

Distribution: Restricted
Original: English

EB 2004/82/R.10
Agenda Item 7(b)

4 August 2004
English

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IFAD
INTERNATIONAL FUND FOR AGRICULTURAL DEVELOPMENT
Executive Board – Eighty-Second Session
Rome, 8-9 September 2004

REPUBLIC OF UGANDA

COUNTRY STRATEGIC OPPORTUNITIES PAPER

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CURRENCY EQUIVALENTS

Currency unit	=	Ugandan shilling (UGX)
USD 1.00	=	UGX 1 850.00
UGX 1.00	=	USD 0.0005405

WEIGHTS AND MEASURES

1 kilogram (kg)	=	2.204 pounds
1 kilometre (km)	=	0.62 miles
1 square metre (m ²)	=	10.76 square feet
1 metre (m)	=	1.09 yards
1 ton (t)	=	1 000 kilograms
1 acre (ac)	=	0.405 hectares (ha)
1 hectare (ha)	=	2.47 acres

ABBREVIATIONS AND ACRONYMS

AfDB	African Development Bank
BOU	Bank of Uganda
BSF	Belgian Survival Fund
COSOP	Country Strategic Opportunities Paper
DANIDA	Danish International Development Assistance
DCI	Development Cooperation Ireland
DDSP	District Development Support Programme
DFID	Department for International Development (United Kingdom)
GDP	Gross Domestic Product
GTZ	German Agency for Technical Cooperation
HDI	Human Development Index
HIPC	Heavily Indebted Poor Country
MAAIF	Ministry of Agriculture, Animal Industry and Fisheries
MFPEd	Ministry of Finance, Planning and Economic Development
MTEF	Medium-Term Expenditure Framework
NAADS	National Agricultural Advisory Services Programme
NEPAD	New Partnership for Africa's Development
NGO	Non-Governmental Organization
NPV	Net Present Value
PBAS	Performance-Based Allocation System
PEAP	Poverty-Eradication Action Plan
PMA	Plan for Modernization of Agriculture
PRSP	Poverty-Reduction Strategy Paper
UNDP	United Nations Development Programme
USAID	United States Agency for International Development
UWESO	Uganda Women's Effort to Save Orphans

GOVERNMENT OF THE REPUBLIC OF UGANDA

Fiscal Year

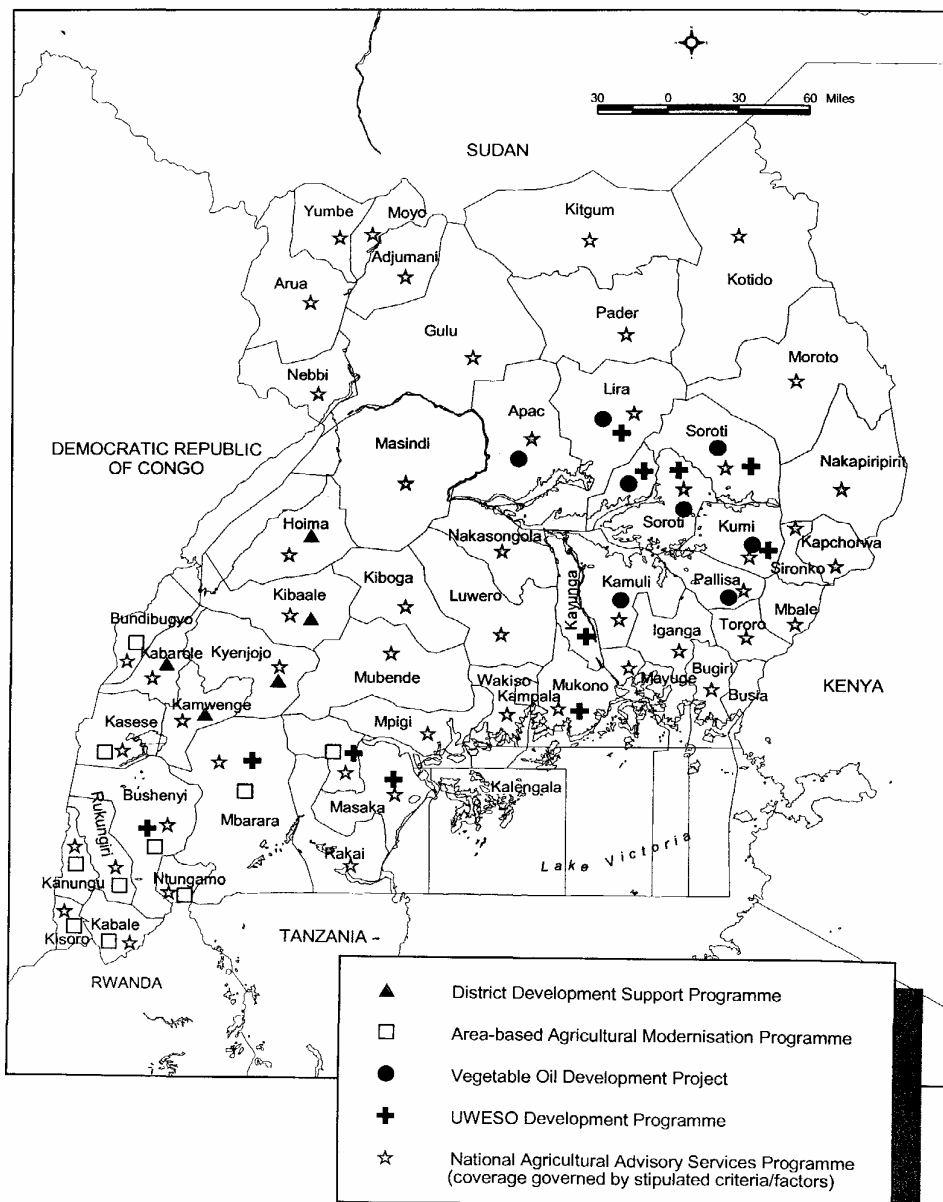
1 July–30 June

I. COUNTRY MAP: LOCATION OF IFAD-FUNDED OPERATIONS



REPUBLIC OF UGANDA

LOCATION OF IFAD-FUNDED OPERATIONS



Source: IFAD

The designations employed and the presentation of the material in this map do not imply the expression of any opinion whatsoever on the part of IFAD concerning the delimitation of the frontiers or boundaries, or the authorities thereof.

IFAD PORTFOLIO OVERVIEW

Project/Programme	Lending Terms	IFAD-Approved Financing (USD million)	Executive Board Approval	Loan Signing	Loan Effectiveness	Project Completion Date	Current Closing Date	Cooperating Institution	Project/Programme Status		
A. Investment Projects/Programmes											
80	Agricultural Reconstruction Programme in Northern and Eastern Uganda	HC	20.033	17-Dec-81	26-Mar-82	18-Apr-82	31-Mar-86	30-Jun-86	IDA	Closed	
159	Agricultural Development Project	HC	14.500	12-Dec-84	26-Feb-85	14-May-86	31-Dec-92	30-Sep-93	IDA	Closed	
510	South West Region Agricultural Rehabilitation Project	HC	12.000	03-Dec-87	23-Feb-88	17-Aug-88	30-Aug-95	28-Feb-96	IDA	Closed	
316	Smallholders Cotton Rehabilitation Project	HC	10.035	02-Dec-92	22-Jan-93	28-Apr-93	31-Dec-96	31-Jan-98	IDA	Closed	
360	Cotton Sub-sector Development Project	HC	12.500	20-Apr-94	26-Jul-94	18-Nov-94	30-Jun-01	31-Dec-01	IDA	Closed	
442	Vegetable Oil Development Project	HC	19.900	29-Apr-97	26-May-98	10-Jul-98	31-Dec-05	30-Jun-06	IDA	Ongoing; to be extended	
482	District Development Support Programme	HC	12.588	10-Sep-98	11-Feb-00	24-May-00	31-Dec-04	30-Jun-05	IFAD	Ongoing; extended	
516	Area-Based Agricultural Modernization Programme	HC	13.220	08-Dec-99	15-Feb-02	20-May-02	30-Jun-08	31-Dec-08	UNOPS	Ongoing	
549	National Agricultural Advisory Services Programme	HC	17.500	07-Dec-00	17-Aug-01	27-Nov-01	31-Dec-08	30-Jun-09	IDA	Ongoing	
591	Rural Financial Services Programme	HC	18.429	05-Sep-02	27-Feb-03	18-Feb-04	31-Sep-11	30-Sep-11	IDA	Ongoing	
Total Investment Projects/Programmes:		10	132.276								
B. Grant Projects/Programmes											
		(BEF million)									
BG05	Hoima-Kibaale District Integrated Community	BSF	330	20-Sep-90	20-Sep-90	11-Oct-91	31-Dec-98	Closed	UNOPS	Closed	
BG09	UWESO Development Project	BSF	50	17-Jun-94	17-Jun-94	06-Feb-95	30-Jun-99	Closed	UNOPS	Closed	
BG15	Masindi District Integrated Community	BSF	150	19-Oct-95	19-Oct-95	28-Mar-96	30-Jun-00	Closed	UNOPS	Closed	
BG30	UWESO Development Programme	BSF	123	06-Jun-00	03-Jul-00	31-Aug-00	31-Sep-04	31-Mar-05	UNOPS	Ongoing	
Total Grant Projects/Programmes:		4	892	inclusive of BEF 239 million for cofinancing of the District Development Support Programme (DDSP)							

NOTE: IFAD assistance to Uganda could be divided into four phases: (i) three projects approved by the Executive Board during the period 1981-87, essentially in support of the Government's reconstruction and rehabilitation effort following the civil war; (ii) 1987-91 when no new lending operations were undertaken and the period was utilized to initiate, jointly with the Government of Belgium, a series of integrated development interventions in support of grass-roots community institution- and capacity-building for producer and community associations; (iii) four innovative projects approved between 1992-98 in exploring smallholder income generation and improved linkages with the organized private sector; and (iv) three equally innovative projects approved from 1999-2002 to enhance smallholder access to markets, technologies and rural financial services under the emergent strategy for the Eastern and Southern Africa region as a whole.

BSF – Belgian Survival Fund

HC – Highly concessional

IDA – International Development Association

UNOPS – United Nations Office for Project Services

EXECUTIVE SUMMARY

1. In the over 22 years of IFAD/Uganda partnership, both parties have remained consistently strong, open and receptive in their commitment to the pursuit of poverty reduction and the raising of rural incomes. The strategic focus of the partnership on agriculture-led poverty reduction and the empowerment of rural Ugandans is amply justified by the country's relatively rich soils and associated agro-climatic conditions; a predominantly rural population (over 85%); consistently credible macro- and microeconomic performance; devolution of significant political, planning, implementation and financial authority and responsibility to elected local councils; and a conducive planning and policy environment – notably including the Government's Poverty-Eradication Action Plan (PEAP) and Plan for Modernization of Agriculture (PMA).

2. Since 1990, IFAD's support to Uganda has focused on two areas: improved production of traditional export crops (e.g. coffee and cotton) and non-traditional, import-substituting commodities (cereals/grains and oilseed crops); and the emergence of producer and commodity associations, with particular attention to women groups. IFAD's operations, especially through the decentralized administrative structures, have mostly been project-based and largely area-specific, to the extent of affording the Fund an opportunity to gain significant field and beneficiary experience, particularly as it relates to core issues confronting rural communities and the rural poor. Within the framework of the PMA and of emergent approaches to coordination and harmonization of development assistance, IFAD's strategic thrusts are to: improve enduring national capacity, in particular for the promotion of strong civil-society organizations and community-based development; raise the ability of decentralized systems of governance and public services to identify and respond to constraints on rural poverty reduction; deepen smallholder access to capital and technology for sustainable increases in on-farm production; and mainstream gender issues and HIV/AIDS prevention and mitigation in rural development processes and activities.

