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REPORT No 21563

IMPLEMENTATION COMPLETION REPORT
(23150)

ON A CREDIT

IN THE AMOUNT OF US$ 65.6 MILLION

TO THE

REPUBLIC OF UGANDA

FOR AN

ENTERPRISE DEVELOPMENT PROJECT

December 28, 2000

Private Sector Unit
Africa Region

CURRENCY EQUIVALENTS

(Exchange Rate Effective Date October 31, 1991)

Currency Unit = Uganda Shilling
Uganda Shilling 1 = US$ 0.00143
US$ 1 = Uganda Shilling 700

FISCAL YEAR
July 1 June 30

ABBREVIATIONS AND ACRONYMS

APPERD	Action Plan for PE Reform and Divestiture
BOU-DFD	Bank of Uganda, Development Finance Department
CAS	Country Assistance Strategy
DAS	Divestiture Advisory Services
DDS	Divestiture Design Study
DOs	Development Objectives
DRIC	Divestiture and Reform Implementation Committee
EDP	Enterprise Development Project
FDI	Foreign Direct Investment
GOU	Government of Uganda
ITCRF	Investment Term Credit Refinance Fund
PCU	Project Coordination Unit
PEs	Public Enterprises
PEP	Public Enterprises Project
PERD	Public Enterprise Reform and Divestiture
PMU	Parastatal Monitoring Unit
PU	Project Implementation Unit
PUSRP	Privatization Utility Sector Reform Project
RF	Restructuring Fund
SAC	Structural Adjusment Credit
SARAP	Sector Administrative Reform and Planning Study
TA	Technical Assistance
TMCs	Technology and Management Contracts
TMF	Technology and Management Fund
UDB	Uganda Development Bank
UMACIS	Uganda Manufacturers Association Consultancy and Information Services
URU	Utility Reform Unit
USE	Uganda Stock Exchange
QAG	Quality Assurance Group

Vice President:	Callisto Madavo
Country Manager/Director:	James W. Adams
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Task Team Leader/Task Manager:	Edgar Saravia

THE REPUBLIC OF UGANDA

IMPLEMENTATION COMPLETION REPORT
ENTERPRISE DEVELOPMENT PROJECT

CONTENTS

Project ID: P002968	*Project Name:* ENTERPRISE DEVELOPMENT
Team Leader: Edgar Saravia	*TL Unit:* PSDPS
ICR Type: Core ICR	*Report Date: December 28, 2000*

1. Project Data

Name: ENTERPRISE DEVELOPMENT
L/C/TF Number: 23150
Country/Department: UGANDA
Region: Africa Regional Office
Sector/subsector: BP - Privatization

KEY DATES

			Original	*Revised/Actual*
PCD:	07/14/89	*Effective:*	09/17/92	
Appraisal:	03/29/91	*MTR:*	06/19/98	03/01/94
Approval:	12/03/91	*Closing:*	12/31/99	06/30/2000

Borrower/Implementing Agency: Government of Uganda/Ministry of Finance Planning and Economic Development (MFPED)
Other Partners:

STAFF	Current	At Appraisal
Vice President:	Callisto Madavo	Edward Jycox
Country Manager:	James W. Adams	Callisto Madavo
Sector Manager:	Demba Ba	Robert Hindle
Team Leader at ICR:	Edgar Saravia	Subhash Dhingra
ICR Primary Author:	Edgar Saravia; Agata E. Pawlowska; Lucy Fye	

2. Principal Performance Ratings

(HS=Highly Satisfactory, S=Satisfactory, U=Unsatisfactory, HL=Highly Likely, L=Likely, UN=Unlikely, HUN=Highly Unlikely, HU=Highly Unsatisfactory, H=High, SU=Substantial, M=Modest, N=Negligible)

Outcome: S
Sustainability: L
Institutional Development Impact: M
Bank Performance: S
Borrower Performance: S

	QAG (if available)	ICR
Quality at Entry:		U
Project at Risk at Any Time:	Yes	

3. Assessment of Development Objective and Design, and of Quality at Entry

3.1 Original Objective:

Background

The Enterprise Development Project (EDP) was designed as an integral part of the Economic Recovery Program launched by the Government of Uganda (GOU) in 1987 that aimed at restoring the economic stability through the reform of macroeconomic and sector policies. At that time, Uganda was coming out

of civil war, political instability and economic mismanagement. The power, water supply and telecommunication systems were hardly functional; the industrial facilities were abandoned and much of the transportation network was in ruin; large number of skilled personnel and experienced administrators had gone into exile. GOU inherited 139 public enterprises (PEs) employing 45,000 workers. The PE sector was in complete disarray and had suffered a loss of managerial and technical staff, markets, equipment and property records; it had become a significant financial budgetary burden with net financial transfers amounting to US$25 million between 1982-1986.

IDA's support of the parastatal restructuring and divestiture program was first facilitated through the Public Enterprises Project (PEP) approved in 1988 and closed in May 1995 (detailed discussion of PEP's goals, implementation and outcomes is provided in Section 10, point 1). The restructuring and rehabilitation of PEs did not succeed in relieving budgetary pressure from GOU, but instead exerted more pressure on the limited resources; only 11 PEs were privatized. The project did, however, finance several diagnostic studies that were used by GOU in formulating its privatization policy (see discussion below). In the third year of implementation of PEP, GOU requested a second IDA credit of US$65 million in support of its program for PE Reform and Divestiture. EDP was approved in 1991 and became effective in July 1992.

