

## Performance of the Borrower/ GoU

### 5.2.1 Government commitments and prioritisation of projects

5.2.1.1 Commitments and prioritisation of development needs, and the quality of preparation and implementation of projects that constitute the development efforts, were considered important factors in assessing the Borrower's performance. The other factor was the adequacy of supervision, monitoring and evaluation. The responsibility of the government in terms of commitments and ownership of projects has never been in question. The real issue has been the translation of these commitments into realistic budgetary allocations, which affected the performance of many projects where counterpart funds needed to be committed and provided promptly. Because of the severe budgetary constraints of the Borrower, the share of agriculture in the National Budget was generally low and counter-part funds were either released late or minimal. The GoU also overstretched its budget by having too many counter-part funding commitments, and having to spend even more as the exchange rate depreciated (where the proportion of counter-part funding was designated in foreign exchange). The recent MAAIF Policy Statement 2001/02, for instance, listed 34 projects, all of which require counter-part funding. Because the GoU committed itself to projects but did not prioritize them to fit into its counterpart funding capabilities, this created ambiguity in project funding. The Borrower's performance on this score has been unsatisfactory.

5.2.1.2 Government's macroeconomic reforms during the past ten years have, however, vastly improved the environment for investment. Government has also undertaken considerable sectoral analysis to identify constraints to agricultural growth and development and has, through a sector-wide approach which has embraced stakeholders in a participatory process, designed the Plan for the Modernisation of Agriculture (PMA) which is a major positive undertaking of the GoU that will guide both domestic and external investment in the agriculture and rural development sector in the medium term. The PMA directly addresses poverty in the rural areas, and has attracted strong donor support. The creation of a Joint Donor Agricultural Sector Support Group is one of the positive outcomes of recent GoU efforts in strengthening GoU-Donor dialogue. On this score, GoU's performance is highly satisfactory.

### **5.2.1.3 Institutional Capacity for Project Implementation**

5.2.1.3.1 The projects implemented during the early years of the Bank Group assistance were executed by the Cooperative Bank Ltd (for cotton ginneries and coffee factories rehabilitation), the Dairy Corporation (DC) (for dairy rehabilitation), UTGC (for tea factories), UDB (for the ranches), the Uganda Commercial Bank (for RFS), and the private sector companies (SCOUL and KSW for sugar industry rehabilitation projects). Although these arrangements were considered as satisfactory, Government did not provide for long-term institutional and capacity building of these institutions to which it had entrusted the execution of the projects as its agents. Over time, the absence of capacity building in these institutions led to their collapse. Under the new economic order (liberalisation and privatisation) they were replaced by new semi-autonomous organisations which, however, were not budgeted for adequately to carry out their functions. A similar problem of lack of adequate funding affected projects where the government was directly the executing agency (as in OSRIP, SIRP, DRP). In these projects the government provided the key personnel, but the real problem was the extremely low remuneration, which led in some cases to loss of capacity built and to disruption of project activities.

5.2.1.3.2 In contrast, the private sector executing agencies (SCOUL, KSW) had relatively more autonomy in decision-making, thanks to government policy which allowed them to systematically plan for institutional development. For instance, despite the fact that SCOUL implemented its project in a turbulent security environment during 1982-1993, the Mehta Group in 1982 put in place a financial management system for budgeting, expenditure control, and audit which proved critical in managing the multi-donor financial arrangements until it paid off most of its long-term loans. SCOUL also had a systematic recruitment and training plan for graduates to upgrade local skills in a wide range of fields covering the entire production process, and plans to improve working conditions and to reduce staff turnover. Like SCOUL, KSW also had sound arrangements for institutional development, and had maintained a relatively healthy financial management system which enabled it to pay off its loans on time, despite delayed disbursements from the Bank Group following (well intentioned) revisions of activities with contractors, agreed upon by both the Bank Group and KSW. The KSW maintained two types of training programmes: the first, which lasted four years during project implementation, was for high-level skills to run the factory. The second concentrated on raising sugar cane harvested from 0.75 metric tons (mts) per day to 1.66 mts with a final target of 2.0 mts per day. These were some of the in-house initiatives which enabled the private sector companies to sustain their operations, which were facilitated by a positive Government policy stance.

### **5.2.1.4 Supervision, Monitoring and Evaluation**

5.2.1.4.1 Supervision, monitoring and reporting of progress were among the key responsibilities of the Borrower and the executing agencies of the various projects. This function, if ever undertaken, was inadequately carried out in almost all the projects implemented during the late 70s and early 80s. The inadequacy of

supervision and monitoring on the part of the Borrower contributed to negligence by the contractors, especially in turn-key projects, such as tea factories construction and ginneries rehabilitation, and was considered unsatisfactory. Although the situation has improved over time, and especially in recently implemented projects, the Monitoring and Evaluation Unit of MAAIF is not adequately staffed and funded and, moreover, lacks executive powers of inspection and supervision of projects. The MAAIF recently launched its Supervision, Monitoring and Evaluation Project to strengthen these functions and has budgeted Ug.Shs 252.7million for the 2001/02 financial year. This, it is hoped, will improve project implementation.

### **5.2.1.5 Overall Assessment of Borrower's Performance**

5.2.1.5.1 Taken in the aggregate, and taking the entire Bank Group's portfolio reviewed in detail, the GoU's overall performance was unsatisfactory. Although the GoU improved the macroeconomic environment of projects over time, and complied with necessary covenances, it provided for little or no institutional development of its own institutions. More importantly, GoU's commitments, as reflected in the flow of counterpart funds to support project operations, were unsatisfactory. There were too many projects for which counterpart funding and regular budgeting for executing agencies needed substantial improvements, but GoU's resources were inadequate and often unavailable, or, where availed, intermittent. The GoU performed unsatisfactorily in terms of project supervision, monitoring and evaluation. Most of the projects that failed or performed poorly were not adequately supervised. The GoU's performance was especially unsatisfactory in projects implemented during the 1970s and 1980s. In these projects, ownership and beneficiary participation were very low or lacking.

## **5.3 Performance of the Bank Group**

### **5.3.1 Project identification, preparation and appraisal**

5.3.1.1 The Bank Group's assistance strategy, as reflected in the approved projects, was relevant and consistent with the country's felt needs and priorities as identified. Only two projects experienced delayed approval by the Uganda Parliament, although one of them (Area Based Agricultural Modernisation Project) was eventually approved. The other (South East and South West Integrated Watershed Management Project) was cancelled. Apart from this isolated case, the identification and approval process of projects was quite satisfactory, and projects had no problems obtaining Board approvals because they were consistent with Bank Group lending strategy for the country.

5.3.1.2 The quality of the project preparation and appraisal by the Bank Group was, however, unsatisfactory in most of the early interventions. Soon after the 1978/79 war and during the early 1980s, the Bank Group identified and appraised five projects - CRP, RRP, ginnery and tea factory supplementary loans, and SCOUL - more or less as emergency interventions, either to restore previous investments (ginneries and tea factories), or to respond to GoU's emergency requests to

restore vital sectors that had been destroyed during the war, or both. Although with good intentions, these projects were often hurriedly prepared and appraised and, therefore, lacked in-depth sectoral or feasibility studies to back them. The rehabilitation requirements of the projects (CRP, GRP, RRP) were not comprehensively identified, and as a consequence most of the sub-projects were incomplete even after rehabilitation. Only the new ginneries and the reconstructed coffee factories (Kakoba and Kalisizo) were comprehensively built.

5.3.1.3 In its financial packaging of the assistance, the Bank Group invariably financed 100% of the foreign cost component, on the basis that the shortage of foreign exchange was the only real financial constraint. The Bank Group did not realise that the GoU had difficulty with raising funds to cover the local cost components of the projects, and did not make adequate provisions in the agreements with the GoU to ensure that the resources would be availed on a timely basis. Yet an earlier experience with the GRP had shown that the civil works construction could not proceed because of lack of counterpart funds. In subsequent lending operations, this experience was not taken fully into account, yet the revenue situation of the GoU worsened to the extent that counterpart funds were often not forthcoming or were intermittently provided.

5.3.1.4 From the 1980s to the present time, all Bank Group lending to the agriculture and rural development sector is from the soft ADF window (except for loans to SCOUL and KSW), and includes pure grants as well. The Bank Group also increasingly financed the local cost components of projects, and thus improved its financial packaging of assistance. These improvements were reflected in projects identified and appraised during the late 1980s and during the 1990s - DRP, OSRIP, SIRP, KSW. These projects were more comprehensively appraised than the earlier projects, and were also supported by more detailed sub-sectoral or feasibility studies. These studies were carried out by other donors but the Bank Group picked them up and used them to appraise its loans and grants. Since the mid-1990s, the Bank Group commissioned its own studies, on the basis of which it identified, prepared and appraised the most recently approved projects (NWSDP, FDP, LDP). This new generation of projects illustrates the Bank Group's shift in project design and appraisal, and is a major improvement from the past project planning and management procedures and, therefore, represents satisfactory performance.

## 5.3.2 Implementation and Supervision

5.3.2.1 The impact of lengthy and slow procurement on project performance was noted (see para 5.1.2). In several projects, the procurement systems were also mismanaged (RRP, tea factories), leading to heavy project losses. It is, however, difficult to isolate Bank Group performance in terms of the operation of the systems generally, from the local and international practices. The responsibility would be shared with GoU as well, and perhaps with other donors. However, while inefficiency of the procurement was an important factor, inefficiency in project implementation also persisted because the Bank Group did not provide for regular project supervision and review missions, mid-term reviews and active

follow up of recommendations for most of the projects. The SARs of projects approved in the 1970s and 1980s did not contain schedules for these activities, neither did they contain detailed schedules of implementation activities of projects for monitoring purposes. These projects were inadequately monitored or supervised. For instance, because of the lack of PCRs for the ginneries and tea factories, it was not possible to determine how many supervision missions were sent by the Bank Group to monitor implementation of these projects. In projects with the PCRs, it was possible to determine that, on the average, the Bank Group sent three to four supervision missions for each project during the lifetime of its implementation, which was a very low level of monitoring.