3. In recognition of the significant contribution of external assistance (45-50%) to the annual national budget and of the need to effectively link such support with PEAP and PMA priorities, in 2003 the Government opted against project and area-based donor support, in favour of a shift towards a sector-wide, national programming approach and a general or sector budget-funding mechanism. While such an explicit set of preferences constitutes an opportunity to achieve the objectives of the PMA, it also poses a number of challenges, notably the ensuring of: (a) adequate budgetary 'space' in support of agriculture and rural development, especially in view of the limited budget ceilings normally imposed under the country's expenditure framework; and (b) adequate and close engagement with basic and core rural poverty issues within broad (and often decentralized) mechanisms of sector-wide programmes. While IFAD has explicitly endorsed the shift to a sector-wide approach, the Fund's development assistance would necessarily involve support both for broad sector programmes and for innovative interventions that require highly site-specific approaches and/or for which there are inadequate concrete foundations and successful field experiences for sector-wide scaling up nationally.

4. Building on the first, 1998 country strategic opportunities paper (COSOP) and consistent with IFAD's strategic framework and regional strategy, this updated COSOP provides the basis for translating and operationalizing IFAD's strategies, plans and approaches for poverty reduction in Uganda and contributing to the global Millennium Development Goals. It defines the development focus and guides the Fund's participation in and contribution to the development of a coherent and supportive national planning, policy, institutional and material framework for smallholder agricultural commercialization, consistent with the PEAP and PMA, as well as identifying the limitations of the medium-term expenditure framework. Consequently, the COSOP outlines a tentative programme of support covering the four-year period 2005-08 and comprised of: (a) a nationwide, multi-donor marketing and agroprocessing intervention; (b) a community-based, demand-driven integrated development intervention covering areas of the north and east that are emerging from conflict; and (c) consolidation of the UWESO Development Programme, possibly with Belgian Survival Fund (BSF) grant financing. To enhance the Fund's in-country effectiveness and especially its contribution to policy dialogue, partnership development, knowledge management and institutional development in PMA-related areas, IFAD will mobilize a full-time, local representative in Kampala as part of the Field-Presence Pilot Programme approved by IFAD's Executive Board in December 2003.

REPUBLIC OF UGANDA COUNTRY STRATEGIC OPPORTUNITIES PAPER

I. INTRODUCTION

1. This country strategic opportunities paper (COSOP)¹ articulates plans and intentions of the International Fund for Agricultural Development for the empowerment of Uganda's rural poor so as to reduce their poverty. As an immediate objective, it provides the basis for IFAD's participation in and contribution to the development of a coherent and supportive national strategy, planning, policy, institutional and material framework for smallholder agricultural commercialization. In effect, the COSOP represents the key instrument for translating and operationalizing IFAD's strategies, approaches and plans for poverty reduction in the country, as well as contributing to the global Millennium Development Goals. It defines IFAD's development focus in the country and serves as the basis for portfolio evaluation and the revision of programme direction and organization. It builds on the 1998 COSOP, and remains consistent in substance with both the Government of Uganda's Poverty-Eradication Action Plan (PEAP),² as revised in 2004, and its Plan for Modernization of Agriculture (PMA), as well as with the *Strategic Framework for IFAD 2002-2006* and the *Regional Strategy for Eastern and Southern Africa*.

2. Produced in close collaboration with the Government and shared with a wide spectrum of other key stakeholders and development partners operating and living in the country, the COSOP provides a historical perspective of the macro/microeconomic situation and deepens the understanding of the state of poverty in Uganda. It articulates a framework for development assistance hingeing on the fact that a large majority of the poor live in rural areas and are heavily dependent for their livelihoods on agriculture and agro-based activities. The COSOP takes into account the findings of the National Household Survey 2002/03 (Uganda Bureau of Statistics). It also draws on the conclusions of the February 2004 IFAD Governing Council round-table discussion on the "challenges and opportunities for rural development arising from budget support mechanisms and sector-wide approaches".

II. ECONOMIC, SECTORAL AND RURAL POVERTY CONTEXT

A. Country Economic Background

3. Uganda is a landlocked country occupying a land area of 142 000 km², of which about 44 000 m² are covered by inland water bodies (see map). The altitude ranges normally from 1 000 to 3 000 m above sea level, with mountainous areas to the east and west rising above 5 000 m. The 2002 census estimated the population at 24.7 million, with an annual growth rate of 3.4%. The population is predominantly rural (over 85%), with only 11% living in urban areas – of which 45% (about 1.2 million people) live in Kampala and its suburbs. Women make up 51.6% of the population, with 53% of males and 51% of females below 15 years of age. Uganda was ranked 147 out of 175

¹ This 2004 COSOP for Uganda is an updated version of the first, 1998 COSOP. The basic data and information were furnished by an experienced Ugandan consultant; the initial draft was prepared by the responsible country programme manager, with contributions by the division director, regional economist and members of the programme development team. The draft was widely circulated within and outside Uganda. Comments and observations by officials of the Government, the private sector, non-governmental organizations (NGOs) and development partners were incorporated in a final draft cleared by IFAD's Programme Management Department on 4 June 2004, and approved by the Operational Strategy Committee on 8 July 2004 (OSC 2004/22/PF). The COSOP will be reviewed by the Eighty-Second Session of the Executive Board in September 2004.

² The adoption of a coordinated approach to poverty reduction in Uganda predates the emergence of poverty-reduction strategy papers (PRSPs). Initially produced in 1997, the draft PEAP was subsequently revised and accepted by the donor community in May 2000 as the Ugandan equivalent of a PRSP.

countries in the 2003 Human Development Index (HDI) of the United Nations Development Programme (UNDP) (surveyed in 2001). The proportion of Ugandans presently living on less than one United States dollar (USD) per day is estimated at 38%, down from 56% a decade ago. The PEAP aims to further reduce the figure to about 10% by 2017. The per capita gross domestic product (GDP) stands at USD 239, thus placing Uganda among the poorest countries in the world.

4. Uganda's relatively rich land and natural resource base are suitable for an array of economic activities, ranging from agriculture (defined to include crops, livestock and fishery), forestry and tourism to petroleum exploration and production. In particular, the soils and associated agro-climatic conditions are favourable to the successful cultivation of a wide range of crops virtually throughout the year. About 8% of the area is classified as highly fertile and productive, mostly around the crescent of Lake Victoria; a further 57% is of medium to fair fertility/productivity, mainly south of Lake Kyoga; while the remaining 35% of the land area, mostly north of Lake Kyoga, is of low productivity – with the exception of the Soroti-Kumi-Palisa area, which is of medium to fair productivity. The soils are largely of geomorphic evolution and prone to reduced fertility from continuous cultivation and poor management, especially without the adequate replenishment of nutrients on a regular basis. The use of fertilizer remains very low, at only 16 000-20 000 tonnes (t) of product per year, mainly on estate crops – sugar cane and tea – as well as tobacco. Even though the potential for irrigation is estimated at 202 000 hectares (ha), only about 29% (i.e. 58 000 ha) had been developed for irrigated agriculture as at 2000. Water for livestock remains a problem in many parts, with the present installed capacity of valley dams for water storage adequate to meet only about 15% of the livestock water demand.

5. The country is ruled by a non-party, mass “Movement”, evolved from the original National Resistance Movement – the military grouping that took power in January 1986 following a protracted period of civil disorder. The enactment of the Local Government Act in 1997 devolved considerable political, financial and planning authority and responsibility for administration and development activities to elected local councils.³ In pursuit of the principle that accountability forms the core of good governance, the Government established the Office of Inspector-General of Government in 1991 to combat the problem of abuse of office and mismanagement of public affairs. Reporting directly to the President, the Inspector-General of Government is charged with the general duty of protecting human rights and upholding the rule of law, including combating corruption-related cases. Other initiatives aimed at combating corruption include the strengthening of the Public Accounts Committee, expanded and enhanced capacity of the Auditor-General, operationalization of the national leadership code, and establishment of the Ministry of Ethics and Integrity.

6. Since 1986, Uganda has emerged as one of the strongest and most consistent economic performers in sub-Saharan Africa. Through economic recovery initiatives, economic reforms and strict macroeconomic measures, the triple-digit inflation of 1986 has, since 1992, been reduced to single digit – averaging 5% or less since 1990. The exchange rate of the Ugandan shilling became fully market-determined in 1993; import restrictions have been progressively removed – as has the anti-export bias in taxation; commodity markets have been liberalized; and state enterprises privatized. Uganda has attracted the lion's share of foreign direct investment flowing into the East Africa region, rising from 2% of GDP in 1995 to 4% more recently.

7. **Balance of trade and public debt.** Uganda continues to run a deficit on its merchandise trade account, with the value of imports exceeding exports by a factor of two. For instance, in 2002 imports stood at USD 1 143 million, compared to USD 476 million for exports. While the share of agricultural

³ Uganda's local government system comprises a series of local councils tiered from LC-1 to 5 and their elective representative committees. The LC-3 (subcounty) and LC-5 (district) levels are the main implementing bodies, with significant staff and budgets; LC-5 is the main planning authority, policy review and approval body. The other levels, LC-1 (village), LC-2 (parish) and LC-4 (county) are basically political groupings. There are presently 56 districts, including Kampala municipality.

export earnings has remained dominant, the contribution from coffee exports has recently dropped, from 60-80% (about USD 433 million) in 1994/95 to about 20% (USD 84 million) in 2002 – even though export volumes of coffee have remained fairly steady. The relatively low world price for coffee makes it hard for Ugandan producers to replace the 44% of the existing *Robusta* trees infected by a fungal root-wilt disease (*Tracheomyces* sp.) with new and better clonal coffee cultivars. In addition, rising coffee production in Viet Nam, soaring tea output in neighbouring Kenya, and the impact of European Union and United States subsidies for cotton, combine to place Uganda's traditional cash/export crops (coffee, cotton, tea and tobacco) at their lowest price levels in years. To overcome the balance-of-payments constraints, the Government is pursuing a policy of diversification for export, including fish, maize, beans, vegetable oil, cocoa, vanilla and cut flowers. In 2002 fish exports rose to about USD 90 million. Between 1997 and 2001, the export of non-traditional export crops averaged 26% of total agricultural exports by volume and 22% by value.⁴ Uganda's major trading partners presently include Kenya (41%), Germany (12%), The Netherlands (10.2%), the United States (8.7%), the United Kingdom (7%) and India (6%).

8. Despite debt relief under the original Debt Initiative for Heavily Indebted Poor Countries (HIPC) and the subsequent enhanced Debt Initiative, Uganda's debt, estimated at USD 3.3 billion in 2001 (down from USD 3.6 billion in 1996), is considered unsustainable. As at June 2001 the net-present-value (NPV) debt-to-export ratio was 204.7%, compared to a projected 127.9% and a sustainable threshold of 150%. The worsening NPV debt-to-export ratio has been caused by deterioration of the terms of trade, brought about by the sharp fall in the value of exports.

9. **Financial sector.** Uganda's financial sector presently comprises the Bank of Uganda (BOU), 17 commercial banks, six credit institutions, a Postbank, two development banks, the National Social Security Fund, the Uganda Securities Exchange, about 76 licensed foreign-exchange bureaux and a fairly diversified microfinance industry. Commercial banks and formal credit institutions largely focus on urban operations, while the informal financial subsector operates across urban, peri-urban and rural areas – and generally concentrates on the lower income levels of society. In recognition of the importance of microfinance and the provision of sustainable rural financial services, especially in poverty reduction, the Government has embarked on an effort to expand the outreach of these services in rural areas. The promulgation of the 2003 Microfinance Deposit-Taking Institutions Act is intended to support the promotion, supervision and regulation of microfinance institutions.

10. **Revenue base, budgeting and partnership principles.** The management of the national budget continues to be limited by a relatively narrow tax base. Despite a comprehensive tax reform, the tax-revenue-to-GDP ratio has generally remained stagnant since 1996/97.⁵ The rising fiscal deficit, averaging 10.5% of GDP over the period 1999-2002, underscores the need to significantly improve revenue collection through improved tax administration. The declining levels of export earnings, relatively low absorptive capacity of aid assistance inflows, under-employment and widespread unemployment are also indicators of Uganda's low revenue-raising capacity. Of the revenues collected by districts (90-95% as graduated tax), the subcounty council retains 65%, while the balance is passed to the district council. Of the 65% of the revenues initially retained by the subcounty administration, 5% goes to the parish, 25% to the village and the remaining 35% is used at the discretion of the subcounty council. The reduction in 2000 of the minimum graduated tax payable per

⁴ Nevertheless, and in spite of the considerable potential shown by non-traditional export crops (particularly 'new' crops such as cut flowers, vanilla and spices), they are presently not produced in sufficient volume to make up in the long term for the reduction in foreign-exchange earnings from coffee. As an example, while considerable publicity was given to the export of Ugandan maize to southern Africa in late 2001, the foreign exchange earned from the 31 000 t of grain marketed amounted to only UGX 3.61 million.