EDP original development objectives (DOs) and their relevance to CAS

The original objectives of EDP as stated in the Memorandum of the President were to provide investment, financial support and technical assistance to:

1. Improve the operating environment for all enterprises, public or private.
2. Generate a supply response from all enterprises.
3. Contribute to reducing the budgetary deficits, by reducing the size of the PE sector and improving the performance and the financial discipline of the remaining PEs.

The project's original DOs were consistent with the Bank's country assistance strategy and, to a degree, complementary with the other Bank operations (SAC in FY92 and FSAC in FY93). The results of several diagnostic studies that were financed by PEP were taken into account in designing EDP. A Sector Administrative Reform and Planning Study and a Divestiture Design Study, both completed in 1990, were used by GOU to formulate its Action Plan for PE Reform and Divestiture (APPERD). APPERD outlined legal, financial and institutional reforms that were to be carried out simultaneously to facilitate implementation of the PE sector reform. The implementation of the first 5-year phase of APPERD was to be supported by EDP.

Clarity and realism of the original DOs

There are two problems with the statement of the original DOs. First, they are general and imprecise. They cover a number of key economic aspects that are not homogenous (i.e. business environment comprises, inter alia, regulatory framework, investment laws, bankruptcy laws, tax laws). Without specific reference as to which of them are to be affected by the project, the statement of objectives is ambiguous. The assumption that the project aims to improve all the aspects, makes DOs very ambitious and unrealistic. Second, the project pre-dates the introduction of the logical framework approach and the original DOs are not readily translated into development outcome indicators. The outcomes and milestones were not clearly specified. The only measurable indicator defined in the project document relates to the number of PEs privatized: during the implementation of the first 5-year phase of APPERD, 59 PEs were to be divested (including liquidation) and 12 PEs were to be restructured.

3.2 Revised Objective:

An IDA review of the PE sector reform and a directive issued in January 1995 by the President of Uganda induced a number of changes, which became the basis for the comprehensive restructuring of the parastatal reform and divestiture program (see section 10, point 2 for details). Consequently, EDP's development objectives were reduced and modified as follows:

1. Reduce the size of the PE sector through privatization and liquidation. It was GOU's intention to divest 85% of all parastatals to the private sector within a three-year period and to increase the level of participation in the privatization process by the Ugandans through the use of the stock market as a preferred method for privatization of PEs.
2. Improve performance and financial discipline of the remaining PEs facilitated by two measures: (i) improved financial oversight and monitoring of the parastatals by the Ministry of Finance, Planning and Economic Development (MFPED), and (ii) encouraging PEs to utilize other instruments to improve their solvency ratios besides the Government subsidies (i.e., debt-equity swaps, access to external funding).

The revised DOs were clearer and more realistic, but had three shortcomings. First, there were no indicators to measure the quality of transactions addressing such issues as transparency and governance (see section 5.2 for a full discussion). Second, no qualitative or quantitative output indicators were specified for the second DO. If one had to recast the logframe matrix *ex post*, the following indicators could be suggested (see Annex 1 for an ex-post logical framework matrix of DO and Monitorable Indicators): (i) decreased budget subsidies to the PE sector, (ii) improved economic indicators in the remaining PEs (such as productivity, profitability, utilization of resources), and (iii) in terms of institutional capacity, creation of a separate Parastatal Monitoring Unit (PMU) incorporated into the structures of MFPED with clearly defined authority to monitor, supervise and enforce hard budget constraints in the PE sector. Third, no DO and monitoring indicators were specified for the line of credit component ITCRF, which was retained with more than 40% of the total credit funds. A third DO related to the ITCRF component was added to the project's DOs: To generate a supply response from private and public enterprises by providing medium-term investment finance. The suggested outcome indicators against which the outputs of this component are judged include: (i) increased availability of term finance to the enterprise sector; (ii) expansion of the industrial base (investments) and employment in and tax revenue from the enterprise sector, and (iii) stronger capacity at participating banks (PBs) to manage lines of credit. The amendment was approved by the Board of the World Bank.

3.3 Original Components:

The project had four main components:

1. **Line of Credit** for all enterprise sector needs, including rehabilitation of PEs after divestiture and for rehabilitation or new investment for exports or import substitution. The project was to provide US$25 million to this component through the establishment of ITCRF to assist the accredited banks (including private commercial banks) and other commercial lending institutions undertake medium- to long-term lending for foreign exchange to viable private and public enterprises. Bank of Uganda, Development Finance Department (BOU-DFD) was to operate this fund.
2. **A Technology and Management Fund (TMF)**, which aimed to enhance the technological and management capabilities of Ugandan enterprises by ensuring availability of foreign exchange for payments for technical assistance rendered through Technology and Management Contracts (TMCs). The project was to provide US$11 million to TMF, which was to be managed by BOU.
3. **A Restructuring Fund (RF)** for the one-time physical and financial restructuring needs of viable PEs

to help preserve their viability and profits. It covered PEs to be retained by the Government in the medium to long term or required rehabilitation or financial restructuring prior to divestiture. The project was to provide US$16 million to the RF, which was to be managed by the Uganda Development Bank (UDB).