5.3.2.2 This conclusion applies to projects financed in the 1980s, which were the majority in this review evaluation. In recent years, the Bank Group has vastly increased the frequency of its supervision missions to one or two missions per project, per year. There are also mandatory mid-term reviews of project implementation, and the redesigning of projects where problems are identified. These improvements were introduced even in the late 1980s (KSW for instance, which had frequent supervision missions). Sector work is also expected to improve vastly in view of the fact that the Bank Group has published its guidelines for lending in the “Agriculture and Rural Development Sector Bank Policy” 2000. Greater policy dialogue is expected with GoU in future as new projects must be compliant with the overall country strategy as contained in the PMA and PEAP. In recent years, therefore, the Bank Group performance has been satisfactory.

### 5.3.3 Overall Bank Group Performance Assessment

5.3.3.1 The overall assessment of the Bank Group performance should be looked at from the point of view of the totality of its assistance, which has spanned nearly thirty years of lending in Uganda. On the whole, the Bank Group has been active in supporting Uganda's agriculture. This is shown by its large portfolio in the sector compared to the other sectors. The Bank Group has also diversified its projects to cover all key sub-sectors, and to target some poor areas of the country. It has also actively followed up the results of the studies it has financed. For instance, of the seven studies it has financed, five have matured into projects, two of which it has financed (NWSDP, SIRP). Two other projects (FDP, LDP) are in the pipeline for financing, while a fifth (KSW Sugarcane Outgrowers' Scheme) is financed by the Client (KSW). What brought down the performance of the projects has been poor quality of preparation and the inadequacies in implementation in the 1970s and 1980s. This led to unsatisfactory performance of Bank Group portfolio in the aggregate as far as the past completed projects were concerned.

## 5.4

## Co-financing and Donor Coordination

### 5.4.1 Co-financing

5.4.1.1 A review of the Bank Group's overall and sectoral portfolios reveal that it has had substantial co-financing arrangements with other donors in policy-based

lending, notably the Economic Recovery Loan (ERL) 1988, Structural Adjustment Loans (SAL) I and II 1998, and the Poverty Reduction Strategy Loan (PRSL) appraised in October 2001. Other sectors in which the Bank Group has had significant co-financing with other donors were the power sector, external aid coordination and the sugar industry (SCOUL and KSW). According to the UNDP Development Cooperation Reports 1998 and 1999, the value of Bank Group co-financed projects totalled approximately US\$ 920 million in 1999, of which the Bank Group co-financed about US\$ 210 million or 23%.

5.4.1.2 In the agriculture and rural development sector, the only major co-financed projects were the sugar industry complexes, although OSRIP also attracted co-financing arrangements from the Islamic Development Bank (IDB) in the initial stages. This was, however, dropped when the project was re-designed and relocated to another site. Currently, the only co-financed project is the Area-Based Agricultural Modernisation Programme (ABAMP), in which the International Fund for Agricultural Development (IFAD) will finance the agricultural, marketing and community development components, while the Bank Group will finance the infrastructure component. The potential for co-financing in the agricultural sector appears to be limited by the requirements of the different individual donors as to the conditionalities pertaining to loans, procurement and other procedures relating to the management of the project cycle.

5.4.1.3 Besides co-financing, parallel or sometimes “sequential” financing was also observed in several sub-sectors or projects. This was where other donors financed similar projects already financed by the Bank Group in the same sub-sector. This was the case, for instance, with the ginneries rehabilitation project where the World Bank financed a similar rehabilitation project in 1982, and the coffee rehabilitation project and tea factories construction where the European Union (EU) financed projects in the same sub-sectors from 1988 to 2000. In other examples, the Bank Group financed the rationalisation of the seed industry, which had been financed by FAO and GTZ, and the Ranch Rehabilitation Project which had been earlier financed by other donors. There was also significant donor funding of the fisheries and livestock sub-sectors, where the Bank Group has currently appraised two projects (Fisheries Development Project and Livestock Development Project).

## 5.4.2 Donor Coordination

5.4.2.1 In the early years of its assistance, the Bank Group did not have clearly defined coordination arrangements with the Government and with other donors. In recent years, however, the donor-country coordination arrangements have changed quite significantly. Firstly, at the national level, there is a strong annual Consultative Group meeting of Government and donors which serves to coordinate donor and government operational positions. Secondly, donors have instituted monthly donor meetings, and with the current emphasis on sector-wide approaches, there are also quarterly sectoral consultative committees made up of the relevant government officials and the interested donors. In the agriculture and rural development sector, there is a Joint Donor Agriculture Sector Support Group

(led by Denmark) which facilitates donor coordination. Thirdly, Government and donor agencies have sharpened these coordination mechanisms into a partnership arrangement that constitutes the crucial element of Donor/Borrower dialogue and cooperation. The Bank Group, while participating in the Consultative Group meetings, has only recently begun to actively participate in the in-country coordination arrangements. The absence of an in-country presence, which constrained the Bank Group in the past, has been partly rectified since the year 2000 when the Bank Group set up a Liaison Office within the UNDP premises.

## **6. SOCIAL AND ECONOMIC IMPACT OF BANK GROUP ASSISTANCE TO AGRICULTURE AND RURAL DEVELOPMENT SECTOR**

### 6.1 Socio-Economic Impact and Poverty Alleviation

- 6.1.1 While the Bank Group assistance has certainly had important socio-economic impacts in the agricultural and rural sector, this cannot be accurately assessed due to lack of data. The majority of projects were implemented without establishing baselines of monitorable socio-economic variables, and many were implemented under conditions that made it difficult to trace project results over time. There were also significant interventions by other donors, which contributed to improvements in the socio-economic conditions of people in the project areas, and it is difficult to isolate individually such contributions and attribute some parts to the Bank Group assistance.
- 6.1.2 Despite these limitations, some broad and generalised indications of impacts can be given. Taken in the aggregate, the Bank Group assistance to the agriculture and rural development sector has had mixed results. While some projects have made, and are continuing to make, contributions to the well being of people in the projects areas, others have had only limited contributions. The former category include all the projects in the food crops (seed industry, Olweny Swamp rice), dairy and agro-industrial (sugar industry) sub-sectors. These projects have contributed and have the potential to contribute to increased agricultural productivity and incomes. They have also contributed to increased direct and indirect employment - direct employment of large numbers of workers as in the sugar industry or of large numbers of farmers in organised production (as in sugar cane, seed production and rice production outgrowers schemes). There are also secondary commercial activities which can be attributed to these projects – transportation (as in sugar and milk collection), processing and marketing (as in the case of Olweny rice) where traders are coming from as far as Mbale or Jinja to buy the rice.
- 6.1.3 Though not quantified, these real or potential positive socio-economic impacts may be contrasted with the perceived potential negative impacts of the ginnery rehabilitation project, or of the failed tea factories and coffee hulleries. Because of the circumstances in which they were implemented, these projects did not realise sustainable benefits. In the case of cotton ginneries, for instance, the long-term decline of cotton production has led to non-achievement of full or economic levels of capacity utilisation, which has resulted in accumulated losses and inability of the Cooperative Unions to service long-term debts. In the districts of the north and northeast where cotton was the only major source of cash income, this combination of low production and heavy Union debts has reduced the

opportunities of the farmers in those regions to earn increased incomes from cotton production.

- 6.1.4 In the case of the tea factories project, the incentives to increase tea production was reduced in the project areas because the factories were not constructed or completed. Between 1980 and 2000, about 1,000 hectares of planted tea was abandoned, and 45% of the farmers who were in tea production in 1980 were out of production by 2000. The tea farmers in the project areas are not deriving full benefits from tea growing, as is the case in the other areas where factories were constructed and are operational.

## 6.2 Impact on Women, Gender and Food Security

- 6.2.1 The overall impact on gender balance, and women in particular, could not be quantified. Among projects reviewed, there was no specific gender policy (except for OSRIP and PAP) and any gender considerations were, therefore, implied rather than intended. But it could be generalised that, broadly, the cash crops projects (ginneries, coffee hulleries, tea factories) had little gender content. Since the mid-eighties, however, the focus of the Bank Group's assistance shifted increasingly towards support for food security and import substitution, and away from direct support to the export crops sub-sector. To the extent that women are the major producers of food, this shift has generally been favourable.
- 6.2.2 This Study has revealed that women cannot benefit directly from any project unless they are specifically incorporated or targeted as beneficiaries. A good example is the Olweny Swamp Rice Irrigation Project where 40% of women participation is the target. If this were not incorporated as a design feature, it would be most unlikely that women would access any land under the project, in equal competition with the men. Rice is a new cash crop in Olweny and has attracted a huge response from the communities – 6,000 people applied to join the scheme although only 3,000 were required.

## 6.3 Environmental Impact

- 6.3.1 With some exceptions in the tea and sugar industries, agricultural production in Uganda is largely carried out on small-scale farms spread over a wide geographical area. The use of fertilisers and agro-chemicals by the farmers is very minimal, and there is, therefore, little adverse environmental impact arising from small-scale farming. Even on the few tea estates and the large sugar plantations, huge quantities of chemicals are not known to be used. The Bank Group did not directly finance small-scale producers of coffee, tea and cotton, but financed the rehabilitation and construction of processing facilities. The experience with the operations of these facilities shows that they do not pose any threats to the environment. If these projects were successful and stimulated increased on-farm production, then there could have potentially been backward and forward linkages as farmers would have increasingly used high yielding inputs and agro-chemicals. This did not happen and it is, therefore, difficult to speculate on what would have been the impact on the environment.