⁵ However, in addition to the graduated income tax, it is ironic that rural Ugandans pay a bewildering array of taxes relating to business, trade and commodities: business licenses for shops, restaurants, bars, butcher shops, lodgings, fishing boats; fish smoking and mongering (dealing) activities; *waragi* brewing (an alcoholic beverage made from banana); and crop trading; and taxes on livestock herding, transport to market and marketing; and fishing, fish guarding (at catch site) and marketing.

person per year, from UGX 15 000 to 3 000, has jeopardized the revenue-raising capacity of district-level local governments in particular. The situation has become even more worrisome following a May 2004 proposal to temporarily suspend graduated tax for ten years, effective 2005/06.

11. The Government's planning mechanism is a three-year, rolling, medium-term expenditure framework (MTEF) for each ministry, which sets out expenditure priorities and ceilings. While the process is intended to identify core activities for full funding and protection against budgetary cuts, in practice the expenditure framework ceilings are generally low and provide considerably less resources than are required to effectively finance development activities that are PEAP priorities and PMA core "pillars".

12. Most of the district budget (well over 90%) comes from the central Government as "conditional", "unconditional", or "equalization" grants. The latter enable qualifying districts to upgrade their capacity for improved delivery of services of national importance. A large proportion of total public spending (45-50%) is financed by external assistance. To effectively link international development assistance with PEAP and PMA priorities, in 2003 the Government established a set of operational "partnership principles", notably including: (a) its preferred modalities of donor support to ensure compatibility with efficient budget planning and management, as well as ownership of the budget; (b) the need to reflect development assistance in the national budget and MTEF; (c) joint sector reviews/missions, in preference to bilateral consultations; and (d) the need to link meetings of the Consultative Group (of multilateral and bilateral donor agencies) to the PEAP process and the *New Partnership for Africa's Development* (NEPAD).⁶

13. Specific to donor development assistance, the Government's preferred financing modalities are, in descending order: general budget support; budget support earmarked for the Poverty Action Fund;⁷ sector budget support; and project/programme aid. All donor assistance must be integrated into the MTEF and its global and sectoral prescriptive resource envelopes. This set of preferences gives rise to two challenges, i.e. ensuring that: (a) the budgetary 'space' for agriculture and rural development support is commensurate with the very high incidence of rural poverty; and (b) broad (and often decentralized) mechanisms are consistent with adequate engagement with basic issues in rural poverty – including innovations to explore new responses not yet mature enough for full integration into national normative systems.

B. Agricultural Sector

14. The agricultural sector dominates Uganda's economy and the incomes of its people – and should necessarily constitute the focus of any realistic intervention for poverty reduction. It accounts for 43% of GDP, 85% of export earnings and 80% of employment, and provides most of the raw materials to the mainly agro-based industrial sector. Food-crop production predominates, accounting for two thirds of agricultural GDP in 2001/02, while the livestock subsector provided 16%, export/cash crops 7%, fisheries 9% and forestry 6%. With the exception of small amounts of sugar and tea grown on large estates, nearly all agricultural production comes from the country's estimated 2.5 million smallholder families/households.⁸ The farm-gate value of Ugandan agriculture for the domestic market is estimated at UGX 1 067 billion, compared to UGX 558 billion for exports.

⁶ Adopted by African heads of state in July 2001, NEPAD aims to help eradicate extreme poverty on the African continent and to place the continent on the path of sustainable economic growth and development – objectives that Uganda is addressing through its PEAP.

⁷ The Poverty Action Fund was established during the 1997/98 financial year with savings from Debt Initiative debt relief granted to the Government by some financing agencies (including IFAD). Interested development partners make contributions to the fund for poverty-reduction interventions.

⁸ Defined as a group of persons who normally live and eat together, the 'mean household' was estimated by the 2002 national census at 4.7 persons, slightly down from 4.8 people per household in 1991; however, some variations were observed with respect to districts and regions. The National Household Survey 2002/03 estimated the average household at 5 persons.

15. In recent years, the agricultural GDP has grown consistently at 3.5-5.5% per annum, largely from the expansion of cultivated land area and less from increased productivity per unit of land. During the 1980s, public expenditure for agriculture decreased steadily, averaging only about USD 3.40 per annum per capita, and has remained relatively unchanged – compared to USD 21.00 for the average of ten other countries in sub-Saharan Africa.⁹ Narrowly defined to include agricultural research, advisory services, policy formulation, planning, monitoring and management, the agricultural sector presently receives only about 1.4% of the total national budget. Some 75% of the total agricultural budget comes from development partners, primarily in support of specific interventions. Given the extent and depth of rural poverty, this cannot be defined as a generous budget allocation.¹⁰

16. **Policy environment.** Drawn up in 1997, revised in 1999/2000 and updated in 2004 to reflect changing circumstances and emerging priorities, the PEAP is a comprehensive national policy framework that guides development planning in the country. As mentioned earlier, it was adopted in May 2000 as Uganda's PRSP. Committed to reducing poverty to less than 10% by 2017, the PEAP is based on four pillars: (a) creating a framework for rapid economic growth and structural transformation; (b) ensuring good governance and security; (c) increasing the ability of the poor to raise their incomes; and (d) improving the quality of life of the rural poor. The development of the agricultural sector particularly supports the third pillar.

17. Launched in December 2001, the Plan for Modernization of Agriculture is a holistic strategic and policy framework that seeks to eradicate poverty through agricultural transformation, enabling Ugandans to improve their livelihoods sustainably. The PMA is part of the Government's broader strategy for poverty eradication as articulated in the PEAP and is fully consistent with it. It envisions the transformation of subsistence agriculture into commercial agriculture in order to: increase incomes and improve the quality of life of subsistence farmers; improve household food security; provide gainful employment; and promote the sustainable use and management of natural resources. The broad strategies for achieving the objectives of the PMA include: (a) making poverty reduction the overriding objective of the country's agricultural development; (b) deepening the decentralization process to lower levels of local government for improved and efficient service delivery; (c) promoting the role of the private sector, while removing direct government involvement in commercial aspects of agriculture; and (d) ensuring that all interventions are gender focused and gender responsive. The PMA focuses on seven main areas for public expenditure interventions: agricultural research and technology development; agricultural advisory services; rural finance; marketing and agroprocessing; agricultural education; sustainable natural resource management; and supportive physical infrastructure.¹¹

18. In 2003, through the Ministry of Agriculture, Animal Industry and Fisheries (MAAIF), the Government prepared a Development Strategy and Investment Plan to translate the national goals and priorities articulated in the PEAP and PMA into public-sector activities in the agricultural sector. The

⁹ The Government's relative expenditure priorities have changed little since the late 1980s – with defence, public administration and education accorded the highest priority, and agriculture among the lowest.

¹⁰ However, this level of funding to the Ministry of Agriculture, Animal Industry and Fisheries and its several semi-autonomous agencies does not include expenditures directly under the Poverty Action Fund. Establishment of the fund has significantly increased the confidence of development partners, as evidenced by the size of support – from UGX 34 billion in 1998 to UGX 141 billion in 2001 – as well as involving eight contributing donors in 2001 compared to only three in 1997.

¹¹ Of the PMA priority areas, only research/technology development (Agricultural Research and Training Project) and the National Agricultural Advisory Services (NAADS) Programme have been designed and are fully operational. The framework for rural finance has been established (Microfinance Outreach Plan), but the supporting and component activities are not yet fully operational – including the Rural Financial Services Programme, assisted by IFAD. The preparation of strategy frameworks has been initiated in respect of marketing, agroprocessing and agricultural education, but these are still to be implemented.

plan seeks to clarify the objectives and outputs of the agricultural sector, highlight priority areas for future support and activities, and link these to financial resource requirements.

C. Rural Poverty

19. The substantial gains in the Ugandan economy since the late 1980s have been achieved in the context of an extremely low starting point. Thus the country and its peoples remain largely impoverished despite the respectable annual growth in per capita income, averaging 4-5% since 1990. Actual income gains have been greatest in urban areas, with some economic benefits accruing to smallholders, particularly those cultivating cash crops for export. Social and welfare advances have not yet reflected the economic gains achieved (Appendix I).

20. **State of poverty.** Poverty remains pervasive, even though Uganda is one of the few countries in sub-Saharan Africa in which the phenomenon has actually declined in terms of income – with the population below the poverty line having decreased from 56% in 1992 and 44% in 1997 to 34% in 2000. However, as a result of the recent downturn in coffee prices, the National Household Survey 2002/03 estimated a significant increase in the percentage of the population living below the poverty line, from 34% in 2000 to 38% in 2003. In 2001, farmers' income from coffee was only 20% of the 1997 figure. Income inequality appears to be on the increase – as demonstrated by the rise in the Gini coefficient, from 0.34 in 1998 and 0.39 in 2000 to 0.42 in 2003.¹² This observation is supported by the 1999 UNDP participatory poverty assessment, to the effect that the benefits of Uganda's impressive economic performance have not been widely shared to improve living standards for all.¹³

21. The principal factors associated with poverty include location, gender and livelihood. While only about 10% of the urban population was below the poverty line in 1999/2000, the figure for rural areas was 39%, with slightly over 20% below the *absolute* poverty line.¹⁴ However, the rate of decline in poverty in terms of income level since 1992 has been much higher in urban areas (43%) than in rural ones (18%). There are also substantial regional differences: in some rural districts of the north, an estimated 65% of the population was below the poverty line in 2000, compared to a national average of 35%. The decline is slower among woman-headed than among man-headed households – even though the former are becoming increasingly common. In effect, the poorest Ugandans are predominantly found in rural areas, with the north and north-east considered the poorest regions.¹⁵

22. While Uganda is at the forefront in the fight against HIV/AIDS, the threat of the epidemic remains acute throughout the country. Although the adult prevalence rate has dropped remarkably from 30% in 1986 to 8.4% in 2002 and 5-6% in 2003, the epidemic still causes many problems, including: significant loss of time and resources among the many families that care for the ill and the children orphaned by the disease; reduced supply of labour and investment resources; and a rising number of orphaned children. By the end of 2001, Uganda had an estimated 880 000 children under

¹² The Gini coefficient expresses the income equality in society by measuring the extent to which actual incomes fall short of a totally egalitarian income distribution. In reality, Gini coefficients vary from 0.20 (for societies with relatively even income distribution) to 0.45 for highly unequal societies.

¹³ The poor define 'poverty', far beyond simply a question of income, to also include feelings of powerlessness to influence the surrounding environment. A recent workshop in Kampala suggested that the measurement of poverty levels needs to include such indicators as food deficiency, limited land available for families/households, restricted access to services (especially health care), social and physical isolation and insecurity.

¹⁴ The "absolute poverty line" (or food poverty line) is defined as the income level required to purchase food products in prescribed quantities sufficient to provide the equivalent of 3 000 calories per day per adult man. The "poverty line" is based on the absolute/food poverty line, but also includes the additional income expended on such non-food necessities as housing, transportation and health care (Uganda Bureau of Statistics, Poverty in Uganda, 1999/2000: Preliminary Estimates from the National Household Survey).

¹⁵ Overall poverty levels are highest in the north (66% of its population), followed by the east (37%), west (28%) and central (20%) regions. An estimated 37% of the country's population classified as poor are located in the north, 25% in the east, 21% in the west and 17% in the central region.

the age of 15 that had lost one or both parents from civil conflicts and/or HIV/AIDS, while an estimated 1.1 million Ugandans were living with the disease.