4. **Technical Assistance (TA) and Project Management** component to finance management and technical training, consultant services, equipment and materials for these programs. It included: (i) institutional strengthening of BOU and UDB; (ii) assistance to the Ministry of Commerce, Cooperatives and Marketing to develop an export strategy and program; (iii) training and support to the individual PEs to develop and implement their corporate restructuring plans; (iv) operating cost support to and institutional strengthening of the Public Enterprise Secretariat and Public Industrial Enterprise Secretariat. US$ 11.5 million was allocated to this component.

In addition to the above components, US$ 2.0 million were unallocated.

3.4 Revised Components:

Consistent with the revision of the original objectives and following the project's mid-term review, two original project components were canceled for a total of US$26.6 million equivalent. The **RF component** was found redundant as according to the new policy the Government intended to (i) speed up the privatization process by selling the parastatals "as is" rather than restructure them prior to divestiture, and (ii) discontinue all direct and indirect subsidies in order to force PEs to seek other sources of funds to overcome financial difficulties. The **TMF component** was considered redundant as the Ugandan foreign exchange market was liberalized in 1992.

The remaining funds were reallocated to the two remaining components, which were also modified. **Privatization and Public Enterprise Reform and Restructuring** replaced the TA component following the Presidential Directive of 1995 that dissolved the PERD Secretariat, and other institutions involved in privatization. This component was redesigned to support the new structure and to provide financing for project management, technical training, consultant services, and equipment and materials for the privatization and PE reform program. A small TA sub-component to the Ministry of Industry was retained as it was making a contribution in the context of Uganda's efforts to join the World Trade Organization. The **ITCRF component** was streamlined to simplify loan disbursement procedures. Under the modified arrangements and consistent with the BOU policy on interest liberalization, there would be no cap on lending rates for sub-loans thus allowing participating banks to determine the final interest charged to the borrower. Project costs were allocated to the revised components as follows:

Component		Cost	Rating
1.	Privatization and Public Enterprise Reform and Restructuring	US$32 million	S
2.	ITCRF	US$25 million	S

The institutional framework for the privatization program, policies and principles guiding the reform and divestiture program that were outlined in APPERD were eventually embodied in the Public Enterprise Reform and Divestiture (PERD) Statute, which was passed by the Parliament in 1993. The Statute also classified PEs into five categories related to the level of GOU ownership in each PE. Following the enactment of the PERD Statute, two bodies were formed, the Divestiture and Reform Implementation Committee (DRIC) and the PERD Secretariat. DRIC was responsible for implementing GOU's policy on PE sector reform and divestiture under the PERD Statute. It was also required to approve the divestiture of every PE. The PERD Secretariat, on the other hand, was responsible for running day-to-day matters related to the implementation of the divestiture program. The institutional framework for the line of credit component comprised of two levels: BOU-DFD was responsible for managing the fund, while the participating commercial banks were responsible for running day-to-day lending operations. As mentioned

earlier, the project restructuring was approved by the Board of the World Bank.

3.5 Quality at Entry:
The project pre-dates the introduction of the Quality Assurance Group (QAG) process at the World Bank and quality at entry was thus not evaluated by QAG. Judging *ex post* the quality at entry is rated unsatisfactory for the following reasons (see also Section 7): (i) EDP was a complex project with almost no synergies between the privatization and ITCRF components. Therefore, it should have been executed as two separate projects; (ii) the TMF component was redundant from the start of EDP, as trade policy reform made foreign exchange available to pay for foreign consultants. In addition by June 1992 the foreign exchange market was liberalized; (iii) the RF component for restructuring prior to privatization was already considered not the best practice at the inception of the project (Levy Report OD 8:30); (iv) the TA component, including privatization, did not address the issues of red tape in a systematic manner. In addition, institutional arrangements and substantial overlapping between PEP and the privatization component of EDP further blurred the accountability; and (v) the ITCRF component should have concentrated more on strengthening PBs weak management and supervision capacities. Furthermore, putting a cap on interest rate charged by PBs on loans proved inefficient and slowed down disbursements.

4. Achievement of Objective and Outputs

4.1 Outcome/achievement of objective:
The overall project's outcome is rated satisfactory as the positive results of the project outweighed the negative ones. Despite the problems with the design of the project and slow implementation at the beginning (see section 5 for a more in-depth discussion) and with the extensions of the closing date, the project's revised objectives were largely met. Although it could be argued that GOU in cooperation with IDA could/should have addressed the implementation problems and difficulties sooner, it should also be noted that the final overall positive outcome of the project could not have been possible without a strong commitment of GOU to continue with the reforms; its ability to learn from past mistakes and make the necessary adjustments to correct them during the implementation process. The Presidential Directive of 1995 and the Parliamentary Investigation of 1999, both aiming at improving the legal and institutional environment of the privatization program, provide evidence supporting this statement. Finally, the project implementation unit (PU) has gained experience in running the program and in time became more effective. After the Presidential Directives of 1995, PU was able to recruit suitably qualified staff and consultants who implemented the privatization program.