6.3.2 Real environmental concerns have, however, arisen from projects where production involves a high concentration of resources and use of capital-intensive means of production. The projects in this category include the Olweny Swamp Rice Irrigation Project, the sugar industry projects, and ranch rehabilitation. In the case of Olweny Swamp Rice Irrigation Project, the current environmental concern is with the control of water for irrigation, but there are likely to be several other problems that will arise as the project further develops in future. In the case of the sugar industry, the capacity to plan and mitigate environmental problems may be available with the institutions concerned, but for Olweny this would require additional research effort.

#### 6.4 Private Sector Promotion/Participation

6.4.1 The Government of Uganda (GoU) has been the main borrower in almost all the Bank Group's funded projects, except for ranch rehabilitation where the borrower was UDB, and Kakira sugar industry rehabilitation, where KSW itself was the borrower. The ultimate beneficiaries were, however, entities either in the public, parastatal, cooperatives or private sectors. This review evaluation has revealed that private sector promotion and participation was strong in the sugar industry projects. This was followed by the SIRP (where five private companies have entered the industry), OSRIP (where rice growers have organised themselves into Cooperatives), ranch rehabilitation, and the dairy industry, in that order of decreasing importance (private sector participation in the dairy rehabilitation project did not materialise but is being promoted under current privatisation efforts for the Dairy Corporation).

6.4.2 One of the key success features of private sector promotion has been the direct involvement of the private sector beneficiaries in project implementation and management. The other important feature is the involvement and organization of farmers into cooperatives or outgrowers' groups. This high level involvement has raised the stake of the concerned groups in the overall success of the projects. This contrasts with the coffee and ginneries rehabilitation projects where Cooperative Unions had little participation in the implementation of the projects.

#### 6.5 Regional Integration

6.5.1 Increased regional integration in product and factor markets is one of the six key areas in which the Bank Group envisages to focus its core assistance programme for the agriculture and rural sector within Africa. In the context of the past and current Bank Group assistance to Uganda's agriculture and rural development sector, although this strategy was not explicitly stated, it can be inferred that several, if not all, projects had some impacts on regional integration. At the level of imports of goods and services, several projects contributed to increased, especially in the areas of trade between neighbouring countries, for instance considerable importation of cattle from Kenya, Tanzania and Ethiopia in the case of the Ranch Rehabilitation Project. Imports of services from neighboring

countries (especially Kenya) also increased, especially in the areas of construction materials, machinery for tea factories and ginneries, seeds, etc. On the other hand, the dairy and sugar rehabilitation projects contributed to increased supply of these products in the local market, and the reduction of imports from neighbouring countries and abroad (import-substitution effects).

- 6.5.2 These impacts are implied rather than quantified because they were not among the components of Bank Group assistance strategy to Uganda's agriculture and rural development sector. It should also be noted that, while Uganda has certain comparative advantages in agricultural production, it cannot fully reap these advantages because of its poorly developed road and communications systems. Uganda suffers from high transportation costs of both exports and imports of goods and services. The advantages of regional integration can be realised fully when Uganda vastly improves its transportation and communications infrastructure.

## 6.6

## Community Participation

- 6.6.1 Ugandan communities have a strong tradition of group or community service. This is especially so in the northern and some eastern districts. At the production level, therefore, Bank Group assistance could have important impacts where direct support is provided for production (e.g. the Olweny Swamp Rice Irrigation Project, and the seed outgrowers' scheme in Masindi district). The most recently approved or appraised projects have recognized the strong element of community participation, and therefore, have explicitly incorporated them in project design (Northwest Smallholder Development and Area-Based Agricultural Modernization Projects). The Rural Micro finance Support Project (RMSP) represents a project in which non-government and community-based organizations (NGO, CBOs) are destined to play a major role and create impact, if well organised and developed. According to the PCR (March 1999), the communities in the PAP areas participated in identifying the target groups for credit, and in encouraging the poor to undertake income-generating projects.
- 6.6.2 As is evident, these are recent developments to ensure incorporation of community concerns in projects. The bulk of the projects implemented in the past did not incorporate community participation as a component. Projects were identified, appraised and implemented from the top to bottom level, and it was not uncommon for local communities to only hear that there was a project in their area. Very good examples of such projects were the cotton ginneries and coffee hulleries rehabilitation projects, which even the most immediate beneficiaries (Cooperative Unions) had little involvement in. This Study has revealed that most of the early projects could have failed partly due to lack of local involvement of the beneficiaries in them.

## 6.7

## Positive and Negative Impacts of Bank Group Assistance

- 6.7.1 The overall conclusion that has emerged from this Study is that, when the entire Bank Group portfolio is assessed together, the overall impact has been less than

satisfactory. This conclusion, however, masks the fact that some projects achieved their immediate objectives (though these were short-lived), while the most recent projects have potential for positive impacts in the future. In particular, the cotton ginneries and coffee hulleries have left the beneficiary Unions with heavy debt burdens, whose impact has not only led to their institutional collapse but has also created a vacuum in the marketing structure for cotton and coffee at the secondary level for many small farmers. The tea factories construction and the ranch rehabilitation projects led to heavy material and financial losses, both at the national and the beneficiaries levels. Amongst the most recently approved projects, potential negative impacts can be foreseen in the Fisheries Development Project. This is likely to arise from the current focus on exploiting the Nile Perch species for export, which has led to the neglect of other species. Negative social impacts may also include loss of jobs or employment by people who are involved in fish drying, smoking and retailing for the domestic market, 80% of whom are women. Over-exploitation of fisheries resources can also lead to food insecurity if no plans are put in place for stock control.

- 6.7.2 Against the negative or potentially negative aspects of the Bank Group assistance mentioned above, there were positive aspects of the assistance on which it is believed that the Bank Group has built its current programme. There are also potentially positive aspects of continued Bank Group assistance to Uganda's agriculture and rural development sector. On a project by project basis, there were positive aspects of the ginnery and coffee rehabilitation projects that should be recognised. The Bank Group came to the assistance of these industries at a time of crucial needs – when the vital export sector had almost collapsed because the processing and marketing infrastructure had been destroyed. Therefore, the Bank Group, being the first to provide assistance at a time when other donors' aid flows had ceased or were not yet reactivated, saved these industries. It is a fact that the Bank Group assistance not only kept these industries afloat, but also provided the basis on which future developments were built. In the case of the ginneries project, the majority of the operating ginneries retained by the Cooperative Unions, were those financed by the Bank Group. The Cooperatives hope to build their future stake in the ginning industry through these ginneries.
- 6.7.3 Other projects that have had some positive aspects as well include the sugar industry projects and the seed industry, whose overall performance were satisfactory and, therefore, their impacts are positive. A good example is the Olweny Swamp Rice Irrigation Project which has the potential to impact development in an area exceeding 1,000 sq. km with a population of over half a million people. The response of the people to the project was very positive – 6,000 people applied for land to grow rice yet the project target was only 3,000. The project, despite the technical problems that currently surrounds its operations, has created considerable awareness among the local people, some of whom have benefited already.
- 6.7.4 In the social and financial sectors, the Bank Group's assistance and interest was strong. Beginning with the extension of the line of credit to UCB in 1988, the Bank Group has consistently supported the micro finance sector. One could say that

there was a gradual but consistent process to develop this sector when PAP was transformed into RMSP. These and other positive elements of the Bank Group assistance must be emphasised, despite the overall unsatisfactory rating of the completed projects.

## **7. CONCLUSIONS, LESSONS LEARNT, RECOMMENDATIONS AND THE WAY FORWARD**

### **7.1 Conclusions**

7.1.1 By the end of 2001, the Bank Group agriculture and rural development sector operations in Uganda had spanned 27 years. Twelve (12) or 52% of these operations, totaling UA 96.9 million or 64.4% of the total portfolio, was approved during 1980-1989. Disbursements during the same period totaled UA 87.6 million or 83.7% of the total portfolio disbursements. The period 1980-1989 was, therefore, the most significant in terms of Bank Group interventions in Uganda's agriculture sector. During the 1990s, commitments to the sector were very low, until 1999-2001 when substantive commitments were approved (see Annex 1 p.5). A large portion of the portfolio (corresponding to the period 1980-1985) performed unsatisfactorily due to inadequate preparation and appraisal, and due to unstable macroeconomic environment and insecurity. Achievement of objectives and outputs was, therefore, unsatisfactory. Overall performance was also unsatisfactory in terms of efficiency, institutional development impact and sustainability.

7.1.2 Although the pattern of the Bank Group's interventions were intermittent, and overall performance was unsatisfactory, the overall portfolio was relevant to Uganda's development objectives and priorities, and was also consistent with the Bank Group's assistance strategy as stated in the various ECPC and CSP documents. The projects addressed both national and specific sectoral and sub-sectoral objectives and issues as per GOU's National Development Frameworks (Development Plan Documents), and the assistance strategy was as broad-based as possible, encompassing the cash crops and food crops sub-sectors, agro-processing industry (sugar), livestock, fisheries, integrated rural development, and rural micro finance.

### **7.2 Lessons Learnt**

#### **7.2.1 General Lessons**

7.2.1.1 Because of the complexity, diversity, and varying circumstances under which the Bank Group's assistance to Uganda's agriculture and rural development sector was implemented, no single or series of lessons could be drawn that reflected the experiences from the entire Bank Group portfolio. However, the experience from this review evaluation has shown that the consistent use of the evaluation criteria for a diverse group of projects, most of which were completed several years ago, can lead to mixed overall performance results. In the case of

Uganda, considerable changes in the policy environment, such as the liberalisation and privatization policies, have affected the way projects that were implemented more than a decade ago should be treated. Policy reforms such as liberalisation should probably have been phased so as not to place some institutions, like Unions, at a comparative disadvantage.