23. **Socio-economic indicators.** At the end of 2001, life expectancy at birth for the average Ugandan was estimated at 44.7 years, up from 40 years in 1996 and down from 49 years in 1988. There was also an improvement in the HDI: at 0.489 in 2001, up from 0.412 in 1995, 0.403 in 1990 and 0.402 in 1985, as compared for example with 0.887 in 1985 and 0.944 in 2001 for Norway. The slight improvements in life expectancy and HDI might be related to the falling rate of HIV infection and the increasing use of antiretroviral therapy. Primary-school enrolment increased dramatically, from 2.3 million pupils in 1996 to 5.3 million in 1997 (when universal primary education was introduced) and 7.2 million as at the end of 2002. This represents 70% of school-age children and is an impressive achievement. Nonetheless, it also implies a substantial number of especially poor children that are not able to access this free education. While the PEAP targets 98% of primary school enrolment by 2003, the results of the National Household Survey 2002/03 estimated the achievement at below 86% (an estimated 7.5 million children aged 6-12 years). Adult literacy was estimated at 62% in 1997, 63% in 2000 and 69% in 2003 – 80% for men and 59% for women.

24. **Gender.** Ugandan women have much in common with other women throughout the African continent: they work longer hours than men, have much more limited access to resources, and exercise less or no control over what they produce. However, in line with the Government's affirmative action initiated in 1987, there has been an increasingly deliberate effort to integrate women into the development process – as evidenced by the increasing involvement of women in both the public and formal private sectors. In the informal sector and especially in rural areas, Uganda has some of the most cohesive, functional and informed women groups and associations, in which gender concepts are quite widely understood, even if not so widely applied.

25. Although there is no clear disaggregation of data, more women than men appear to be in poverty. The major boost to poverty reduction in rural areas has come largely from the liberalization of the coffee market – a sphere in which men are the major players in terms of both production and export. In addition, the complex decision-making arrangements in many rural households tend in general to deny women control over their own and/or family resources or incomes. Furthermore, women bear the greater burden of caring for the sick and the orphaned children from HIV/AIDS and other epidemics, as well as from civil conflicts – and generally have less time than men to take advantage of income-generating opportunities.

D. Opportunities for and Constraints on Rural Poverty Reduction

26. **Opportunities.** At the macro level, Uganda's agricultural sector displays a degree of vibrancy, diversification and growth, especially as producers take increasing advantage of changes and improvements in the policy environment and of a period of relative security and economic stability. In addition, a combination of satisfactory weather and good soils provides a very attractive agro-ecological environment for increased agricultural production. These circumstances provide an excellent opportunity to build upon the gains already made in a sector whose performance is recognized as critical to the state of the national economy and fundamental to the reduction of poverty.

27. The PMA envisages: (a) a competitive agriculture, with lower unit costs of production and marketing, in order to overcome the disadvantages of being a landlocked economy with resulting high transport costs; (b) a technology-based agriculture, with adoption of appropriate, improved husbandry and farming practices; (c) a diversified agriculture, with commodities of higher value and higher income-elasticity of demand – especially fruits, vegetables and livestock products; (d) an agricultural sector with intensified agroprocessing for value addition to raw commodities; (e) an exporting agriculture, with increased trade in traditional cereals with regional markets and food-aid contracts,

increased traditional exports, and new exports (horticultural crops and spices) – and with the quality and reliability of supply and standards that are required for export; and (f) an agriculture in which total productivity is increased, both for unit of land and labour. Opportunities exist to achieve each of these aspects, provided that appropriate investment is made at the level of the individual production unit (principally smallholder farms); at the level of participants in the input supply, processing and marketing chains; and at the institutional level in both public- and private-sector institutions. The existence of the Common Market for Eastern and Southern Africa, the resurrection of the Commission for East African Cooperation, the recent Africa Growth and Opportunity Act, establishment of NEPAD, and the consolidation of the African Union and other treaties constitute regional trading opportunities for Uganda.

28. **Constraints.** The successive periods of political change that Uganda has undergone in the past 30 years have seriously affected the society, markets and, consequently, market behaviour. Insecurity persists, primarily in the north, and the effect continues to suppress development in that region.¹⁶ But even in the remaining parts that have been relatively free from these economically destabilizing influences, the majority of smallholder farmers have remained highly risk-averse, and have maintained a farming approach that is geared to satisfying domestic consumption requirements and only afterwards to selling the surplus. The major constraints faced by Ugandan agriculture include: (a) the level of production, management, harvesting, post-harvest techniques and other technological knowledge and skills among farmers is generally low and results in high on-farm and post-harvest agricultural losses, low productivity, and growing environmental degradation, especially of water, soil and forests; (b) millions of smallholder producers are scattered deep in the countryside and are difficult to reach for technology dissemination and advisory services, input supply and output marketing, and the provision of other support services to increase agricultural output; (c) poor roads, transport and infrastructure to support production and marketing, especially in rural areas, prevent full development of the domestic market; (d) the prevalence of numerous and varied crop and livestock pests and diseases contributes significantly to the high rate of pre- and post-harvest losses and the lowering of farm productivity; (e) inadequate medium-term financing, especially to smallholder producers, constrains capitalization at the farm level, development of cash crops and commercialization of smallholder agriculture (while declining export crop prices inhibit local savings and investment capacity); (f) scarce and distant sources of water and fuel energy force women and children in particular to spend an inordinate amount of time searching for water and fuelwood instead of engaging in productive farm work; and (g) problems associated with rural access to health care services whereby rural people have to travel long distances to the nearest health facilities – a constraint compounded by the HIV/AIDS pandemic, which has hit the productive age group of the rural population. An analysis of the strengths and weaknesses of the major institutions involved in Uganda's agricultural sector is summarized in Appendix III.

E. National Strategy for Rural Poverty Reduction

29. The poverty-reduction strategy emerging from the PEAP and the Poverty Action Fund (which together form the national planning framework) directs that the following actions be undertaken to improve the poverty situation in the country: (a) empowering the poor by enhancing their access to productive assets; (b) providing improved physical and social infrastructure; (c) promoting good governance and ensuring that public institutions function better, especially for the rural poor; (d) promoting widely shared growth; and (e) facilitating stakeholder participation in planning and implementation of development interventions. Financial resources available under the Poverty Action Fund have more than tripled, from an estimated 17% of the national budget in 1997 to 31% in 2000.

¹⁶ The uniqueness of northern Uganda relates to its insecurity, internal displacement of people (as of May 2002 there were about 187 683 refugees, 87% of whom were from The Sudan), large underutilized land mass, high population growth rates, highest poverty level, HIV/AIDS threat linked to migration of people, pastoralism, modest diversification and low asset base, as well as to a history of marginalization.

The fund channels financial resources directly to poverty-reducing services, principally to basic education, water supply and health care. The most recent national review of the PEAP (2004) suggests the need to significantly raise the level of support for improving the conditions of agricultural production – which lies at the heart of the situation of most poor households.

III. LESSONS FROM IFAD'S EXPERIENCE IN UGANDA

30. **IFAD assistance and portfolio.** IFAD's financial assistance to Uganda since 1981 totals over USD 132 million in highly concessional loans for ten investment projects/programmes. Grant assistance under the IFAD/Belgian Survival Fund (BSF) joint cooperation agreement totals 892 million Belgian francs (BEF) in support of four additional development interventions. In addition, with effect from October 1998, the Fund has also provided Uganda with debt relief under the Debt Initiative totalling 12.733 million Special Drawing Rights (SDR) in net present value. This contribution has enabled the Government to increase its investments in poverty-focused priority areas under the Poverty Action Fund. IFAD also supports a number of interventions through technical assistance grant financing. These are implemented in part or in full in Uganda to enhance and complement (or to benefit from) investment programmes.

31. **Lessons and operating principles.** Implicit in the overall experience gained and the lessons learned in the more than 22 years of IFAD/Uganda partnership is the fact that the Government has remained consistently strong in its commitment to the pursuit of poverty reduction and the raising of rural incomes. In addition, the Government has also remained open and receptive to innovations and innovative ideas, including community and private-sector initiatives, smallholder commercialization and market linkages. For their part, farmers and small-scale entrepreneurs have generally been interested in exploiting new and emerging development opportunities. In particular, the enthusiasm shown by the Government, the private-sector investor and smallholder producers in the innovative Vegetable Oil Development Project (which aims to increase smallholder cash incomes in partnership with the organized private sector) suggests that IFAD's strategy of encouraging private-sector investment-led growth is encountering increasingly willing partners.

32. Some of the specific, key lessons learned from IFAD's programme-type operations in Uganda are: (a) given flexibility in staffing and supportive funding, implementation of investment programmes through the established, decentralized district planning and administrative framework is feasible, practicable and comparable in performance to using a separate programme management structure. The diffusion of authority and responsibility down to the district administrative level is gaining reality and conviction, especially as subcounty and parish authorities adopt the participatory approach and increasingly become more financially responsible, viable and accountable in the planning and management of their affairs; (b) considerable time, resources, flexibility, patience and understanding are required for the successful arrangement and operationalization of inter-donor collaboration, and for catalysing and forging meaningful, sustainable business relationships and partnerships between the Government and the organized private sector in support of the commercialization of smallholder farmers and small-scale entrepreneurs; (c) the design of future collaboration must continue to be sufficiently flexible to accommodate changing circumstances prior to or during implementation, including decisions that are political in nature; (d) there is a need for realism and flexibility in the costing of activities, especially as it relates to contributions by the Government and beneficiaries, in view of the continued, severe budgetary constraints in the provision of counterpart funds, designation/recruitment of key project staff, and staff incentives; (e) to improve the prospects of regular and sustained maintenance and use of established physical infrastructure facilities and services, the process of determining locations should be participatory and should involve the prior mobilization, sensitization, agreement and commitment of benefiting communities in order to sustain the facilities and services; and (f) because of a conducive investment environment that attracts a significant number of multilateral and bilateral agencies, future IFAD support to Uganda

should continue the practice of collaborating with and involving such agencies, especially in the design and possibly in the financing of programme pipelines.

33. Within the programme approach to development and development assistance, there have been notable accomplishments. Nonetheless – and in addition to the potentially crucial issue of the low public-expenditure allocation for agriculture – a number of developments and experiences have given cause for concern, including: (a) the relatively slow elaboration of suitable material and operational support for agricultural marketing, agroprocessing and agricultural education;¹⁷ (b) ad hoc policy decisions by the Government that may impact negatively on rural communities and the poor, especially in the long run; (c) the continuing low level of maintenance for established facilities and services; and (d) the uncertain policy and institutional interface between national policies/programme initiatives and the public decentralization process.

IV. STRATEGIC FRAMEWORK FOR IFAD

A. IFAD's Strategic Niche and Proposed Thrusts

34. **Strategic focus.** Following a 1990 special programming mission, IFAD's operations in Uganda have focused on two areas: (a) assistance to improve the production of traditional export crops (notably coffee and cotton) and non-traditional, import-substituting commodities (cereals/grains and oilseed crops); and (b) support to the emergence of producer and community associations, with particular attention to women's groups. By enabling farmers, rural communities and especially women to increase the quantity and quality of their marketable produce/products, IFAD has sought to bring about an enduring increase in their incomes. The two-pronged approach also promotes and consolidates the already well-established trend away from subsistence production and towards the integration of smallholder production into the market economy.

35. IFAD's strategic support of an agriculture-led approach to poverty reduction is amply justified by the country's productive agricultural land, the conducive climatic conditions, and the fact that the overwhelming majority of the poor live in rural areas and earn their livelihoods from the land. The strong uptake of the economy and the relatively good performance of agriculture confirm the appropriateness of this approach. The largely unrecorded exports of food crops to neighbouring countries and the encouraging performance of non-traditional export crops and fish further confirm the important role that markets and market integration could play in providing incentives to smallholders. IFAD's engagement in Uganda has arguably been the flagship of the Fund's support for strategic transformation and commercialization of smallholder agriculture. The establishment of the PMA clearly indicates that national stakeholders and external partners alike share this priority. This presents both an opportunity and a challenge: an opportunity to provide a broader base for pursuing an objective in the country that the Fund has long considered key to growth and poverty reduction; and a challenge to ensure that a broad policy commitment to agricultural commercialization is capable of responding to the specific requirements of the rural poor and of providing a framework through which the development and implementation of policies and strategies are constantly and critically enriched by both the views of rural communities and field realities and experiences. This would inevitably involve the pursuit of a mix of development assistance modalities – reflecting the need to both support broad sector programmes and create a basis for their renewal and improvement.