The first DO - to reduce the size of the PE sector - has been partially achieved as the Government reduced the size of PE sector by 68% instead of 85% as planned. As of March 31, 2000, a total of 95 divestitures, out of the total 139, were completed. Out of that number, 62 divested PEs were from the targeted list of 113 PEs for divestiture or restructuring in the 1993 PERD Statute; 33 PEs were liquidated by striking from the register, voluntary liquidation or dissolution by Decree. The pace of divestiture was uneven which was strongly correlated with the restructuring of the institutions responsible for the privatization program: during 1992-94 only 14 PEs were privatized. Following the Presidential Directive in 1995, the pace increased significantly and 33 PEs were privatized by end-1996. In 1997 the process slowed down once again owing to the increasing complexity of the transactions (15 PEs privatized during 1997-99). In addition, at the beginning, PEs privatized were small in terms of output and employment and therefore impact of privatization was marginal. As time progressed and experience of PU staff increased the privatization process moved on to more economically important PEs.

The second DO - to improve the performance and financial discipline of the remaining PEs - has been also partially achieved. In terms of the institutional arrangements to facilitate improved financial oversight

and monitoring of PEs, debt verification and cross debt settlement, the objectives have been achieved. The Parastatal Monitoring Unit (PMU) has been created and incorporated into MFPED with clearly defined functions and areas of responsibility and stronger institutional capacity. Two key functions performed by PMU include debt verification and cross debt settlement and monitoring of the financial flows between the government and PEs, as well as between PEs themselves. The goal of improved enforcement of hard budget constraints on remaining PEs (gauged by the level of budgetary subsidies to the PE sector) has been partially achieved. Although the privatization failed to reduce the subsidy level to the PE sector in nominal terms during 1992-98, the magnitude and composition of budgetary subsidies have changed with the bulk of subsidies going to the utility companies. As for the improved economic performance of the remaining PEs, due to lack of data it is not possible to make a judgment.

The third DO - to generate a supply response from private and public enterprises by providing medium-term investment finance through the line of credit has been achieved, although the long-term sustainability of the results is questionable (see Section 6 for details). The line of credit provided needed financing for productive investment in the private sector while the Government was further opening up the economy; the modern banking system was embryonic, and there was little or no access to term lending on commercial terms. A number of new enterprises were created with APEX financing while existing enterprises were able to expand operations. The full impact of the line of credit on output and employment is yet to be determined as a number of enterprises only completed their investment program over the past year. The line of credit also played an important role in that banks have gained valuable knowledge of previously unknown clients with whom they will continue doing business beyond the life of this project.

4.2 Outputs by components:

Privatization and Public Enterprise Reform and Restructuring. The outcome of the privatization component is rated satisfactory, as the positive fiscal, socio-political, and general economic benefits outweighed the costs. In 1999, GOU commissioned the preparation of two reports that would evaluate the economy-wide results of the privatization program and carry out a full impact assessment of the privatization process. GOU's contribution to the ICR for EDP was prepared in May 2000. The second report entitled "Assessing the Impact of the Privatization Process in Uganda" was prepared by the Uganda Manufacturers Association Consultancy and Information Services (UMACIS) and shows the survey results of 22 privatized companies. According to the findings of these studies, the overall outcomes (both positive and negative) are as follows:

Fiscal Results. *Subsidies.* During 1992-98 GOU reduced total subsidies from 4% to 2.6% of GDP. The decline could have been even higher had it not been for indirect subsidies that during the same period almost doubled reaching 2.5% of GDP. This increase was mainly due to increases in loan and tax arrears in the utilities, which accounted for 65% of total subsidies in 1998. This problem is currently being addressed by the follow-up Privatization and Utility Sector Reform Project (PUSRP). *Total net privatization proceeds* were generally lower than expected as the costs related to divestitures were higher than anticipated. The reasons were: (i) firms' valuations were based on book value, which in many cases was lower than market value; (ii) the size of debts and arrears was higher than expected; and (iii) liberalization of the economy and reduction of subsidies negatively affected the firms' value as going concerns. *Higher tax revenues* come from increased productivity in the economy as a whole, including privatized firms. In the period 1992-98 tax revenues increased by 25% and accounted for almost 12% of GDP in 1998. According to the Report, seven out of nine surveyed privatized companies that provide tax data have increased their tax payments by 12%-23%. Privatized companies like Nile Breweries Ltd., Crown Beverages Ltd., and Shell (U) Ltd. are the leading tax payers in the country. *Reduction of cross debt, its verification and settlement.* According to the Debt Management Report, as of June 1999, 26 PEs did not have any loans from GOU and 18 PEs had guaranteed loans. There is no data available indicating the

changes in debt and arrears between GOU and PEs.