7.2.1.2 Although all projects were found to be relevant to the country's development objectives and priorities, they performed poorly due to insufficient preparation and appraisal. It was seen that relevance, while necessary, was not a sufficient guarantee that projects would achieve their objectives and outputs. This is because "relevance" tends to focus attention on the macro or national and sectoral level policy and strategy, whereas "quality at entry" focuses on the project level and technical feasibility of the interventions. The combined criterion of "relevance and quality at entry" does not, therefore, provide adequate weight to the quality of project preparation, and would tend to distort the overall assessment of projects.

7.2.1.3 For the Bank Group, whose vision and mission is to be the leading institution in the transformation of African agriculture, continuing policy dialogue with the Borrower (country) was identified as necessary to improve the relevance of its assistance strategy. This would improve the agricultural content and quality of its CSPs, and would enable the Bank Group identify or create niches for itself in the country. On the other hand, improved technical preparation and analysis, including sector studies, were seen as important for the improvement of quality at entry.

## 7.2.2 Lessons from the cash crops sub-sector

7.2.2.1 In the cash crops sub-sector, the Bank Group extended loans during the turbulent years, first in the mid 1970s and again in the early 1980s. Other donors to this sub-sector, who came after the Bank Group, actively influenced the making of policies that addressed the wider macroeconomic issues and even reflected them in their development assistance strategies. The Bank Group took too long to learn, not only from its own experiences but also from these other donors. It is only in the most recent years (the late 1990s) that past experiences are being incorporated into Bank Group's agricultural lending strategy.

7.2.2.2 Real experiences in the cotton, coffee and tea sub-sectors have revealed that these industries depended for their success and sustainability on the active participation of the large number of farmers and their organisations, whose immediate benefits and interests should have been assured for the national objectives to be achieved. At the levels of project design and implementation, the farmers and Cooperative Unions, which were the direct beneficiaries of the loans, for instance, did not participate in decisions on what would constitute the rehabilitation components of their facilities. They were precluded by the turn-key arrangements which required for them to await for the rehabilitated works to be handed to them after completion. In the circumstances, this arrangement proved to be highly unsatisfactory.

7.2.2.3 This attitude continued in later programmes financed by the World Bank and other donors, to restructure the cotton and coffee industries. These programmes assumed that benefits would flow to the farmers automatically, through institutional restructuring of the industries to promote private sector operators who were assumed to be more efficient. This did not happen and, what was more important, the new institutions (public and private), which were promoted to replace the farmers' own organisations, lacked adequate budgetary support to perform better than the institutions they replaced. One of the reasons cotton production could not increase, for instance, despite the massive donor investments, was because the Cooperative structure of marketing was dismantled by the new policies that promoted private sector operators against the Cooperative operators.

### 7.2.3 Lessons from the sugar sub-sector

7.2.3.1 The lessons from the cash crops sub-sector reflected the experiences mainly with the Cooperative and public sector interventions. Interventions by the Bank Group into the sugar industry, on the other hand, represented direct support to the private sector. Key lessons learnt from this evaluation show that:

- (a) The persistence of the private sector implementing agencies, even under difficult conditions, was key to the achievement of sustainable outcomes. This persistence emanated from the relative autonomy enjoyed by the implementing agencies, and motivation from the fact that they were co-financiers of the projects.
- (b) Frequent supervision missions (for instance 10 in the case of KSW), were necessary to ensure successful completion of projects, especially where complex procurement arrangements were involved. The cost of such missions was counter-balanced by prompt decisions following modifications made.
- (c) In otherwise successfully completed projects, important components that were not implemented due to poor appraisal would enhance the flow of benefits to society and sustainability if taken up in an "after care programme" by the Bank Group and the government, especially where these components have a social dimension which is unlikely to be fully met by the private sector. Examples include: (i) implementation of the irrigation components to stabilize cane yield and to enhance environmental sustainability at both KSW and SCOUL; and (ii) improvement of the pricing formula for sugarcane, and an overall evaluation of the outgrowers' schemes at KSW and SCOUL, to ensure equitable distribution of benefits to the estates and the outgrowers.
- (d) Liberalization and a pro-private sector policy, while important, is not sufficient to promote the sugar industry in a globalised environment under the WTO, with unfair trade practices by some WTO members

affecting market access, and the absence of a common regional policy.

## **7.2.4 Lessons from the food crops sub-sector**

7.2.4.1 The Bank Group assistance in the food crops sub-sector represented two types of interventions, namely: (a) direct support to increased food production (OSRIP, SIRP), and (b) establishment of a conducive regulatory and legal environment for seed production, processing and marketing (SIRP). Both of these interventions represented very relevant approaches to the promotion of the food industry. Similar to the sugar industry, an important lesson to be learnt from the Bank Group's assistance strategy for OSRIP and SIRP, is the deliberate inclusion of private sector participation as a key component of the projects. This took the form of supporting outgrowers as the central players in increasing production, and encouraging both the private sector (SIRP) and Cooperatives (OSRIP) in processing and marketing. As a result, these projects either achieved, exceeded, or have the potential to achieve and exceed, their objectives and outputs. At Itek/Okile, there is great potential to exploit the resources of the wider catchment area, estimated to be 900 sq. km. The real issues to be addressed in OSRIP relate to the environment and technical support to farmers for future sustainability.

## **7.2.5 Lessons from the livestock sub-sector**

7.2.5.1 The ranch and dairy rehabilitation projects were important interventions by the Bank Group in the livestock sector, both of which had experiences and lessons that are important for new interventions, notably:

- (a) In projects involving large-scale procurement and distribution of livestock, there are many risks, especially associated with insecurity, thefts, transportation, deaths of animals, inappropriate selection of animals, etc. The procurement should therefore be handled by experienced organisations that are independent of the executing agency.
- (b) Ranching as a strategy for livestock development requires large tracts of land. While the strategy is quite relevant and can be economically and financially viable, careful evaluation of the social and economic impacts on the wider community requires to be made to avoid risks of social disruption. To be a sustainable strategy, ranching programmes should involve government working with all the relevant stakeholders to design acceptable programmes.
- (c) If the dairy industry were privatised and restructured, the benefits of the project could have been saved and performance could have been rated satisfactory. However, the privatisation process was delayed, and the high cost structures and the benefits they provide are getting eroded. In addition, the non-involvement of the smallholder milk producers into the privatisation debate is likely to cause them to lose the collection, cooling and transportation network. The planners of both the dairy industry and

the Privatisation Unit are not perhaps taking this point seriously.

- (d) The Dairy Rehabilitation Project partly achieved its objectives, especially the increased production and marketing of milk. As the liberalisation process took place, however, the project results have tended to be confined regionally in accordance with the publicly supported infrastructure of the Dairy Corporation. A new Dairy Development Authority was established in 1998 and the Dairy Corporation is to be privatised. This scenario repeats the developments in the cotton and coffee industries where, it was seen in the previous chapters, the new semi-autonomous bodies are not adequately funded and, therefore, cannot be expected to perform better than the ones they replaced. This is a significant lesson in this evaluation, which has not been learnt by the planners of the dairy industry.

## **7.2.6 Lessons from the micro finance sector**

- 7.2.6.1 Although the micro finance approach to poverty eradication is relevant and appropriate to Uganda, and is also consistent with the Bank Group approach to broad-based economic growth and poverty reduction, it can only be sustainable if well managed. In particular, this review evaluation has shown that: a) the management tools for “best practices” in micro finance are complex and changing rapidly, as witnessed by the move, in Bangladesh, to shift from Grameen I to Grameen II; b) the tools need to be further adopted to promote outreach in remote rural areas, and to include financing of smallholder agricultural productive activities in order to be relevant for sectoral transformation of the sector; c) the tools need to be further refined to show effectiveness in promoting clients' entrepreneurial skills to accelerate their exit out of poverty; and d) capacity building needs to be planned carefully and adequately funded, to encourage a diversity of IEs to adopt the “best practices” and become professional while concurrently serving the rural poor. The key lesson to be learnt is that these important features (a) to (d) will not emerge automatically in a private -sector driven micro finance industry.**

## 7.3 Recommendations

### **7.3.1 Policy Dialogue, Processing and Implementation Performance and Monitoring**

- 7.3.1.1** A much stronger dialogue is required between the GOU and the Bank Group to focus upon national agricultural policy and strategy, and to improve the quality and content of future Country Strategic Papers. Although this dialogue is already undertaken in the process of developing the current CSPs, it is strongly recommended that the Bank Group, through its policy dialogue with GOU, strengthens and expands the agricultural sector component of the CSPs. The policy dialogue should be broader, and also it should cover coordination with other donor operations to ensure that the assistance strategy is consistent with

both the PEAP and PMA. Like other donors, the Bank Group should build a stronger and closer partnership with GOU to implement the PEAP and PMA. This will require the Bank to have a stronger in-country presence than the current Liaison Office. The Bank Group, through these dialogues and partnerships, would identify the areas in which it has comparative advantage in lending to the agricultural sector in Uganda.

**7.3.1.2** While it is recognized that both the GOU and Bank Group have, in recent years, addressed more vigorously the factors that enhance projects' relevance and quality at entry, it is recommended that the Bank Group continues to give special attention to quality improvement in preparation and design of projects and programmes. In this respect: (a) project components should be clearly defined with specific and clear implementation strategies; (b) each project should contain a human capacity building or training component, to execute the project and to contribute to institutional development and sustainability; (c) baseline and monitorable indicators should be identified as they are necessary especially in rural development and social sector projects, to clearly guide project implementation that produces unambiguous outputs and achievements, especially at the grassroots; (d) private sector and beneficiary involvement must be considered and built into projects at the earliest stages of project identification, design and appraisal; (e) stakeholders and beneficiaries should be more vigorously identified and, through a participatory process, must be involved in the identification of the issues and the solutions to the problems to be proposed; (f) vulnerable groups should be clearly identified and agreed upon by all parties concerned; (g) expectations of benefits should be matched with expectations of responsibilities; (h) specific components should be incorporated in the projects for monitoring the flow of benefits to each beneficiary group and should be adequately budgeted for; and (i) the flow of project inputs and responsibilities from the beneficiary groups should be incorporated into the activity work plans and budgets of the stakeholders involved in project implementation.