¹⁷ Literacy is an integral part of agricultural education. This issue is a critical barrier to accessing information and profiting from livelihood opportunities, especially for rural communities and women. Thus the delayed articulation of an appropriate agricultural-education intervention is seen as the cause of the uncoordinated literacy and business culture activities currently being pursued under numerous projects and programmes.

36. **Strategic thrust.** Within the framework of the objectives and mechanisms of the PMA and an emergent, sector-wide approach to coordination and harmonization of development assistance, IFAD seeks to improve enduring national capacities through: (a) promoting strong civil-society organizations and community-based development in order to integrate rural and smallholder producers into the national economy and enable them to operate as partners of the organized private sector; (b) building the capacity of decentralized systems of governance and public services to identify and respond to constraints on rural poverty reduction; (c) deepening smallholder access to capital and technology for sustainable increases in on-farm production; (d) mainstreaming gender issues and HIV/AIDS prevention and mitigation practices into rural development processes and activities; (e) responding to the emerging land issues confronting smallholders, particularly as they impinge on investment and production at the farm level for modernization and commercialization; and (f) enhancing household and community capacity to deal with post-harvest and agroprocessing challenges in the context of increasing market integration. The first four issues are already being addressed under IFAD's ongoing programme of assistance. Further engagement and support will be mapped out concretely as experience accumulates (including experience in working in the context of sector-wide, national programme approaches) – in a strategy-deepening process. The last two cross-cutting issues will be relatively new departures, albeit very much a part of IFAD's strategic framework and regional strategy. They must be developed, from the beginning, in conjunction with the national legislative, regulatory and strategic frameworks.¹⁸ In particular, future pursuit of issues relating to smallholder access to land and land rights will necessarily be in close collaboration with the IFAD-based International Land Coalition.

37. **Targeting and gender.** Women continue to be accorded a lower status in society relative to men. A specific IFAD objective, within support for Uganda's general development objectives, will be to assist in the development of national and local-level capacities to respond to concrete requirements of active, poor men and women. A deliberate focus on rural areas in general, and more remote communities in particular, is a necessary prerequisite to any successful poverty-reduction intervention. In addition, the Fund will promote the capacity to target women and to address their priority issues – rural product marketing/trading, rural financial services, potable water, health, nutrition, sanitation and higher farm productivity. Given the prevalence of HIV/AIDS, future support will necessarily include appropriate mitigation measures against the effects of the pandemic. While the issues in question are clearly inscribed in the national poverty-reduction strategies, the challenge is to evolve concrete mechanisms for outreach and to keep them within the framework of policy planning and actions that are the common, priority concerns of the rural poor.

38. **Mode of participation in development assistance.** Recognizing the Government's priorities and preferences, IFAD will provide assistance within the framework of sector-wide approaches and established national mechanisms of programme development and coordination. In particular, the Fund will place its assistance under the PMA umbrella, while ensuring conformity and consistence with the PEAP, MTEF and partnership principles. Consistent with this commitment to participation in and support to mechanisms of coordination – and in order to enhance IFAD's input into plans for further policy and institutional development in PMA-related areas – the Fund will mobilize a full-time local representative in Kampala. This will be one of the 15 local representatives in the worldwide Field-Presence Pilot Programme approved by the Executive Board at its Eightieth Session in December 2003. Additionally, and in appreciation of the centrality of the PMA as the strategic framework for poverty reduction, the Fund will make a significant contribution towards enhancing the coordination

¹⁸ Specific thrusts relating to rural poverty 'hot spots', which involve areas/issues of relative neglect that pose the question of how to integrate special needs into national methodological, organizational and budgetary approaches, include: development of national and local capacities to better handle land, soil and water resource and management issues for sustainable agricultural production – especially in the less well-endowed areas that have received relatively low priority in agricultural and rural development investment; and integration of marginal areas and pastoral zones into the agricultural and rural development process within a community management/conflict resolution framework.

and facilitation capacity of the PMA Secretariat, especially in relation to the process of advancing PMA objectives, including broad sector planning, programme development, progress monitoring and impact assessment.

B. Main Opportunities for Innovation and Project Interventions

39. IFAD is faced with a paradoxical situation in its short-to-medium-term support to Uganda. While the need for rural poverty reduction is great, and the Government has been an excellent development partner, the immediate options for expanding development assistance are limited by a combination of: (a) the budgetary ceiling placed on public investment in the agricultural sector; (b) the desire that all new investment be placed within the framework of national and/or sectoral interventions (requiring major, time-consuming effort in coordination with other partners for whom agricultural transformation is not the highest institutional development priority); and (c) security concerns. These factors constitute constraints on innovative and expanded support, especially in the short-term.

40. While IFAD has explicitly endorsed the shift in favour of a sector-wide approach, there are areas and issues that either require very site-specific approaches and/or for which there are few concrete foundations in successful experience to go to scale. And here the concepts of scaling up and replication signify not just large material investments, but also significant engagement in institutional and policy development. The areas in which IFAD has a comparative advantage in developing specific and innovative programmes for eventual national coverage include cross-cutting themes and highly specific issues bearing on the broad framework of smallholder-based agricultural and rural development. Opportunities that are relatively clear and of immediate priority for empowering rural communities and the rural poor include: (a) support for rural marketing and agroprocessing/value addition; (b) mobilization to respond to the exceptional needs of agriculturally marginal areas and parts of the country marked by conflict that have so far received relatively little development assistance; and (c) follow-up on HIV/AIDS-related initiatives. The resulting empowerment will in turn enhance income and food security and reduce income inequality.

41. **Marketing and agroprocessing support.** An analysis of Uganda's marketing of agricultural produce/products indicates that it is virtually entirely the domain of the private sector, with little central marketing control. The system operates reasonably well and has several ongoing interventions aimed at enhancing its capacity and outlets. However, the analysis also highlights constraining aspects and issues – especially related to marketing and value addition of agricultural produce/products – that, if carefully and properly targeted for public-sector support, will complement and supplement the current interventions. In the context of multi-donor support for the development of a comprehensive marketing and agroprocessing intervention that is consistent with the country's marketing and agroprocessing strategy, IFAD will focus on: supporting the national capacity to enhance market access by rural producers; improving the effectiveness and efficiency of farm and market operations; reducing direct costs to market intermediaries; and supporting access to market information and intelligence. One of the primary aims will be to improve the share to farmers of the final produce/product price paid by consumers. To ensure consistency with national aspirations, direction, orientation and ownership, the process of preparing a marketing and agroprocessing intervention will be pursued under the direct leadership of the Government (and the relevant coordinating bodies of the PMA) – with IFAD and other development partners providing the necessary technical and financial support.

42. **Intervention in the northern and eastern regions.** Subject to improved security, IFAD will also consider supporting appropriate activities in the north and north-east, regions with by far the highest level of poverty in the country. Such activities will target areas with marginal conditions for livelihoods and will have a strong community strengthening focus, given the overall low level of development. In addition, productive support to the regions will include livestock as well as measures

to integrate smallholders, especially women, into the overall market economy. In particular, development support will be targeted at communities in the Karamoja area that comprise the three poorest districts in the country (Kotido, Moroto and Nakapiripirit), where pastoralism is the overwhelmingly dominant means of livelihood.

43. **Consolidation of the UWESO Development Programme.** Even with the significantly reduced prevalence rate, HIV/AIDS and its consequences have the potential to reverse the development gains made in Uganda. Support under the UWESO Development Programme (2000-05) has aided orphaned children and the foster families taking care of them, especially women (using the instrument of savings and credit). To enable the Uganda Women's Effort to Save Orphans (UWESO) to consolidate the achievements thus far recorded and to assist the NGO in becoming more sustainable, especially in discharging its advocacy role in the orphan crisis, the programme may be further supported with BSF grant financing.

C. Outreach and Partnership Possibilities with NGOs and the Private Sector

44. The design of future interventions assisted by IFAD will increasingly seek to utilize the services and expertise of the organized private sector, civil-society institutions and other NGOs in project implementation and, more importantly, in the broad national process of economic transformation. A key area of possible partnership with the private sector and the NGO community will be in the commercialization of smallholder agriculture. In particular, the Fund will continue to catalyse, promote and accelerate the forging of meaningful business partnerships and linkages between small-scale producers/entrepreneurs and private-sector investors, particularly in relation to post-harvest handling, produce/products processing and marketing. Where necessary to catalyse the partnership, IFAD will support a brokerage role for the Government between the organized private sector and producers/entrepreneurs, especially in creating a conducive environment that will attract private-sector investments and enhance the confidence of the partners. Other areas of possible partnership with both NGOs and private-sector agencies will be those concerned with the supply of planting material and other input service delivery, extension advice, maintenance of established facilities and rural financial intermediation. In particular, the use of existing, key Uganda-based NGOs will be deliberately encouraged as a means of contributing to the further development of their capacities.

D. Opportunities for Linkages with Other Donors and Institutions

45. **Support by other donor agencies.** IFAD's support for Uganda's agricultural development is significant relative to other financing and development partners. While the World Bank remains by far the biggest financier of the Government, its support for the agricultural sector is largely limited to research and extension, with most of the assistance directed to the social and service sectors, increasingly through general and sector budget support. Assistance by the African Development Bank (AfDB) is largely directed to livestock, fisheries infrastructure development, rural feeder-road maintenance, and smallholder seed and market development. Key donor agencies currently providing bilateral assistance to district-based interventions in agriculture and rural development include: Austria, Belgium, Danish International Development Assistance (DANIDA), the European Union, the German Agency for Technical Cooperation (GTZ), Development Cooperation Ireland (DCI), The Netherlands, the United Kingdom's Department for International Development (DFID) and the United States Agency for International Development (USAID) (see Appendix V). In line with explicit government preferences for assistance modalities, there is a conscious effort among development partners to channel assistance to agriculture (which is typically not a major component of their overall assistance) through the framework of the PMA and within a coordinated process of policy dialogue with the Government.

46. **Enhancing IFAD's country presence and participation in broad donor coordination mechanisms.** The critical issue confronting IFAD in Uganda relates to participation in and value addition to the main national processes of priority setting, operational planning and coordination of external support. The assignment of a full-time, local representative in the country aims to: enhance the scope and opportunities for addressing the needs of the rural poor in national and sectoral rural poverty-reduction strategies and programmes; forge and strengthen the partnership and collaboration with the Government and various development partners; seek to reduce policy and institutional obstacles in thematic areas of strategic concern to IFAD and the rural poor; enhance coordination with civil-society groups and provide support for national NGO forums representing the interests of the poor and rural communities; and generally improve the capture of information from key national and project-level poverty- and impact-monitoring processes. It is not intended that field presence per se will provide the full answer to the issue of integration and coordination. Rather, the initiative will aid the implementation of policy decisions already taken to enrich a coordinated effort for poverty reduction and to integrate it into the frameworks of the Government's PEAP, PMA and MTEF, as well as IFAD's strategic framework and regional strategy.

47. **Partnerships with other donor institutions.** IFAD has had a close collaborative relationship with the World Bank in Uganda for the past 22 years. Even though it is recognized that the Bank is no longer the sector leader in support of Uganda's smallholder agriculture and its commercialization, it remains the international financing institution with the greatest influence in shaping the country's macro- and microeconomic environment, as well as the largest financial contributor to social and economic development endeavours. Consequently, IFAD will continue to solicit the involvement of the Bank in all major future interventions initiated/led by the Fund, including the possibility of participation in the design process, cofinancing arrangements and/or implementation oversight.^{19, 20} IFAD's experience with AfDB is limited to the ongoing Area-Based Agricultural Modernization Programme, whose feeder-roads component the Bank finances under a parallel arrangement. The experience relating to parallel financing and separate supervision arrangements is, thus far, challenging and difficult. However, in consideration of the recent efforts to decentralize its operations, and especially the opening of a regional office in Kampala, IFAD will continue to explore the forging of a closer working relationship with AfDB. Other financing institutions with which IFAD has initiated a dialogue for future strategic linkages include the Arab Bank for Economic Development in Africa, the Organization of the Petroleum Exporting Countries Fund and the European Investment Bank. Promising opportunities also exist for closer collaboration with some of the United Nations agencies operating in the country, especially relating to issues regarding the raising of cash income among the rural poor, as well as to health, water and related social issues.