Socio-political results. The process of creating a property owning middle class of Ugandans through promoting the ownership of private enterprises by nationals has been rather slow. 36 PEs, mostly SMEs, were bought by local investor while foreign investors bought 20 PEs. Thus far, only one firm (Uganda Clays Ltd.) has been offered and successfully sold to the public through share sale on the Uganda Stock Exchange; a second privatized company (BAT-Uganda) was recently listed in USE and completed an initial public offering (IPO). Privatization resulted in reduced government interference in the economy. So far, GOU has sold off almost 70% of the state enterprises to the private sector while PEs that remain wholly or partially state owned enjoy autonomy in decision-making process. In the next 5 years GOU, assisted by IDA, intends to privatize a number of large PEs including utilities. While labor issues related to privatization were addressed during implementation in an *ad-hoc* manner, there was no major backlashes. A more detailed discussion of this issue is provided in section 8.

Economic results. *Economic efficiency and output.* The overall efficiency of the surveyed privatized companies have increased significantly: capacity utilization has surged from 11% in 1993 to 51% in 1998; sales grew by 42% in the manufacturing sector, 53% in transport and 8% in tourism. In many cases, privatization has paved the way for management innovations that led to new and/or improved product mix and services provided. The profitability of the privatized PEs increased alongside. This trend has been matched by an increase in total economic output (between 1992-98 annual GDP growth equaled 6%), as well as in specific industrial sectors (during 1992-97 the index of industrial production grew by an average of 18% a year). *Investment.* 20 out of 22 surveyed companies (operating mostly in manufacturing, transport and tourism) have invested a total of USh 126 billion in machinery, buildings and land. This trend is mirrored in the economy-wide rise in gross domestic investment as a percentage of GDP, which during 1992-98 grew from 15.5% to 17.6%, of which private investment increased from 8.5% to 11.8%. *Employment consequences.* By 1996 more than 5,000 workers from about 40 PEs have been made redundant. In the surveyed firms, the Report showed a net decrease in employment of only 0.2%, which would indicate that new jobs have been created in the economy by private and privatized firms. In addition, there is a higher demand for better educated/skilled workers to fill technical and clerical positions. Nonetheless, without conducting a more detailed analysis it is impossible to determine the impact that the privatization had on various groups of retrenched workers. A tracer study of the retrenched employees (especially the older and less educated/skilled ones) should be conducted to determine any possible negative consequences. *Development of capital markets.* Privatization has played a limited role in capital market development in Uganda; so far only two companies have been sold through the public offering of shares.

ITCRF Component. The outcome of the line of credit component is rated satisfactory. Eleven banks were accredited to participate while only ten actually participated in the line of credit. Three banks were declared ineligible as they did not meet the criteria. The line of credit was committed slowly in the first five years of the project, in partly due to the country's difficult economic conditions which were unfavorable to medium and long-term investments and partly also due to the design of the line of credit, as mentioned above. The line of credit was restructured at the time of project restructuring in 1995 as the interest rate structure and operating procedures were simplified, and clearer eligibility criteria for financial intermediaries were established. The repayment rate for loans to enterprises under the APEX line of credit remained very high throughout the life of the project. By the time of completion of the project, only five loans representing 6.3 percent of outstanding loan portfolio were in arrears; four of them were made by a a failed bank which participated early in the project implementation period and was subsequently declared ineligible. During the restructuring, the cap on interest rates on loans to private enterprises which had been established at appraisal, was removed. After that time, the interest rate for subloans were freely determined by PBs. PBs set variable rates linked to the rate they obtained the funds from the BOU. The APEX refinancing rate

charged by BOU was adjusted automatically (TBill rate plus 0.5%). The rate charged by PBs was on average positive in real terms; therefore, there was no implicit subsidy to the scheme.

According to GOU's contribution to the ICR prepared in April 1999 presenting the results of a survey of 9 PBs and 20 of the projects supported by the scheme. These comments are reflected below.

Firstly, the line of credit was designed to *provide medium and long-term financing to private sector enterprises* through participating PBs for financing their modernization and expansion investment; start up costs for new firms; incremental working capital; and production inputs. This goal has been achieved, although its long-term sustainability is uncertain as the ITCRF facility has only temporarily fulfilled an effective demand for term credit. However, PBs contributed their own funds to projects financed under the line of credit, which suggests an increased willingness of PBs to provide term loans. In addition, following the example of the Bank-funded line of credit, other lines of credit were established (i.e., the European Investment Bank Apex Scheme launched in 1995). Learning from the experience of ITCRF, this facility made the line of credit more favorable by providing a direct finance facility to the PBs, offering loans of longer maturity, choice of currency, and requiring less administrative work.

Secondly, the line of credit contributed to the *expansion of industrial base, employment and tax revenue.* When the ITCRF closed in early 1999 (almost one year ahead of the disbursing schedule), it had provided support to 40 projects in 37 enterprises located in and around Kampala that employ more than 1,000 people for US$25 million. Loans were generally granted to medium-sized enterprises, as banks were cautious about lending to the riskier small enterprise sector. Twenty two of the projects aimed at expansion and modernization of existing enterprises; 17 were start-ups and only one project was rehabilitation of a divested enterprise. Manufacturing and agro-processing sectors attracted more than 70% of the total funds allocated under the scheme. Other sectors included tourism, property development, health and education services. The indirect effect of the scheme is increased tax revenue in the form of enterprise tax, value added tax and income tax.