**7.3.1.3** It is further recommended that the Bank Group and GOU continue to work together in enforcing close and constant monitoring and supervision of their funded projects and programmes in order to avoid the kind of project failures exemplified by the tea factories. The Bank Group should work out an arrangement with the GOU to establish or strengthen its representation in Uganda for the purpose of continuous dialogue and interactions with the Borrower, and for spot checks on field activities involving its assistance. On the part of the GOU, it is recommended that project supervision and inspections should be strengthened and enforced at the top through the Offices of the Prime Minister and of the Inspector General of Government, and at the sectoral level through the MAAIF's Monitoring and Evaluation Unit.

**7.3.1.4** It is recommended that GOU should (i) improve its commitments and payment of

counterpart funds for projects, including retention of the capacity built by paying living wages if the public sector is to be counted on for effective service delivery; (ii) evaluate urgently, the administrative capabilities and effectiveness of semi-autonomous or self-accounting institutions in the MAAIF, including adequate sources of funding; and (iii) make it a mandatory or standard requirement for all projects to have detailed management systems, in the form of project implementation manuals, to guide budgeting, expenditure, audit and accountability. The care of project assets during their life span must be incorporated in all audit inspection procedures.

- 7.3.1.5 It is recommended to both the Bank Group and GOU that poverty eradication programmes for farmers should address the provision of financial services for the agriculture and rural rehabilitation sector. This will make it possible to have benchmarks for predicting increases in outputs from improved inputs, husbandry practices, etc on profitability, and the ability of the smallholders to repay the credit and still improve their welfare and retain the incentive to continue production. Farmers' organisations should be promoted to enable them to effectively access benefits from projects and transmit these benefits to the grassroots members.

### 7.3.2 **Specific sub-sector recommendations**

#### 7.3.2.1 **Cash crops sub-sector**

- 7.3.2.1.1 In the wake of the liberalisation policies and the subsequent restructuring of the cotton, coffee and tea industries, new institutions (both public and private) have taken control from the old institutions, which were either closed or have lost business and are in limbo (e.g. Cooperatives). It is recommended that GOU should help farmers to reorganise themselves in Cooperatives or Associations, perhaps with a new vision, mission, and outlook, so that they can effectively and beneficially participate in the current liberalised market environment. The reorganisation of the farmers' Cooperatives and Associations should be preceded by a comprehensive study of the current status of the cotton, coffee and tea industries to provide the basis for formulating the new policy and strategy for promoting farmers' organisations. The study should also determine the status of the assets financed by loan funds and recommend whether they could be restructured to reduce losses to society in general (ref.para.4.5.3, 7.2.2).

- 7.3.2.1.2 It is further recommended that the Bank Group should assist the GOU with financing the above-cited study, which should, through a participatory approach, involve all key stakeholders and beneficiaries.

#### 7.3.2.2 **Food crops sub-sector**

- 7.3.2.2.1 The Bank Group funded a poorly designed project in Olweny in the beginning, though efforts were later made to redesign the project. It is therefore recommended that the Bank Group should liaise with the Borrower (GOU), the executing agency (MAAIF), the Ministry of Local Government (MoLG) and the

farmers to salvage the project, by deciding what to do at Agwata and at Itek/Okile as soon as possible before the newly built infrastructure deteriorates and technical staff gets lost. It is also recommended that GOU should make a stronger effort to salvage the nuclear farm for seed development, rather than scrap the entire Agwata site, to minimise the loss to the beneficiaries from this portion of the ADB loan, which the beneficiaries are still paying back; and that GOU should improve its procedures for the release of funds in order to retain its technical staff and assets not privatised, in good quality.

### 7.3.2.3 Livestock sub-sector

**7.3.2.3.1 It is recommended that for projects involving large-scale procurement and distribution of livestock, and which involve many risks, especially associated with insecurity, thefts, transportation, deaths of animals, inappropriate selection of animals, etc., GOU should let the procurement be handled by experienced and professional organizations that are independent of the executing agency (ref.4.4.6/7, 7.2.5).**

7.3.2.3.2 Ranching as a strategy for livestock development requires large tracts of land. While the strategy is quite relevant and can be economically and financially viable, careful evaluation of the social and economic impacts on the wider community requires to be made to avoid risks of social disruption. To be a sustainable strategy, it is recommended that for ranching programmes, GOU should involve, through participatory approach, all relevant stakeholders to design acceptable programmes.

### **7.3.2.4 Sugar sub-sector**

7.3.2.4.1 The broad and specific experiences and lessons from this review evaluation have brought to focus the need for stronger and more active "after care" relationships between the Bank Group and the GOU. Presently, the Bank Group's commitments do not go beyond project completion, although the GOU and beneficiaries are expected to continue to support and sustain project operations so that benefits continue to flow to society. However, as new policies evolve (dictated by changes in the macroeconomic environment), it is recommended that the Bank Group, through a process of continuous dialogue with the Borrower, plays an active role in ensuring that there are "*after care programmes*" that should safeguard or at least minimize the adverse impacts of new policies on the investments it has supported, which would help avoid the projects ending up as "white elephants". In otherwise successfully completed projects, important components that were not implemented due to poor appraisal would enhance the flow of benefits to society and sustainability if taken up in an "*after care programme*" by the Bank Group and the government, especially where these components have a social dimension which is unlikely to be fully met by the private sector. Examples include: (i) implementation of the irrigation components to stabilize cane yield and to enhance environmental sustainability at both KSW and SCOUL; and (ii) improvement of the pricing formula for sugarcane, and an overall evaluation of the outgrowers' schemes at KSW and SCOUL, to ensure

equitable distribution of benefits to the estates and the outgrowers; OSRIP (environment and technical problems); SIRP and DRP (privatisation policy); and the cash crops sub-sector (formulating policies and strategies to restructure the Cooperatives).

### **7.3.2.5 Micro finance sub-sector**

7.3.2.3.1 It is recommended that GOU, while promoting the micro finance industry in the country, should adopt the "Management Tools for Best Practices" to the Uganda situation in order to (i) facilitate and increase rural outreach, (ii) finance smallholder agriculture, and (iii) to reflect new innovations that are focused on building the confidence of the poor and assisting them to systematically climb out of poverty, such as those in the Grameen II model. It is further recommended to the Bank Group that for its future micro-finance projects, institutional and capacity building as well as initiatives to promote environmental sustainability should be systematically incorporated into the poverty eradication strategies, including micro finance strategies.

## **7.4 The Way Forward**

7.4.1 While the future evolution of the Bank Group's agricultural assistance strategy in Uganda will be greatly influenced by (a) its own Ten-Year Agriculture and Rural Development Sector Policy, (b) the GOU's PMA and PEAP frameworks, which have become the comprehensive national development guidelines for Uganda's economic development policy (para. 2.3.5, 3.2.4), and (c) the relative importance of other donor interventions in the sector, the Bank Group's future assistance strategy to Uganda agriculture and rural development sector should, as a way forward and as guided by PMA, focus on those areas in which it has created niches and comparative advantages, namely: rural micro-finance, agro-processing, livestock and fisheries, and small scale irrigation.

### **7.4.2 Rural Micro-finance**

7.4.2.1 The ADB Group has accumulated experience and lessons learned, ahead of other donors in micro-finance, through its past efforts in the Rural Farmers' Scheme, the Poverty Alleviation Project (PAP) and the ongoing Rural Micro-finance Support Project (RMSP). The ADB Group also has a Regional Micro-finance Support Programme known as the ADF Micro-finance Initiative for Africa (AMINA), which supports and complements its programme in individual countries. Through its country programmes and AMINA, it has evolved an accepted philosophy that the working poor should be assisted through the provision of financial services, and not handouts, which are not sustainable. What the ADB Group needs to do is to improve the design of micro-finance, incorporating some of the most modern approaches (particularly from the Grameen II model) to address the critical problems already identified, such as:

- (i) How to improve the performance of solidarity groups, not only to provide pressure for loan repayments (as substitute for collateral) but also to acquire entrepreneurial skills and basic business practices that

enable their members to become better bankable customers, and to climb faster out of poverty.

- (ii) How to overcome the constraints to commercialization where smallholders who access micro credit to raise productivity get stuck with collapsed farm gate prices in small rural markets.
- (iii) How to lend to different enterprises in agriculture by varying: the loan size (for crops, livestock etc); the loan duration (tailored to the gestation period of the agricultural enterprise, e.g. annual versus seasonal crops); and the size of the repayment installment to enable farmers repay larger lump sums at harvest, and smaller sums during the lean seasons etc.
- (iv) How to expand outreach so that micro-finance is not just in urban and peri-urban areas, but goes genuinely rural, where the majority of the poor live.
- (v) How to mobilize savings so that they become a larger source of financing and gradually replace donor funds. The ADB Group needs to study the incentives that attract mass saving e.g in the Grameen II Model, such as: the possibility to co-own the financial institution by contributing to compulsory savings which are translated into shares, to increase the equity of the institution, and from which the client also earns a dividend; the possibility to build up a retirement benefits scheme for the working poor, where they are enabled to contribute to fixed savings for up to 10 years etc, then draw upon the facility during their old age (the facility in the meantime builds up resources for the financial institution); and the possibility to build up voluntary savings which are accessible to the poor all the time, but well managed to earn a modest interest to compensate for parting with cash.
- (vi) How to set up a baseline, and a management system that tracks performance of the financial portfolio, and identifies the contribution of micro-finance to poverty alleviation.