48. IFAD's strategy in Uganda has been effectively complemented and supplemented by the resources provided by the Government of Belgium through BSF, with the focus on community development, building of local institutions and the enhancement and deepening of the country's decentralization effort. The partnership has been further enriched by the recent joint IFAD/BSF/DCI cofinancing of the District Development Support Programme – partnerships that need to continue and expand. Indeed, in consideration of its sizeable involvement in Uganda, IFAD will continue to explore the possibility of cofinancing arrangements (when not otherwise covered under basket and sector-

¹⁹ Increased donor harmonization and collaboration within broad national programmes might relegate special relations among external financiers to lesser importance. Nonetheless, experience indicates that programme elaboration often remains dependent upon the particular commitment of a small coalition of lead external supporters, in which case partnerships in programme development would continue to play a vital role – albeit within a process in which national leadership is a practical reality and ongoing coordination with other donors is imperative.

²⁰ However, considerations that are likely to influence significantly the extent to which IFAD and the World Bank are able to forge meaningful and sustainable strategic and operational links include: supervision costs, absence of IFAD-specific environmental policy/safeguards, the Government's increasing preference for general and sector budgetary support, and declining investment by the Bank in the agricultural sector (especially relating to smallholder commercialization).

wide joint financing) with other key bilateral agencies: DANIDA, DFID, the European Union, GTZ, The Netherlands, the Swedish International Development Agency and USAID.

E. Areas for Policy Dialogue

49. It is evident that the Government is strongly committed to maintaining a liberal macroeconomic and generally supportive policy environment and incentive framework for rural development, albeit with a very constrained budget for the agricultural component of rural change. Under the framework of a sector-wide approach, a specific objective of IFAD's enhanced engagement in Uganda must, therefore, be to ensure and advocate that broad national programmes do not drift away from the core issues confronting the poor, bringing to bear the Fund's project-based field experience and, where possible, drawing on grant financing.

50. A number of policy-related developments have come into play in the course of the implementation of the various interventions assisted by IFAD. If these are not attended to and resolved, they could retard progress and have a negative impact on the effort to reduce poverty. Among such issues are the following: (a) removal, in 2001, of the cost-sharing/cost-recovery obligation for the country's basic health care services, a decision that continues to impact negatively upon and diminish the level of community commitment, participation and material contribution in support of development activities and the physical sustainability of established facilities and services, especially in the face of inadequate budgetary provisions by the Government; (b) reduction, also in 2001, of the minimum graduated tax (from UGX 15 000 to 3 000), a decision that has significantly reduced district revenues. More recently, in May 2004, anxiety has been further heightened, especially among district officials, by a proposal to suspend the graduated tax altogether for ten years, beginning in 2005/06 – a decision that would impact negatively on the effort to reduce income inequality and achieve sustainability of established physical facilities and services; and (c) the apparent revival, under the Government's so-called Strategic Crops Development Initiative, of supply-driven, free and unsustainable hand-outs for the supply of crop planting materials and improved livestock breeds – an initiative that is not only in direct contradiction to the objectives and approaches of the PEAP and PMA, but also undermines the effort for smallholder commercialization.

51. Until the recent, successful negotiation of a cooperation agreement with a private-sector investor in palm-oil processing (under the Vegetable Oil Development Project), the provisions of Uganda's investment code have been applicable across the board, irrespective of the type, nature and sector of the investment. Thus it is crucial that the principle of such positive changes in the country's investment incentives is maintained and applied to investments that are developmental in nature, relatively long-term and have a prolonged maturation period.

F. Action Areas for Improving Portfolio Management

52. Uganda's overall portfolio performance is ranked satisfactory, partly as a result of the strong and genuine commitment by the Government and its effort to reduce poverty, and partly because of IFAD's concerted and proactive management of the country's portfolio. However, there are a number of areas that require continued attention in order to further improve the performance of the portfolio: the need to reduce, significantly, the period it takes for a programme loan to be ratified through the Ugandan system, and further improvements in monitoring and evaluation arrangements aimed at enhancing outcomes and impact.^{21, 22}

²¹ Making use of IFAD-allocated resources, the Fund has embarked on an effort to enhance the impact of investment projects in the Eastern and Southern Africa region, using as a framework the recently updated *Managing for Impact in Rural Development: A Guide for Project Monitoring and Evaluation* (2002) and the results and impact management system approved in late 2003.

²² While the targeting of staff of specific projects and districts is likely to enhance portfolio performance and the capacity of benefiting districts in monitoring and evaluation, the action is unlikely to resolve the existing widespread problem – especially in view of the

53. Uganda was the first country to benefit from IFAD assistance under the Debt Initiative for HIPCs, with debt relief amounting to an initial SDR 4.16 million approved in 1997, plus an additional amount approved in September 2000, bringing the total to SDR 12.73 million in NPV. In effect since October 1998, and until 2008 when the amount of the relief will have been exhausted, Uganda has been relieved of IFAD debt servicing of loans approved as of 30 June 1999.

G. Tentative Lending Framework and Rolling Programme of Work

54. Given the overall satisfactory performance of Uganda, particularly since 1992, it is envisaged that the level of IFAD's commitment to the country will be further enhanced over the period 2005-08 under the Performance-Based Allocation System (PBAS). Consequently, and in the context of the principles of the sector-wide approach, the focus on the PMA and its subcommittees, and the limitations of the MTEF: (a) IFAD's immediate and *base-case scenario* will be in favour of extended support to the development and financing of a multi-donor marketing and agroprocessing intervention with national coverage (assuming continued good performance as assessed under, inter alia, the PBAS, thus leading to broad programme support); (b) as a *low-case scenario*, IFAD will also support the consolidation of the UWESO Development Programme, depending on the availability of BSF grant financing (assuming declining PBAS performance, thus leading to greater focus on project-based support); and (c) assuming outstanding PBAS performance and significant improvement in civil disorder and resulting security concerns to life and property, IFAD will be further committed, as a *high-case scenario*, to also support an integrated, community-based, demand-driven intervention covering parts of northern and eastern Uganda.

multiplicity of interventions and the large number of districts. A more ideal and sustainable solution might lie in investing time, effort and resources in building and enhancing the capacity and know-how of planning units of the Ministry of Local Government (which has coordinating responsibility for all the district local governments) in order to enable the staff to serve, on a continuous basis, as trainers of the districts in monitoring and evaluation.

APPENDIX I

COUNTRY DATA

Factor	Data	Factor	Data
Land		Education	
Total Surface Area (km ²)	241 000	Pry School Enrolment (% of age group total)	83.7
Total Land Area (km ²)	197 000	Adult Literacy Rate (% of age 18yrs+)	69
Total Inland Waters (km ²)	44 000	• Male	80
Total Arable Land (million ha)	17	• Female	59
Total Cultivated Land (% of arable)	30	• Urban	87
Agric. Land (% of total)	43	• Rural	65
Forest/Woodland (km ²)	63 000	• Central Region	82
Forest/Woodland (% of total)	32	• Eastern Region	60
Irrigated Land (% of arable)	0.1	• Northern Region	58
Type of Land Tenure (%):		• Western Region	71
• Customary	54	Health, Nutrition and Sanitation	
• Free Hold	35	Population per Physician (No.)	18 700
• Mailo Land	4	People per Nurse/Health Unit (No.)	12 500
• Lease Hold	4	Access to Health Services (%)	52
• Other	3	Daily Calorie per Capita (kcal)	2 283
Population		Stunted Children (%)	38
Total Population (million)	24.7	Wasting/Underweight children (%)	25
Male (% of total)	48.4	Access to Safe Water (%)	55
Female (% of total)	51.6	Safe Latrine Coverage (%)	48
Population density (per km. ²)	126	Economic and Financial Indicators	
Rural Population (% of total)	86	Gross Domestic Product (USD million)	5.675
Total Households (million)	4.9	GDP Growth Rate (% annual, 1981-2001)	3.4
Rural Households (% of total)	83	GDP Growth Rate (% Annual, 1991-2001)	6.9
Average Households size (no.)	5.1	GDP Sector Distribution (%):	
Rural Households size (no.)	5.3	• Agriculture	36
Urban Household size (no)	4.1	• Industry	21
Female-Headed Household (% total)	26.1	• Manufacturing	10
Social Indicators		• Services	43
Population Growth (% annual, 1992-2000)	3.4	GDP per capital (USD)	239
Crude Birth Rate (No. /1 000 people)	47.3	Gross Domestic Savings including grants (% of GDP)	6
Crude Death (No./1000)	52.2	GOU Deficit (% of GDP,2001)	-2
Infant Mortality (No./1 000)	97	Foreign Exchange Reserves (USD Million)	970
Maternal Mortality (No./100 000)	506	Reserves (months of imports)	6.5
Under-5 Mortality (No./1 000)	147	Total External Debt (USD million,2001)	3.733
Life Expectancy at Birth (years, 2001)	44.7	External Debt (% of GNP)	33
Rural Poor People (million)	7.7	Lending Interest Rate (%.2001)	23
Poor as % of Rural Population	39	Deposit Interest Rate (%. 2001)	8
Total Labour Force (million)	12	GOU Consumption Expenditure (% of GDP)	13
Female Labour Force (% of total)	55	Household Consumption Expenditure (% of GDP)	81
Human Development Index (2001)	0.489	Total Expenditure (% of GDP, 2001)	21
Human Development Index Ranking	147	Total Debt Service (% of Exports)	42.7
Population Below National Poverty Line (%. 1999-2000)	35	Merchandise Exports (USD million, 2001)	457
Rural Population Below Poverty Line (%)	39	Merchandise Imports (USD million)	1594
Urban Population Below Poverty Line (%)	10	Balance of Merchandise Trade	-1137

N.B. Reference year for all data is 2002, unless otherwise specified.

Source:Updated from Uganda Bureau of Statistics National Household Survey 2002/03, and World Bank, International Monetary Fund and UNDP Human Development reports.

LOGICAL FRAMEWORK

Narrative Summary	Verifiable Indicators	Means of Verification	Assumptions/Risks
<p>Strategic Goal of COSOP</p> <p>Uganda's rural poor empowered to enhance their income and food security and reduce their poverty, consistent with the Government's PEAP and PMA.</p>	<ul style="list-style-type: none"> • Improvement in household food security (reduction in length of lean/hungry period, or increased number of meals per day or week). • Improvement in household assets. • Reduction in child malnutrition. • Reduction in rate of illiteracy. 	<ul style="list-style-type: none"> • Conduct of periodic field case studies, surveys and evaluations. • Use of Uganda Bureau of Statistics agricultural and rural development data/information. • Regular monitoring data from district-level management and information system. • Country portfolio reviews/evaluations. • Progress report of programme interventions. • Benchmark and completion evaluations/assessments. 	<ul style="list-style-type: none"> • Continued government focus on rural areas and poverty reduction as priorities. • Adequacy of budget allocation under the medium-term expenditure framework for public investment in the agricultural sector. • Effective coordination and monitoring within the framework of national and/or sectoral interventions. • Stability and security to life and property prevails.
<p>COSOP Objective</p> <p>Coherent, supportive national policy/strategy; institutional and material frameworks for smallholders provided.</p>	<ul style="list-style-type: none"> • Collaborating donor agencies and amount contributed in support of programmes. • Increase in budgetary allocation by the Government in support of smallholder sector. • Legislation/regulations/policy decisions approved and effective. 	<ul style="list-style-type: none"> • As above. 	<ul style="list-style-type: none"> • As above.
<p>Results/Outputs</p> <ol style="list-style-type: none"> 1. Sector-wide programmes successfully implemented, uniting government and donor efforts in providing a basis for smallholder development, especially relating to: <ol style="list-style-type: none"> (a) access to improved technologies; (b) access to land; (c) access to finance; (d) access to markets. 2. Marginal areas and regions emerging from conflict rehabilitated. 3. Orphan crisis (brought about by effects of civil disorder and HIV/AIDS pandemic) mitigated. 	<ul style="list-style-type: none"> • Beneficiaries adopting new agricultural technologies. • Farmers reporting yield/production increases. • Storage/processing facilities established. • Households provided with long-term security of tenure over land resources. • Rural organizations/groups established/strengthened and functioning. • Community groups with women leaders. • Men and women attending functional literacy classes. • Outreach of functioning microfinance institutions servicing rural areas/communities. • Increase in local, national, regional and international sales of and trade in farm produce/products. 	<ul style="list-style-type: none"> • As above. 	<ul style="list-style-type: none"> • As above. • Gender issues and HIV/AIDS mitigation measures mainstreamed in rural development interventions.