Finally, the line of credit was to *strengthen capacity at PBs to manage medium- to long-term financing.* This goal has been achieved through training and hands-on experience. In the case of 10 participating accredited PBs a limited number of PB staff participated in the two training courses offered under the ITCRF scheme and there were cases that staff that was trained left PBs for a better job. As a result it has been assessed that PB staff capacity is insufficient to manage lines of credit without further skill/knowledge enhancement. BOU-DFD staff is currently managing the implementation of two similar schemes. Learning-by-doing benefited all participants as they gained valuable knowledge of the market for investment financing and previously unknown clients with whom they will continue doing business beyond the life of this project.

4.3 Net Present Value/Economic rate of return:
Not applicable

4.4 Financial rate of return:
Not applicable

4.5 Institutional development impact:
The project had a moderate positive institutional development impact on the agencies involved in the project: MFPED, PU and PMU; as well as the financial institutions participating in the implementation of the ITCRF component: BOU and PBs. Capacity building has been facilitated by the following measures:

1. *Responsibility for implementing the privatization program vested with the Ugandans.* MFPED

through PU was responsible for the administration of the project and coordination of activities supported by it. The directors as well as the majority of the supporting staff are Ugandans. Although, during the life of the project a number of negative aspects, mostly related to implementation, were identified, GOU in cooperation with IDA demonstrated the ability to learn from past mistakes and make appropriate adjustments into the structure and procedures. As a result by 1998 PU built a good reputation for its capacity to manage the privatization process professionally, efficiently, and transparently. The same unit (renamed as Project Coordination Unit - PCU) will serve as the project implementation unit for the successor project - the PUSRP.

2. *Use of consultants and international advisors.* Consultancy services were increasingly used in areas such as preparation of diagnostic reports and audits, and carrying out valuations of PEs prepared for divestiture. A number of consultants were recruited to provide assistance in implementation of various components of the project. The quality of consultancies as well as GOU's implementation of the advice received was uneven. In some cases, the quality of consultancies was probably affected by political interference. In addition, to strengthen the implementation unit, an international advisor was appointed and the project coordinating staff were maintained throughout the project's life. As a result of knowledge transfer, towards the end of the project, there was less of a requirement for external advisors and the few that were use were largely limited to very specialized areas, for example the reform of the power and rail sectors.
3. *Provision of training.* The people involved in the activities supported by the project participated in courses that helped develop and enhance their capacity in areas of the relevant fields. BOU-DFD and PBs staff involved in the implementation of ITCRF, participated in two training courses enhancing their knowledge on how to manage credit lines more efficiently. In addition advice, assistance and on-the-job training was provided by two in-house consultants seconded by the World Bank. Staff of PU and PMU were trained to improve their monitoring and supervision competencies. Both directors of PU and PMU have attended courses and seminars in their respective areas and are now charged with the responsibility of overseeing the operations of the reform process in their respective capacities. This skills will ensure the sustainability of the divestiture and reform exercise.
4. *Organizing seminars and workshops.* Staff of various units involved in privatization program underwent numerous seminars in and out of the country specific to the functions they were undertaking and on various areas of privatization. For example, workshops were organized for senior managers of PEs that covered topics such as management information systems and value added management; assisted PEs in costing, budgeting and business planning, systems development and improvement.

5. Major Factors Affecting Implementation and Outcome

5.1 Factors outside the control of government or implementing agency:

Two key problems outside the control of GOU or implementing agency may have affected the implementation of the project. First, *lack of committed and credible investors.* This factor may have partially resulted from a decreasing credibility of the privatization process due to problems with implementation, governance, delays, lack of clarity and transparency of the transactions. On the other hand, however, there were cases of investors defaulting to pay agreed prices on time after lengthy negotiations. In order to reduce the risk of such events, PU has developed a procedures manual that provides for a non-refundable submission fee. The procedures also provide for (i) a bid bond where the amount is determined at the time that the bid documents are prepared and which counts towards the purchase price for the successful bidder; (ii) payment up-front of total bid price; and (iii) better contracts and guarantees. Second, *insufficiently developed capital market and Uganda Stock Exchange (USE)* may have negatively affected not only the speed of the program, but also the extent to which the ordinary Ugandans participated in the privatization process. It is anticipated that other PEs will be privatized through the USE and the privatization program will help promote the second-tier trading of shares, although it must be recognized

that the number of PEs that could be listed and floated is limited.

5.2 Factors generally subject to government control:
During the initial implementation years the key shortcomings pertained to the following two aspects: (i) lack of detailed procedures for divestiture and for use of the divestiture proceeds which led to questions of transparency and governance; and (ii) inadequate legal and institutional arrangements of the implementing agencies.