7.4.2.2 The ADB Group has a comparative advantage to build a micro-finance industry that addresses the above constraints. It is already familiar with these issues from its past experiences in Uganda, by revising its Transformation Model attached to the Operations Manual (2000), and improving the implementation of the RMSP.

### 7.4.3 Agro-processing, with emphasis on Outgrowers Development

7.4.3.1 The study noted the contribution that outgrowers could make towards successful commercialisation of crop production (in sugar, seeds industry, Olweny Swamp Rice). The ADB Group could extend this concept to crop and livestock production in general, and identify suitable intervention strategies

that could contribute towards agricultural transformation in Uganda. More specifically, ADB Group could have a comparative advantage over other donor groups in the revival and restructuring of the farmers Cooperatives, to operate as viable business organizations or Corporations, with strong member democratic control and participation. The Cooperatives offer many advantages for transforming rural areas and eradicating poverty. For instance, they can operate micro-finance services, foster marketing and agro-processing services, organise farmers as outgrowers, offer education and social services, etc. They are suitable for introducing innovations in agricultural development, for instance organic farming to supply special products, and extension and advisory services.

7.4.3.2 The Bank Group has had experiences with the Cooperatives before when it financed the cotton ginneries and coffee hulleries of the Cooperative Unions. Government has recently realised the mistakes of past policies, which sidelined and marginalised the Cooperatives during the past fifteen years, and is now in the process of formulating a new Cooperative sector policy and strategy. This is the moment that the Bank Group could come in for a deeper dialogue with Government. In terms of banking business, the growth of Cooperatives has the potential to increase the demand for micro-finance services and for commercial loans, especially through lines of credit approach.

#### 7.4.4 **Livestock and Fisheries**

7.4.4.1 The Bank Group financed the Ranch Rehabilitation Project in the early 1980s, and the Dairy Rehabilitation Project much later on. The former project was unsuccessful due to factors elaborated in the study, while the latter project contributed to increased milk production, though its sustainability under the Dairy Corporation is questionable. The focus of these projects was, however, increased production of livestock numbers and livestock projects. The Bank Group is currently considering a new Livestock Development Project, which will focus on increased livestock numbers and eradication of poverty. The Bank Group is already financing a Fisheries Development Project, which will substantially increase quality fisheries products.

7.4.4.2 Based on the study's findings, a great deal of the donor interventions in the livestock and fisheries sub-sectors have focused on creating the environment for increased production of these species - i.e research, animal disease control, etc. The ADB Group interventions, on the other hand, have focused on actual increased production. The Bank Group, through earlier interventions, no doubt, built up experiences in this field. The current macro-economic environment is much better than before, and the Bank Group has the potential to invest in increased production of livestock and fisheries.

#### 7.4.5 **Small-scale Irrigation**

7.4.5.1 This is an area where there is potential to not only create systems that can

transform agricultural production and rural development, but also where unique innovations are possible. For instance, the Olweny Swamp Rice Irrigation Project shows the possibilities for creating an innovative agricultural production system within a catchment area of about 1,000 sq. km where about half a million people live. The scheme poses some technical and environmental challenges, but with proper research and adequate technical support these can be overcome.

- 7.4.5.2 Small-scale irrigation can be introduced in several other areas of Uganda to promote high value crops. It has potential for backward linkages in input supply and equipment development, and forward linkages in crop processing and marketing. It has also the potential for generating demand for increased micro-finance services and development loans. It is therefore an area where the Bank Group can have a real niche.

## SUMMARY OF BANK GROUP AGRICULTURAL SECTOR PROJECTS/OPERATIONS

| <i>Project</i>                                      | <i>Date<br/>Approved</i> | <i>Amt<br/>App'ved<br/>&amp; Source<br/>(UA Mill).</i> | <i>Amt Disbursed<br/>(UA Mill)</i> | <i>Key Intermediate Outputs<br/>and Location of Activity</i>                                                                                                                                                                                                                                                                            | <i>Beneficiaries</i>                                                                                                       | <i>Current Status</i>                                                                                                                                                                               |
|-----------------------------------------------------|--------------------------|--------------------------------------------------------|------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 1. Ginneries Rehabilitation<br>* Supplementary Loan | Nov. 1974<br>June, 1981  | 4.800 BANK<br>7.800 BANK                               | 4.149<br>7.800                     | (i) 3 New ginneries-Nyakesi (Tororo)<br>Nyakatonzi (Kasese) Iceme (Apac).<br>(ii) 5 rehabilitated/modernised ginneries:<br>Rhino Camp, Coorom, Kitgum, Ngetta, Kachumbala<br>(iii) 4 refurbished ginneries: Jaber, Kobulubulu, Iki Iki, Kabole                                                                                          | * South Bukedi, Nyakatonzi, ,<br>Lango Coop. Unions.<br>* C.W. Nile, W/Acholi, E/Acholi,<br>Teso,North Bukedi Coop. Unions | * 3 new ginneries are operating<br>* 5 rehabilitated ginneries<br>operating<br>* One ginnery sold to private sector                                                                                 |
| 2. Tea Factories<br>* Supplementary Loans           | Oct. 1976<br>Dec. 1980   | 5.000 BANK<br>10.000 BANK                              | 5.000<br>6.397                     | (I) 3 tea factories to be built in Mityana, Kyenjojo, Buhweju<br>each with capacity to produce 1.2 mill kgs of made tea.                                                                                                                                                                                                                | * UTGC<br>* Small holder tea growers in 3<br>areas of the factories.                                                       | * Factories not built<br>* Small holders are supplying<br>tea to other factories                                                                                                                    |
| 3. Coffee Rehabilitation                            | June, 1980               | 7.368 ADF                                              | 7.368                              | (i) 2 factories reconstructed at Kakoba in Mbarara & Kallsizo<br>in Rakai.<br>(ii) 20 coffee factories rehabilitated<br>(iii) 500 moisture metres<br>(iv) 42-8 ton & 10 30-ton trucks supplied                                                                                                                                          | * Six Coo. Unions: Masaka,<br>Banyankole, Wamala, W/Mengo,<br>East Mengo, Bugisu                                           | * Coffee factories are no longer<br>working except Bugisu Cooperative<br>Union Coffee Factory.                                                                                                      |
| 4. Ranch Rehabilitation                             | June, 1980               | 10.000 BANK                                            | 9.983                              | i) 49 ranches instead of 80 ranches received loans<br>ii) 12 ranches destroyed in the north leaving 37 ranches,<br>further 5 destroyed in the West.<br>iii) UDB offices established in Masindi, Gulu & Lyantonde<br>but closed later due to insecurity.<br>iv) 12,960 cattle imported, of which 11,490 were distributed<br>to ranchers. | * Uganda Dev't Bank (UDB)<br>* 49 ranches instead of 80 ranches.                                                           | * Few ranches are operational<br>* 8 ranches transferred to NPART for<br>mandatory loan recovery<br>West destroyed<br>* Some ranches being restructured<br>under the Ranch Reconstruction<br>Board. |
| 5. Dairy Rehabilitation                             | June, 1985               | 12.904 ADF                                             | 8.193                              | i) Support to Vet Dept. (MAAIF) extension and AI<br>ii) 3 Stock/Breeding Farms: Njeru, Rubona, & Nshara<br>iii) Dairy Corporation: processing plants: K'la & Mbarara,<br>70 milk cooling plants, trucks & tankers for milk collection/<br>Transportation.                                                                               | * MAAIF<br>* Dairy Corporation<br>* Dairy Farmers                                                                          | * Dairy Corporation operating<br>at high costs and losses<br>* AI Services to cost 2 or 3 times<br>when privatised<br>* Milk collection plants financed<br>entirely by DC                           |

| <i>Project</i>                          | <i>Date Approved</i> | <i>Amt Appvd &amp; Source (UA Mill).</i> | <i>Amt Disbursed (UA Mill).</i> | <i>Key Intermediate Outputs and Location of Activity</i>                                                                                                                                                                                                        | <i>Beneficiaries</i>                                                                                                           | <i>Current Status</i>                                                                                                                         |
|-----------------------------------------|----------------------|------------------------------------------|---------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------|
| 6. Lugazi Sugar Industry                | Sept. 1982           | 15.000 BANK                              | 14.943                          | i) Factory rehabilitation, distillery installation<br>ii) Plantation-9000 ha rehabilitated<br>iii) Social & physical infrastructure, including housing, roads, etc<br>iv) Outgrowers Scheme                                                                     | * SCOUL<br>* 400 outgrowers (not financed by project)                                                                          | *Operating at 55% of capacity utilization but increasing                                                                                      |
| 7. Kakira Sugar Works                   | Dec. 1987            | 6.857 BANK<br>7.338 ADF                  | 6.856<br>7.337                  | i) Factory and plantation rehabilitation including irrigation<br>ii) Outgrowers scheme-3,666 ha<br>iii) Social infrastructure                                                                                                                                   | *KSW<br>* 1521 Outgrowers growing cane on 3,666 ha                                                                             | *Operating at 75% of capacity utilization                                                                                                     |
| 8. Olweny Swamp Rice Irrigation Project | Dec. 1986            | 15.657 ADF                               | 14.926                          | i) 760 ha of rice farms developed at Itek/Okile & 50 ha developed at Agwata site in Olweny Swamp, East Lira district<br>ii) infrastructure-headquarters, stores, roads, buffer dams, channels, etc                                                              | *About 2,300 small farmers (target is 3,000 farmers)<br>*Local Co-operatives now being organized<br>*Lira District Local Govt. | * Being developed by MAAIF & Lira DLG<br>*Problems with pumping water out of fields in Agwata<br>*Environmental design problems at Itek/Okile |
| 9. Seed Industry Rationalisation        | Aug. 1991            | 6.447 ADF                                | 6.302                           | i) Legal & regulatory functions organized through seed certification & quality control<br>ii) Seed production, processing & marketing to be privatized<br>iii) Support to National Seed Industry Authority<br>iv) Support to seed production through outgrowers | *MAAIF-Uganda Seeds Project<br>*About 200 outgrowers<br>*Five private seed companies have entered the industry                 | *Production of seeds has exceeded target<br>*But there is delayed privatization of Uganda Seeds Ltd. By the GoU                               |
| 10. Poverty Alleviation Project (PAP)   | Aug. 1993            | 9.210 ADF                                | 9.210                           | i) Credit delivery mechanism to categories of the population defined as poor<br>ii) Technical & institutional support to IEs                                                                                                                                    | *70 Intermediary Entities<br>*24,200 borrowers in 29 districts                                                                 | *Project is being continued or replaced under RMSP                                                                                            |