LOGICAL FRAMEWORK (CONTINUED)

Narrative Summary	Verifiable Indicators	Means of Verification	Assumptions/Risks
<p>4. Policy dialogue, partnership development and knowledge management enhanced.</p>	<ul style="list-style-type: none"> • Increase in value-addition of agricultural produce/products. • Increase in the number of small and medium-scale enterprises. • Increase in farmers' share of market price of agricultural commodities. • Achievements against specific targets for restoring public strategy and the rule of law in conflict areas. • Conducive and supportive legislative frameworks for sustainable pro-poor development. • Linkages with strategic partners in the Government, among donors and with the organized private sector and civil society. 		
<p>Activities</p> <ol style="list-style-type: none"> 1. Monitoring and guiding implementation of ongoing interventions (National Agricultural Advisory Services Programme, 2001-09; Rural Financial Services Programme, 2004-12; Area-Based Agricultural Modernization Programme, 2002-08; District Development Support Programme). 2. Participating in the development/design of a national marketing and agroprocessing programme. 3. Preparing a special area-based intervention covering districts of the north and north-east emerging from conflicts. 4. Consolidating UWESO Development Programme. 5. Enhancing in-country capacity and developing special gender strategies for gender monitoring. 6. Promoting the scope and opportunities for addressing and advocating the interests and needs of smallholders and rural communities in national and sectoral rural poverty-reduction policy/strategy and programme arena. 	<p>Inputs</p> <p>A total investment of USD 50 million spread over four years and comprised of:</p> <ul style="list-style-type: none"> • Marketing and agroprocessing – USD 18 million. • Integrated community development – USD 25 million. • Consolidation phase of UWESO Development Programme – USD 3 million. • Grant financing in support of country presence and for advocacy on core issues confronting the poor – USD 4 million. • Resources currently committed for ongoing programmes – USD 82 million plus BEF 892 million. 		<ul style="list-style-type: none"> • As above. • Availability of BSF financing. • Availability of other IFAD grant financing. • In-country representation.

STRENGTHS, WEAKNESSES, OPPORTUNITIES AND THREATS (SWOT) ANALYSIS

Strengths	Weaknesses	Opportunities	Threats	Remarks
Ministry of Agriculture, Animal Industry and Fisheries				
<ul style="list-style-type: none"> Restructured, rationalized and focused Good political leadership Trained, skilled and experienced staff Project implementation experience Focused on policy and not interventions 	<ul style="list-style-type: none"> Limited operating budget (poorly funded) Distant from capital (isolated) Staff poorly paid Low staff morale Lack of marketing expertise 	<ul style="list-style-type: none"> Much donor goodwill Government reform programme for function analysis, downsizing, liberalization and privatization Key ministry and lead sector 	<ul style="list-style-type: none"> Staff turn over Shifts in political climate Limited field presence due to decentralization 	Ministry is seeking funds to build new headquarters and to relocate from Entebbe to Kampala
Ministry of Trade, Tourism and Industry				
<ul style="list-style-type: none"> Focused on helping private sector Based in the commercial capital of the country Already involved with various marketing interventions, i.e. warehouse receipt, support to cooperatives and participation in international trade conferences Capable and constructive senior civil servants 	<ul style="list-style-type: none"> Lack of marketing expertise – indeed, considerable naivety in the understanding of support to private-sector marketing interventions Ministry has a very wide agenda and is lacking in focus Probably finds it difficult to give sufficient resources to rural marketing Staff poorly paid and lacking motivation at middle and lower levels 	<ul style="list-style-type: none"> Size and remit offer opportunity to become the lead ministry for support to small-scale farmer marketing Opportunity to become the lead ministry and catalyst to the private sector by supporting existing entrepreneurs and the private sector's involvement with marketing 	<ul style="list-style-type: none"> Lack of sympathy and understanding of the private sector will seriously disadvantage its identification of interventions Unsure of its status to assist with rural marketing vis-a-vis other lead ministries (i.e., MAAIF and MFPED) – therefore vulnerable to shifts in political climate Seen as a promoter of cooperatives – a concept derided by private sector 	
PMA Secretariat Steering Committee				
<ul style="list-style-type: none"> Draws on the support and assistance of a wide range of some of the best individuals within the Government and projects Small, competent and clearly focused management and staff 	<ul style="list-style-type: none"> Dominated by a small number of lead donors Lacking in true representation of private sector Much of its output is devoid of real marketing clarity, but focused on academic or theoretical solutions 	<ul style="list-style-type: none"> This committee has the potential to make a cross-cutting impact in rural marketing – if it develops and implements a meaningful strategy 	<ul style="list-style-type: none"> If it fails to improve rural marketing, it will undermine its other thrusts Political pressure for real and visible results could lead to poor decision-making 	There is need to enable PMA Secretariat to function effectively as the driving force in the planning, preparation/ design, implementation, progress monitoring and impact assessment of development activities under the PMA framework
<ul style="list-style-type: none"> National resource base capable of increased production and output Well-trained research scientists capable of quality work 	<ul style="list-style-type: none"> Low salaries for scientists Salaries paid late Secretariat financed under the MAAIF's MTEF ceiling which is relatively low, affecting capacity 	<ul style="list-style-type: none"> Strategic plan focuses on key sector challenges Donor goodwill Secretariat and its various committees/sub-committees are expected to serve as the engine of poverty reduction under the PMA framework 	<ul style="list-style-type: none"> Inadequate capacity and weakness of PMA Secretariat would result in serious threats to achieving PMA objectives and poverty reduction 	

STRENGTHS, WEAKNESSES, OPPORTUNITIES AND THREATS (SWOT) ANALYSIS (CONTINUED)

Strengths	Weaknesses	Opportunities	Threats	Remarks
National Agricultural Research Organization				
<ul style="list-style-type: none"> • A tradition of excellence to fall back on • Plenty of land for research stations • Laboratories that could be brought back into full working order with appropriate renovation • Ten-year strategic plan (2000-2010) • Donor support • Makerere University is major source of strength to complement research and training efforts 	<ul style="list-style-type: none"> • Equipment outdated, broken, and inadequate for current research needs • Lukewarm dynamism • Limited operating funds • Limited networking and international exposure • Research laboratories and farms require refurbishing and updating • Poor understanding of the commercial aspects of agricultural research 	<ul style="list-style-type: none"> • PMA policy focus and commitment • Strategic plan focuses on key sector challenges • Donor goodwill • NAADS provides scope for farmer demanded and led adaptive research, demonstration and advisory work • PMA and NAADS generate opportunities for networking • Need to work more closely with economists 	<ul style="list-style-type: none"> • Climatic shifts and weather changes • Staff morale and turnover • Donor dependence • Low accounting standards and often delayed accountability returns to Government and donors • Operating on government vote system 	<ul style="list-style-type: none"> • Potential contractor to NAADS at district and subcounty levels
National Agricultural Advisory Services				
<ul style="list-style-type: none"> • Based on well-researched and tested principles of: • Farmers empowerment • Poverty targeting • Gender mainstreaming • Deepening decentralization • Progressive shift toward mix of public funding but private delivery of extension • Fostering natural resource productivity • Increasing institutional efficiency • Privatization and market linkage • Donor good will • Strong government commitment to better and well-funded programmes and activities 	<ul style="list-style-type: none"> • Too new, and just beginning to implement • Shortage of private-sector service providers • NAADS unfamiliar to local governments (much promotion needed) • Slow start-up and limited coverage in terms of districts and subcounties • Very costly to run; could become large overhead for Government to carry • Poor understanding of rural marketing • Poor internal communications 	<ul style="list-style-type: none"> • Direct flow of funds to subcounties (local government) • Basket funding arrangements for donors • Broader funding base, including donors, government and private sector • Improved planning, monitoring and evaluation • High salaries paid to staff, which might not be sustainable 	<ul style="list-style-type: none"> • Political pressure for rapid expansion to achieve early national coverage • Donor dependence • Retrenchment and costly staff severance packages • Quality assurance (private-sector service providers) 	<ul style="list-style-type: none"> • Monitoring, evolution and prompt remedial action will be necessary for NAADS success
Central Bank, Commercial and Development Banks, Credit and Microfinance Institutions, Ministry of Finance, Planning and Economic Development, Insurance Companies and Corporations, Provident Fund and Social Security Agency				
<ul style="list-style-type: none"> • Strong, supportive line ministry (MFPED) • Restructured and strengthened central bank • Privatized and liberalized commercial bank sector • Competition among insurance companies • Strengthened regulatory and supervisory arrangements 	<ul style="list-style-type: none"> • Limited rural outreach • Sector inefficiency with high intermediation costs and rates (high operational inefficiency) 	<ul style="list-style-type: none"> • Few banks and most areas are not served • Strengthened policy, legal and regulatory framework 	<ul style="list-style-type: none"> • Corruption • Default and large portfolio of non-performing assets 	<ul style="list-style-type: none"> • Government has yet to provide for competition

STRENGTHS, WEAKNESSES, OPPORTUNITIES AND THREATS (SWOT) ANALYSIS (CONTINUED)

Strengths	Weaknesses	Opportunities	Threats	Remarks
	<ul style="list-style-type: none"> • Low public credibility (big public confidence gap) • Limited small-saver-borrower empathy • Frauds and forgeries • Corruption (even in commercial courts) • Networking limited • Limited use of cheque system (principal mode of payment is cash) • Weak money transfer system and legal framework • Large foreign presence in ownership • Inadequate core capital 	<ul style="list-style-type: none"> • Strengthened policy, legal and regulatory framework • Privatization • Liberalization (market-determined interest and foreign-exchange rates) • Positive foreign-investor response • Donor interest • Willingness to test/adopt new modalities for provision of rural financial services 	<ul style="list-style-type: none"> • Default and large portfolio of non-performing assets • Illiterate clients • Power shortages and failures • Poor infrastructure (roads/telecoms) • Theft and robberies • Insecurity • Competition and conflict • Bank closures • Monopoly and dominant presence of Government in provident fund/social security agency 	in the social security fund arrangements
District Local Government				
<ul style="list-style-type: none"> • Close to the rural community with a good understanding of their marketing issues • Enthusiastic staff 	<ul style="list-style-type: none"> • Lack commercial marketing expertise • Inability to understand the importance of private-sector marketing chain (as opposed to government-controlled marketing structures) • Lack of appropriate support from centrally based organizations and markets for identifying appropriate targets 	<ul style="list-style-type: none"> • Good opportunity to identify issues along the rural marketing chain and to stimulate competition among traders 	<ul style="list-style-type: none"> • Local government may become simply a conduit for the control of rural marketing by Kampala-based organizations 	<ul style="list-style-type: none"> • Local government is making a commendable effort to help small-scale farmers with marketing, but unless they are given appropriate training and guidance, they will have little influence

STRENGTHS, WEAKNESSES, OPPORTUNITIES AND THREATS (SWOT) ANALYSIS (CONTINUED)