The lack of standard, uniform procedures for divestiture (that would provide guidance to prepare the sale documents; describe a step-by-step *modus operandi* for conducting the privatization transactions; and clearly define the uses of the privatization proceeds) led to three problems. First, on a number of occasions GOU experienced difficulties with timely collection of the payments from the buyers for divested enterprises. These delays would sometimes lead to asset stripping and siphoning of cash, loss of credibility with potential investors, which in the case of foreign, was particularly acute, and it also opened the doors for political interference and opposition to the sale of various PEs either due to disagreement in sales strategy or outright rejection of the sale (i.e., Uganda Airlines, Coffee Marketing Board). Second, it provided the opportunities to misuse the privatization proceeds from the Divestiture Account to fund projects that were not related to the divestiture process, such as lending or providing credit guarantees to private companies. And finally, privatization transactions were structured in a way that was perceived by the general public as well as the Parliamentarians as non-transparent. This led to allegations of corruption and general misunderstanding on the part of the public about the privatization program resulting in a belief that Government had given away the "family silver".

Inadequate legal and institutional arrangements and ill-defined responsibilities and accountability of the implementing agencies complicated the process further. Lack of clearly defined roles and responsibilities between the MFPED and PMU in terms of financial supervision of PEs, resulted in reluctance form the Line Ministries and some PEs to provide the required information. In addition, the PERD Statute did not stipulate sanctions on PEs that engaged in illegal activities like incurring unnecessary expenses and asset stripping. This lack of co-operation from line ministries and PEs, together with the absence of any enforcement mechanisms made PMU's main objectives difficult to achieve. As a result, information available to PMU was frequently out-dated and of little value. These weaknesses resulted in uneven implementation of the program, delays due to cumbersome bureaucratic procedures, as well as tendencies to politicize the decision making process due to excessive interference of DRIC into technical matters.

The above shortcomings contributed to the deteriorating quality of the privatization process. An important solution to these problems was offered by the 1995 Presidential Directive. It was complemented with the 1999 decision from the Parliament that took strong measures to restore the credibility of the privatization process and to put it back on track (see section 10 for details). The Parliamentary Investigation and its conclusions constituted a turning point in the privatization program in Uganda, because: (i) it was a recognition of the need to critically re-assess the program; and (ii) it led to a series of specific actions designed to address the problems with the privatization process. Furthermore, it led to closer cooperation between Parliament and GOU in identification of the problems and their resolution through a series of changes in the institutional and legal environment. Additionally, in order to increase the public support for the privatization program, GOU has undertaken measures to intensify its promotional activities, including road shows and other organized communication campaigns. A final key result of the investigation was the renewed commitment of GOU to the privatization process with a call for greater transparency and quality of transactions as pre-requisites for continuation.

5.3 Factors generally subject to implementing agency control:

The following three factors, generally under PU's control, may have negatively affected the implementation of both components of the project. Firstly, *lack of knowledge and procedures as to how to draft a proper sale-contract and poor contract management* further exacerbated GOU's problems collecting payments from the buyers for divested enterprises. About 41% out of the total UShs 37 billion in deferred payments in 1997 were still to be paid and the bulk of it had to be rescheduled. The reasons included: (i) insecurity in some regions; (ii) poor contract management and investors refusal to pay citing misrepresentation on the part of the Government; (iii) flaws in the sale agreements; and (iv) lack of disclaimers in the sale contract of memorandum of offering and delays in delivery of land title deeds or other licenses and agreements. To address this problem standard agreements have been developed and are currently in use. In addition, transaction and legal advisors are used in each transaction to advise Government. Secondly, a number of the *operational difficulties* during project implementation stemmed from a lack of clear understanding of when and how IDA had to be approached. To address this problem training in procurement and project management was carried out for EDP staff, directors and advisors in 1997 and 1998. IDA guidelines were distributed and agreements on communication and response times forged between the Task Team and project management. In addition, as a result of a complex organizational structure, EDP staff were overburdened by meetings. Also, inadequate planning of staff-time and lack of in-house expertise to handle highly specialized tasks may have negatively impacted their efficiency and quality of transactions. To address these shortcomings and enhance the in-house skills, on-the-job training and seminars for staff together with out-sourcing of expertise for specialized tasks has been exercised. By and large, the process is now almost fully managed by Ugandans. And finally, there were some *procurement quality problems* as several procurement actions had not followed IDA procedures. To address this problem, the Divestiture Procedures Manual clearly spelled out the steps/procedures to be undertaken in the process, which then should be strictly followed by the project staff.

5.4 Costs and financing:

The total cost of the project was estimated at US$91.2 million equivalent including taxes and duties of US$8.2 million. The foreign exchange component was estimated at US$65.6 million representing 72 percent of total project costs and about 79 percent of total cost net of taxes and duties. Price contingencies were estimated at 5 percent per year to cover local costs price fluctuations. IDA credit represented US$65.6 million equivalent (SDR 49.3 million) and was targeted for financing foreign costs of the project. The Government's share was estimated at equivalent to US$15.7 million (i.e., 17% of total project costs) earmarked to finance financial restructuring of PEs, local costs of advisory services, and incremental operating expenses of the PEs . The share of the sub-borrowers' contribution for utilizing the IDA term fund was estimated at US$10 million equivalent.

As a result of project restructuring in 1995, two of components were canceled from the credit, representing SDR 17.85 million (US$26.6 million equivalent). IDA credit was reduced to SDR 31.45 million (equivalent to US$41.8 million).