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| <i>Project</i>                                           | <i>Date Approved</i> | <i>Amt Appvd &amp; Source (UA Mill).</i> | <i>Amt Disbursed (UA Mill).</i> | <i>Key Intermediate Outputs and Location of Activity</i>                                                                                               | <i>Beneficiaries</i>                                                                                                                    | <i>Current Status</i>                                                                            |
|----------------------------------------------------------|----------------------|------------------------------------------|---------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------|
| 11. Rural Micro finance Support Project (RMSP)           | Nov. 1999            | 13.000 ADF                               |                                 | * Micro finance Support Centre Ltd (MSCL)<br>* Capacity building for 80 IEs in 56 Nationwide                                                           | Target: to reach 71,000 Borrowers in 5 years                                                                                            | * On-going                                                                                       |
| 12. Agric. Line of Credit to UCB (Rural Farmers' Scheme) | Nov. 1987            | 13.100 ADF<br>1.840 ADF/TAF              | 12.022                          | * Rural farm credit system consisting of: Initially 25 but increased to 52 UCB branches, 8 regional offices, input supply system, housing improvements | * Targeted 15,000 farm Borrowers, 30% of borrowers to be women.                                                                         | * Completed project, Status of benefits cannot be established because project had no data bases. |
| 13. NorthWest Small holder Development Project           | Dec. 1999            | 17.600 ADF                               | 0.00                            | * Five key components: Production enhancement, Market opportunities, Rural infrastructure, Micro-credit, Coordination and Management.                  | * 51,000 farm families as Direct beneficiaries, in general Over 200,000 households Would be affected.                                   | * On-going                                                                                       |
| 14. Area-Based Agricultural Modernisation Programme      | Sept. 2000           | 9.672 ADF                                | 0.00                            | * Four key components: Agricultural commercialisation, Rural Infrastructure (700km of feeder roads), Community mobilisation, Programme facilitation.   | * 20% of smallholders Marketing 50% of their produce, 60% of smallholders accessing Services, 30% of farmers receiving credit, and MoLG | * Not yet launched by the time of Study.                                                         |
| 15. Seed Farms and Food crops Study                      | June. 1985           | 1.041 ADF/TAF                            | 1.022                           | * Report on Seed Farms & Food Crops                                                                                                                    | Ministry of Agriculture, Animal Industry & Fisheries (MAAIF).                                                                           | * Study resulted in the Seed Industry, Rationalisation Project, financed by Bank Group in 1991   |

| <i>Project</i>                               | <i>Date Approved</i> | <i>Amt Appvd &amp; Source (UA Mill).</i> | <i>Amt Disbursed (UA Mill).</i> | <i>Key Intermediate Outputs and Location of Activity</i>                                                        | <i>Beneficiaries</i>                                          | <i>Current Status</i>                                                                             |
|----------------------------------------------|----------------------|------------------------------------------|---------------------------------|-----------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------|---------------------------------------------------------------------------------------------------|
| 16. Agricultural Finance Institution Study   | Nov. 1989            | 0.276 ADF/TAF                            | 0.213                           | * Report on the Feasibility of Establishing an Agricultural Finance Institution.                                | Ministry of Agriculture, Animal Industry & Fisheries (MAAIF)  | Project completed with no follow-up. Agricultural Finance Institution was considered not feasible |
| 17. Wheat & Barley Devt Study                | Dec. 1989            | 2.634 ADF/TAF                            | 2.538                           | * Recommendation to expand wheat production based on 3 wheat varieties that were tested and found to be viable. | * Uganda Grain Milling Co., Uganda Breweries, Nile Breweries. | * No follow-up on implementation of recommendations to expand wheat production.                   |
| 18. Kakira Sugarcane Outgrowers Scheme Study | April. 1993          | 0.387 ADF/TAF                            | 0.363                           | * Report recommending expansion of Outgrowers' scheme.                                                          | Kakira Sugar Works, Over                                      | * Project Implemented and financed by KSW.                                                        |
| 19. Small-Scale Agriculture Study            | July. 1993           | 0.599 ADF                                | 0.484                           | Project document on Northwest Smallholder Development Project.                                                  | * Ministry of Agriculture, Animal Industry & Fisheries        | Northwest Smallholder Devt. Project now being implemented by MAAIF                                |
| 20. Meat Production Master Plan Study        | July.1993            | 0.682 ADF/TAF                            | 0.422                           | * Feasibility Study Report, and Project Preparation Document for Livestock Development Project.                 | Ministry of Agriculture, Animal Industry & Fisheries (MAAIF). | * Livestock Devt. Project prepared in October 2001 & awaiting appraisal in early 2002.            |
| 21. Fisheries Master Plan Study              | Nov. 1993            | 0.543 ADF/TAF                            | 0.350                           | * Report on Project Preparation Document on Fisheries Devt. Project.                                            | Ministry of Agriculture, Animal Industry & Fisheries (MAAIF). | Fisheries Development Project Approved & is awaiting implementation                               |

Sectoral Distribution of Total Bank Group Operations (UA Millions) as at 31<sup>st</sup> October 2001

| Sector            | 1968-79      |              | 1980-89       |               | 1990-92       |               | 1993-95      |              | 1996-98      |           | 1999-01       |             | Total         |               |
|-------------------|--------------|--------------|---------------|---------------|---------------|---------------|--------------|--------------|--------------|-----------|---------------|-------------|---------------|---------------|
|                   | A            | D            | A             | D             | A             | D             | A            | D            | A            | D         | A             | D           | A             | D             |
| Agriculture       | 9.80         | 9.15         | 96.88         | 87.58         | 6.45          | 6.30          | 2.21         | 1.62         | 7.90         | 0.00      | 27.27         | 0.00        | 150.51        | 104.7         |
| No. of Operations | 2            |              | 12            |               | 1             |               | 4            |              | 2            |           | 2             |             | 23            |               |
| Industry          | 3.50         | 3.50         | 1.11          | 1.02          | -             | -             | 0.47         | 0.44         | 4.02         | 0.00      | -             | -           | 9.10          | 4.96          |
| No. of Operations | 1            |              | 1             |               | -             |               | 1            |              | 1            |           | -             |             | 4             |               |
| Transport         | 6.00         | 5.73         | 28.08         | 24.77         | 33.94         | 23.72         | 3.20         | 1.71         | 8.26         | 0.98      | 15.00         | 0.00        | 94.48         | 56.91         |
| No. of Operations | 2            |              | 4             |               | 5             |               | 1            |              | 1            |           | 1             |             | 14            |               |
| Water             | 3.73         | 3.10         | 13.82         | 13.81         | -             | -             | -            | -            | -            | -         | 1.57          | 0.00        | 18.92         | 16.61         |
| No. of Operations | 3            |              | 1             |               | -             |               | -            |              | 0            |           | 1             |             | 5             |               |
| Energy            | -            | -            | -             | -             | 33.42         | 18.37         | 1.46         | 0.48         | 18.00        | 6.72      | 1.65          | 0.00        | 54.53         | 25.57         |
| No. of Operations | -            |              | -             |               | 2             |               | 1            |              | 1            |           | 1             |             | 5             |               |
| Finance           | -            | -            | 43.82         | 41.72         | 29.67         | 16.16         | -            | -            | -            | -         | -             | -           | 73.49         | 57.88         |
| No. of Operations | -            |              | 3             |               | 2             |               | -            |              | -            |           | -             |             | 5             |               |
| Social            | -            | -            | 10.74         | 10.07         | 39.51         | 32.82         | 36.51        | 30.05        | -            | -         | 69.82         | 0.00        | 156.58        | 72.94         |
| No. of Operations | -            |              | 4             |               | 2             |               | 3            |              | -            |           | 6             |             | 15            |               |
| Multi-sector      | -            | -            | 27.63         | 27.53         | 27.50         | 27.32         | -            | -            | 30.22        | 14.32     | -             | -           | 85.45         | 69.17         |
| No. of Operations | -            |              | 1             |               | 2             |               | -            |              | 3            |           | -             |             | 6             |               |
| <b>Total</b>      | <b>22.83</b> | <b>21.48</b> | <b>222.08</b> | <b>206.50</b> | <b>170.49</b> | <b>124.69</b> | <b>43.85</b> | <b>34.30</b> | <b>68.40</b> | <b>22</b> | <b>115.31</b> | <b>0.00</b> | <b>643.06</b> | <b>408.99</b> |

|  |   |    |    |    |   |    |    |
|--|---|----|----|----|---|----|----|
|  | 8 | 26 | 14 | 10 | 8 | 11 | 77 |
|--|---|----|----|----|---|----|----|

Comment

Source: Operations Evaluation Department - African Development Bank, Abidjan.

Note: A = Amount approved; D = Amount disbursed, in UA millions.