Strengths	Weaknesses	Opportunities	Threats	Remarks
Other Local Institutions (Uganda Bankers Association (UBA), Association of Microfinance Institutions, Uganda Cooperative Alliance (UCA), Uganda Cooperative Savings and Credit Union)				
<ul style="list-style-type: none"> • Member-controlled and home grown • Donor and government support and promotion • Considerable political support to the cooperative movement • Establishment of the Agricultural Commodity Exchange should help with marketing – providing it is managed efficiently 	<ul style="list-style-type: none"> • Members' failure to pay dues • Limited budgets and logistics • Limited internal/core capital • Lack of skilled and experienced staff • Role of cooperatives in rural marketing has been very mixed • Narrow success base to use to expand the movement • Insufficient competent (and honest) management to run all levels of the cooperative movement • Lack of commercial marketing expertise in the UCA • Lack essential forward strategic-planning data • Lingering poor public image of and confidence in the cooperative movement (although improving) 	<ul style="list-style-type: none"> • Eminent growth of financial sector • Government commitment to the rapid expansion of the microfinance industry • Donor interest and concern in rural poverty reduction • Good support from donors – especially those in Scandinavia 	<ul style="list-style-type: none"> • Membership • Insecurity • Short-term perspective of donor support • Unless the cooperative unions are able to recruit good management, farmers will be disillusioned and return to traditional marketing channels • Narrow base of external support • It is important that UCA's role and remit is distinct from other interventions (e.g. NAADS) – creating competition is good and sensible, but it may lead to unfair competition 	<ul style="list-style-type: none"> • There is a need to orchestrate donor support to build a strong microfinance subsector in the country • Considerable political support, but lukewarm response from many donors
NGOs: Foreign (F), National (N), Local (L)				
<ul style="list-style-type: none"> • Resource rich, with 'deep pockets' (F) • International best-practice experience (F) • Networking (F) • Local presence and knowledge (N, L) • Good social solidarity (N, L) 	<ul style="list-style-type: none"> • Weak resource base (N, L) • Religious ties (F, N, L) • Competition and conflict (N, L) • Inexperience (L) • Unskilled and inadequate staff with poor understanding of economics and marketing (F, N, L) • Non-profit (F, N, L) • Low sustainability (L) 	<ul style="list-style-type: none"> • Donor support • Legislation • Community training and support (L) • Presence of the Uganda Microfinance Forum (MFF) and its Apex/PMA Subcommittee on Rural Finance 	<ul style="list-style-type: none"> • Restrictive legal framework • Competition and conflict • Diversity in methods and approaches to grants and credit 	<ul style="list-style-type: none"> • There is a need to achieve uniformity of approaches among NGOs
Organized Private Sector (e.g. Uganda Grain Traders, Private Processors, Exporters)				
<ul style="list-style-type: none"> • Profit motive • Experience • Venture and risk-taking capacity • Size and numbers 	<ul style="list-style-type: none"> • Uncoordinated • Conservative • Low interest in rural areas • Little empathy for the poor • Low accounting standards 	<ul style="list-style-type: none"> • Declared government policy in support of privatization and liberalization • Investment code and tax holidays 	<ul style="list-style-type: none"> • Insecurity • Inflation • Corruption • Tax policies 	<ul style="list-style-type: none"> • Future engine of growth for Uganda
Unorganized/Informal Private Sector (Traditional Marketing Chains)				
<ul style="list-style-type: none"> • Has very competitive risk takers • Profit-motivated • Many players • Responsible for the marketing of a very large proportion of Uganda's horticultural production 	<ul style="list-style-type: none"> • A few bad apples give the many rural traders a bad reputation of being 'exploiters' • Has received very little help 	<ul style="list-style-type: none"> • Been successful despite receiving very little donor-support – thus, with carefully targeted interventions, it could be even more successful 	<ul style="list-style-type: none"> • Does not have a voice to represent it – and is consequently misunderstood • Too often used as an excuse for failings of others 	

APPENDIX IV

IFAD'S CORPORATE THRUSTS AS RELATED TO THE PROPOSED COUNTRY PROGRAMME

Consistent with the *Strategic Framework for IFAD 2002-2006* and the *Regional Strategy for Eastern and Southern Africa*, future interventions assisted by the Fund will continue with the present highly participatory, community/beneficiary-driven and market-based approaches that characterize the ongoing Uganda portfolio. To enable beneficiaries to overcome their poverty, the design of future programmes will be based on extensive and intensive stakeholder and community consultation – as will the mobilization/sensitization of beneficiaries and grass-roots groups, committees and associations for the planning and implementation of approved activities. Training, retraining, reorientation and other capacity-building measures will be central to the development and emergence of an informed and sensitized clientele, who are well aware of available opportunities for the generation of income and empowerment. Training and retraining of programme/district management and staff will be provided, particularly relating to the concept and use of logical frameworks for annual work planning, activity implementation and progress monitoring. Women will continue to be the overwhelming target group for programme activities, in recognition of their crucial role in the smallholder economy.

ACTIVITIES OF OTHER PARTNERS IN DEVELOPMENT – ONGOING AND PLANNED

Nature of Project/Partnership Potential	Intervention/Coverage	Status	Complementarity/ Synergy Potential	
World Bank				
<ul style="list-style-type: none"> • Macroeconomic reforms centred on civil-service reform, privatization and infrastructure • PMA • National Agricultural Research Organizations (NARO) • NAADS • National Environment Management Authority (NEMA) • Northern Uganda Social Action Fund • Basic education for all, including adult literacy functions • Support to local governments 	Country-wide	Ongoing	Very strong	
	Country wide	Ongoing	Very strong	
	NARO	Ongoing	Very strong	
	Country-wide	Pilot districts	Ongoing	Very strong
	NEMA	ongoing	Ongoing	Possible
	Northern Uganda	Ongoing	Ongoing	Possible
	Country-wide	Ongoing	Possible	
	Nationwide	Ongoing	Very strong	
African Development Bank				
<ul style="list-style-type: none"> • Microfinance Support Centre Ltd (MSCL) and line of credit for microfinance Institutions (MFIs) and financial community-based organizations (FCBOs) 	Country-wide	Ongoing	Possible	
<ul style="list-style-type: none"> • Area-Based Agricultural Modernization Programme (AAMP) 	13 selected districts in southern western region	Ongoing	Cofinanced with IFAD	
DANIDA				
<ul style="list-style-type: none"> • PMA and NAADS • Household Agriculture Support Project • Agricultural sector support • New financial products development (products innovation) in Commercial Microfinance Ltd • Strengthen apex structures • Formulation of the national agricultural education and training strategy • Food-security programme 	Country-wide	Ongoing	Very strong	
	Seven districts	1998-04	Possible	
	48 farmer organizations in 41 districts, focused on capacity-building	To end 2004	Ongoing	Possible
	Commercial Microfinance Ltd	Ongoing	Ongoing	Possible
	MFPED/Private Sector Development/Micro and Small Enterprise Policy Unit (MSEPU) and Microfinance Forum	Ongoing	Ongoing	Possible
	Ministry of Education and Sports	Draft policy in circulation May 2004	Ongoing	Possible
	Country-wide	Ongoing	Possible	
USAID				
<ul style="list-style-type: none"> • Production of non-traditional exports • HIV/AIDS • Uganda Savings and Credit Union • USAID-SPEED support for: financial-sector deepening (support to Bank of Uganda) to strengthen regulation and inspection of MFIs • Agriculture and Small and Medium Enterprises (SME) business-development services support within the Uganda Manufacturers Association (UMA) 	NARO	Under review	Possible	
	Ministry of Health and Uganda AIDS Commission	Ongoing	Possible	
	Selected savings and credit cooperatives	Ongoing	Possible	
	BOU	Ongoing	Possible	
	Selected districts	Ongoing	Possible	
		Terminated and under review	Possible	

ACTIVITIES OF OTHER PARTNERS IN DEVELOPMENT – ONGOING AND PLANNED

Nature of Project/Partnership Potential	Intervention/Coverage	Status	Complementarity/ Synergy Potential
<ul style="list-style-type: none"> • MFI outreach expansion and guarantee (linkage banking support) • Investment in developing export agriculture • Support to importers, stockists, traders and farmers, producers 	Uganda Bankers Association (UBA) and Uganda Institute of Bankers (UIB)	Ongoing End 2004	Possible
GTZ (Germany)			
<ul style="list-style-type: none"> • Technical assistance to strengthen the Bank of Uganda in cooperation with GTZ 	BOU	Ongoing	Possible
<ul style="list-style-type: none"> • Financial-sector deepening (focus on payment system and money transfer) • Road infrastructure 	Postbank and BOU Selected districts	Ongoing	Strong
DFID (UK)			
<ul style="list-style-type: none"> • New product development • MFI performance monitoring • Financial-sector deepening • Rural outreach expansion and franchise arrangement through Afrisave (U) and Uganda Capacity Building Programme framework (UCAP) • Integrated lake management • Support to PMA and NAADS 	MFPED BOU UIB 13 districts Country-wide	Ongoing Ongoing	Possible Very strong
European Union (EU)			
<ul style="list-style-type: none"> • Support to PMA and NAADS • EU-Suffice microfinance institutional support: • Support to Acholiland • Trade opportunities and policy • Support to Karamoja 	Country-wide MSEPU; Micro Finance Forum (MFF)-PMA Sub-Committee and Association of Micro Enterprise Institutions of Uganda (AMFIU) Three districts (Gulu, Kitgum, Padier) Nationwide three districts (Kotido, Moroto, Nakapiripirit)	Ongoing 2002-05	Very strong
UNDP			
<ul style="list-style-type: none"> • HIV/AIDS, support programme • Support to privatization • Strengthening civil capacity for peace-building • Private-sector business culture promotion centres in 11 districts 	Selected districts Uganda Manufacturers Association	Ongoing	Strong
World Health Organization (WHO)			
<ul style="list-style-type: none"> • HIV/AIDS • Water and sanitation • Health Sector Reform Programme 	Country-wide Country-wide Country-wide	Ongoing Ongoing Ongoing	Possible

ACTIVITIES OF OTHER PARTNERS IN DEVELOPMENT – ONGOING AND PLANNED

Nature of Project/Partnership Potential	Intervention/Coverage	Status	Complementarity/ Synergy Potential
Office of the United Nations High Commissioner for Refugees (UNHCR)			
<ul style="list-style-type: none"> • Communication support to Government for peace building • Basic education for all • Strengthening civil society for development 		Ongoing	Possible
United Nations Conference on Trade and Development (UNCTAD)/International Trade Centre (ITC)			
<ul style="list-style-type: none"> • Support lobby to Government for negotiation of better world trade arrangements under WTO • Trade access and opportunities with support to Uganda Export Promotion Board (UEPB) on matters of export market penetration 	Ministry of Trade, Tourism and Industry and Uganda Export Promotion Board (UEPB)	Ongoing	Possible
United Nations Population Fund (UNFPA)			
<ul style="list-style-type: none"> • Family planning and population control • Population and household census 2002 • Health-sector reform 	Uganda Bureau of Statistics and MFPEd	Ongoing	Possible
Japan International Cooperation Agency			
<ul style="list-style-type: none"> • Support to PMA (consultancy study support) on marketing • Post-harvest processing and marketing 	PMA 13 districts	Ongoing 2003-06	Possible
Netherlands Development Organization			
<ul style="list-style-type: none"> • Support to AMFIU 	AMFIU	Ongoing	Possible
Canadian Cooperative Centre			
<ul style="list-style-type: none"> • Support to Uganda Cooperative Alliance (UCA) Village Bank Programme 	Selected savings and credit cooperatives	Ongoing	Possible
Swedish Cooperative Centre			
<ul style="list-style-type: none"> • Support to UCA – farmer empowerment, management training and marketing 	Selected savings and credit cooperatives	Ongoing	Possible
Royal Norwegian Society for Development			
<ul style="list-style-type: none"> • Support to UCA/expansion of savings and credit cooperatives 	Kapchorwa district	Ongoing	Possible
Stromme (Norwegian)			
<ul style="list-style-type: none"> • Line of credit and equity support to AMFIU members 	AMFIU	Ongoing	Possible
Development Cooperation Ireland			

Nature of Project/Partnership Potential	Intervention/Coverage	Status	Complementarity/ Synergy Potential
Office of the United Nations High Commissioner for Refugees (UNHCR)			
<ul style="list-style-type: none"> • Communication support to Government for peace building • Basic education for all • Strengthening civil society for development 		Ongoing	Possible
United Nations Conference on Trade and Development (UNCTAD)/International Trade Centre (ITC)			
<ul style="list-style-type: none"> • Support lobby to Government for negotiation of better world trade arrangements under WTO • Trade access and opportunities with support to Uganda Export Promotion Board (UEPB) on matters of export market penetration 	Ministry of Trade, Tourism and Industry and Uganda Export Promotion Board (UEPB)	Ongoing	Possible
<ul style="list-style-type: none"> • Support for PMA and NAADS • Institutional strengthening and poverty reduction through labour-intensive approaches • District Development Support Programme 	Country-wide Five districts Five districts	Ongoing	Very strong Cofinanced with IFAD