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## STAKEHOLDERS' WORKSHOP PROCEEDINGS

### 1.0 Introduction

- 1.1 Held at Colline Hotel, Mukono on 26 February, 2002 as part of the participatory process, the specific objectives of the Workshop was to present the findings of the Study and generate feedback from various stakeholders. The participants were multi disciplinary.
- 1.2 **During the Opening: Mr. George Otim, Assistant Commissioner, Agricultural Planning, Ministry of Agriculture, Animal Industry and Fisheries (MAAIF) who represented the Permanent Secretary, MAAIF, underscored the importance of the Workshop as a forum for stakeholders to have first hand information on the Impact of Bank Group assistance to the Agriculture and Rural Development Sector of Uganda during the past 30 years.**
- 1.3 **Mr. Charles Ogol, Aid Liaison Department, in the Ministry of Finance, Planning and Economic Development (MFPED), informed participants that the GoU through MFPED has received 50 loans from Bank Group worth UA 604 million and Agricultural Sector has received the largest share of the funding (27%).**
- 1.4 **Mr. Emmanuel K.N. Mpande who represented the Bank Group, highlighted the current trends in development process. He contrasted the approach to project formulation of the 1960s and 1970s which was donor led, to the current situation in which beneficiary communities are closely consulted in the development process. He further noted the participatory approach involving, bottom-up planning process and a decentralised framework involving local government, noting that Bank Group emphasizes participatory approaches and the Workshop therefore, provided the opportunity for the agricultural sector stakeholders to assess what Bank Group assistance over the years had accomplished, appreciate the levels of success/failures, and take the lessons learnt and use them to retune or redirect resources for the future.**

2.0 Workshop Opening by the Hon. Minister of State for Agriculture, Animal Industry and Fisheries (MAAIF) – Dr. Fabius Byaruhanga

- 2.1 **Hon. Minister welcomed participants and appreciated the Bank Group's effort in carrying out the Study and hoped that the results of the Study would provide critical answers to the achievements of projects objectives, the immediate and wider interventions, impacts and value for money spent. He further reiterated that although, Agriculture was the backbone of Uganda's economy, it remained at subsistence level of production characterized by rudimentary technologies, minimum utilization of complimentary inputs in Crop, Livestock and Fisheries Sector, dependency on rain water and family labour, inadequate access to credit, Poor Handling and Processing of Products, Inadequate Markets etc., all of which have hampered sectoral growth. The Hon. Minister highlighted the objectives of the Plan for Modernisation of Agriculture (PMA) including its critical intervention areas, and the holistic sector-wide approach. He noted that, within the context of the PMA, the Bank Group had recently, approved Fisheries Development Project and is awaiting the appraisal of a Livestock Development Project, while the North-West Small-holder Development Project was on going. He commended the Bank Group, the European Union (EU) and**

**the World Bank (WB) for the assistance they were giving and declared the Workshop open.**

### **3.0 Vote of Thanks by Farmers' Representative – Mr. Daniel Wanzala**

- 3.1 Mr. Daniel Wanzala, moved a vote of thanks for the enlightening presentation of the Minister. He concurred that Agriculture solved many peoples' problems, emphasizing the task to modernise it as a daunting challenge.
- 3.2 He called upon government to recognize the farmers, develop conducive policies, build capacity of peasants, and improve interaction amongst stakeholders.

### **4.0 Presentation of Consultants' Report**

- 4.1 Presentation of the report was in three parts: the overview and presentation of slides taken in the field by Mr. Lawrence E. Eturu, and presentation of findings of the Study by Dr. Germina Ssemogerere, followed by discussions.
- 4.2 The major discussion on the performance evaluation of the Bank Group assistance to the country's agriculture and rural development sector, was centred on: the relevance and quality at entry, achievements of objectives and outputs (efficacy), efficiency, institutional development impact, and sustainability.

#### **4.2.1 Participants raised Questions, Comments, Observations etc, summarised below:-**

- 1) They noted lack of implementation of tea factories project, exploitation by private tea factories, non-negotiation on prices and wondered who would address the needs of the farmers. Tea Unit (TU) staff clarified that since privatisation came into effect, Government/MAAIF paid little attention to the tea sector. TU, therefore, was set up to fill in this gap and currently had a budget of 200 million shillings for research.
- 2) They wanted the report on cotton ginneries to be submitted to government to address problems which were impoverishing farmers such as licensing fees on exports, Cess and pesticide levy. Currently farmers are growing less cotton and some are even threatening to abandon the crop and that procurement by CDO of pesticides spray pumps, seeds and their distribution all affected farmers and ginneries negatively. They said that cotton would be more profitable if value was added and wondered whether the Bank Group would provide yarn processing machines.
- 3) They sought clarification on the rationale of the seed project not getting in touch directly with farmers but through the extension service and yet the seed project mandate was to empower stockists to deliver services nearer to farmers.
- 4) The sugar industry; SCOUL, representative agreed with the study team that the company used its own resources for swamp reclamation and the replacement of boilers. The delays in disbursements of funds in 1980 – 1986 period caused the project costs to shoot up due to high interest rates on loans at 14.5% and

should be considered in rating project successes/failures. Late entrants such as Kakira Sugar Works projects in 1990s never, experienced these problems.

- 5) Electric pump replaced diesel ones at Olweny and at Okile Irrigation which resulted in flooding thus reducing cultivatable rice acreage, an environmental problem to be addressed by NEMA.
- 6) Noted that contradictory policies, which are implemented by government frustrated projects, e.g. the government through PL 480 negotiated with USAID to flood market with cheap oil, yet the project to produce oil had bought machinery for this purpose. The coffee sector was also liberalised yet rail transport was not, and this led to coffee exports losing profits on borrowed money.
- 7) They noted negative impacts created by lack of project Monitoring and Evaluation by both the Lender and the Borrower and suggested this should be addressed as well as financial and performance audits including project staff training in procurement.
- 8) That agricultural prices were too low and there were no subsidies, and this had caused farmers to abandon some crops e.g. cotton. They therefore, proposed use of subsidies.
- 9) That Cooperative Societies were in bad shape; non-functioning due to Liberalisation Policy and wondered whether Government would address this issue.
- 10) They noted that the report of the study did not adequately address the socio-economic impacts of projects reviewed and recommended this to be done<sup>1</sup>.
- 11) Lack of Entrepreneurship skills and failure to identify the right people for the right jobs at grassroots levels was cited as a problem leading to project failure. Realised that entrepreneurship skills training for people in both private and public sector was very necessary.
- 12) They wanted to know whether Bank Group policy had shifted in favour of private sector.

#### **4.2.2 Study Team's Responses**

- 1) Tea out-growers needed to have a voice in the Tea policy and Tea Department project or else they would be marginalised.
- 2) Need to have institutional linkages amongst farmers, farmers' organisations, outgrowers or Cooperatives to ensure seeds for farmers and other beneficiaries.
- 3) They commended the use of electricity at Olweny; although high tariffs were noted as prohibitive. Farmers did not have technical capacity to deal with environmental problems at Okile. The Bank Group would need dialogue with NEMA in this. A Study was needed to improve irrigation system. The study team further noted that although the policy required Olweny to be decentralized for sustainability, a lot of impediments existed e.g. unreadiness of the Local Government to pay extension staff. Other problems included lack of appropriate hullers and stiff competition with cheap rice from Pakistan.

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<sup>1</sup> This issue has since been addressed in Chapter 6 of the Main Report.

### **4.2.3 Other Responses**

- 1) On the Bank Group providing, yarn processing machines, the Chairperson informed the participants that Bank Group works with Government to provide loans. This required writing a proposal, submission to PMA, MFPED and finally to the Bank Group.
- 2) Mr. Mpande informed the participants of the private window for private individuals to access loans and outlined the procedures to be followed. He acknowledged the importance of Monitoring and Evaluation of projects today unlike in the 1970s. He also said the Bank Group's mandate is changing as money is shifting more and more to the private sector for production and marketing activities, while the Public sector is being assisted to promote growth through establishing a conducive and enabling environment for private sector investment, such as infrastructure, agricultural research, extension, institutional and capacity building.
- 3) On lack of entrepreneurial skills, Mr. Mpande informed participants that food security involving growing of crops with comparative advantage and using profits for other requirements was the major emphasis of projects today unlike self sufficiency of the past.
- 4) Mr. Ssekitooleko, Head of the Tea Unit, MAAIF, revealed that there was a process in place to formulate a tea policy and tea development programme where farmers' problems, including prices, would be tackled.

### **4.3 Farmers/Beneficiary Representative remarks on how to improve Performance of Projects.**

- 1) Farmers' human resource capacity need to be developed to allow capacity for networking with other stakeholders.
- 2) Institutional strengthening should be undertaken to foster production of competitive products.
- 3) Post-harvest handling, storage and agro-processing infrastructure to be formulated and developed.
- 4) Farmers to be involved in project planning and management.
- 5) Enhance farmers' capacity through skills development, in irrigation, water-harvesting, and environmental conservation.
- 6) Provision of clear agricultural sector policy and production credit.

### **5.0 Workshop Closure by the Permanent Secretary, MAAIF**

- 5.1 Mr. George Otim, who represented the Permanent Secretary, MAAIF, thanked the participants and the study team. He noted that 2 out of 12 projects (16.7%) were highly satisfactory and this was important lesson to proper project planning and management in the future. He noted that complaints could be made against Government's borrowing of money without tangible results or outputs. He hoped participants had grasped the reasons why some projects succeeded while others failed.

## **5.2 Vote of Thanks – Mr. Emmanuel Mpande on behalf of the Bank Group**

5.2.1 He thanked the participants, Workshop coordinators, organisers and the study team for effective participation. He was grateful for the quality of presentation, discussion and deliberation.