The Government contribution to PE restructuring was also canceled, thus limiting the overall contribution to that of project support activities, as well as payment of retrenchment benefits under the Privatization component. The actual GOU contribution was US$ 20.5 million for the Privatization component; sub-borrowers share for the ITCRF component equaled US$6.8 million. Total amounts disbursed from IDA credit amounted to US$43.9 million equivalent (SDR 31.3 million). This brings the overall project costs to US$71.2 million equivalent.

6. Sustainability

6.1 Rationale for sustainability rating:

The overall Project sustainability is likely; the sustainability of the privatization component outcome is

highly likely, whereas the sustainability of the results of the ITCRF component is unlikely. The Government's ***privatization program*** is well advanced and it is expected that its results are irreversible. How effective the remaining process will be depends on the ability of GOU to effectively address the difficulties that plagued the privatization program in the past and to ensure the positive 'privatization climate'. The following measures, *inter alia*, can be mentioned:

1. *Continue to provide a favorable business, legal and institutional environment and conduct transactions in an open and transparent manner.* This is a prerequisite to attract private investments, especially FDI, which is particularly important as the focus of the privatization program now turns to PEs operating in the utilities sector. There is an urgent need for transfer of modern technology and know-how into the utility sector. Also, the domestic saving base in Uganda is rather slim and so the active participation of the ordinary Ugandans in the privatization process is limited.
2. *Broaden the ownership of the program* among the Parliamentarians, but most of all among the Ugandans. One way of ensuring this is to strengthen the schemes allowing for broader participation of the Ugandans in the privatization process. This in turn would require further development of the financial sector, strengthening of the banking and capital markets, creation of pension, insurance and investment funds. Improving the communication and flow of information about the process should also result in better understanding of the process and provide stronger support to continue.
3. *Promptly address the post-privatization issues* including: (i) delays in installment payments for the purchased assets from the buyers; (ii) the payment of the retrenchment packages to the employees of the privatized PEs.
4. *Maintain and further strengthen the institutional capacity* of the project implementation unit - PCU - for a smooth continuation of the privatization process and PMU for efficient debt management and PEs monitoring. With the expertise built over the project period, the second phase of the privatization program will be carried out by Ugandans with very specialized external technical expertise for the utilities sector reform. The debt technical secretariat is able to deal effectively with all debt management activities.

Despite several positive outcomes of the ***ITCRF component***, their sustainability in the medium- to long-term is uncertain since with the depletion of the line of credit, the commercial banks are not able to continue long term lending at the same levels. Most of them have limited own medium- to long-term resources as bank deposits are by and large short-term and the saving rate is low. Tackling the problem of slim term saving by providing additional term funds to the banking sector will preserve the *status quo* and may further delay the reforms in the financial sector. One additional factor that makes sustainability of the ITCRF component questionable is that the in addition to the credit line depletion through devaluation/inflation, ITCRF re-flows (i.e., repayments of the loan principal plus interest) were used in line with GOU's priorities at the time to finance PE retrenchment that occurred as a result of the privatization process.

6.2 Transition arrangement to regular operations:

The privatization process in Uganda is not yet completed and the remaining parastatals include utilities, comprising of the telecommunication, electricity, water and sewage, and transport services, and other large PEs mostly involved in manufacturing, construction, agri-business, tourism, trade and financial services. The follow-up project funded by IDA - the PUSRP - will help GOU complete the on-going PE reform agenda through privatization of remaining commercial, industrial PEs and utilities and provide an adequate legal and regulatory framework. In order to ensure a smooth transition between the projects and for PUSRP to function efficiently, the project coordination (PCU) and parastatal monitoring (PMU) units have been established, both operating under MFPED. PCU will build upon the experience of the EDP Privatization Unit and support the Minister of State responsible for Privatization by carrying out the technical work and coordinate the implementation of the sector reform and privatization activities. PMU will be responsible for

implementing one of the PUSRP components on parastatal financial oversight. By the end of PUSRP PMU would have been fully absorbed into the structure of MFPED.

7. Bank and Borrower Performance

Bank

7.1 Lending:

Bank performance during lending was unsatisfactory. During preparation several aspects of the projects were designed in a way that have negatively affected the implementation of both components of the project and lessened the overall impact of the project. The following four issues were particularly acute for the efficiency of the ***privatization program***.

1. *Substantial overlaps between PEP and EDP.* In theory, PEP was the vehicle for the preparation of the enterprise reform program, which was to be implemented by the follow-up project - the EDP. In practice, however, these arrangements led to substantial overlaps in content and duration between the two operations, and further complicated the task of management, monitoring and assessment of the project results (see Performance Audit Report for PEP, January 1999). From the managerial standpoint and to ensure efficient usage of financial and human resource, it may have been more beneficial to avoid overlapping, restructure PEP rather than close it prematurely, and finally design and approve EDP in the final year of PEP to ensure the continuity between the projects and momentum of the privatization process.
2. *Continuation from PEP of the emphasis on rehabilitation/financial restructuring of priority PEs or PEs awaiting privatization rather than their divestiture as quickly as possible.* A more transaction-oriented approach with less emphasis on restructuring and support of unprofitable PEs from the onset of EDP could have accelerated the privatization process and bring its benefits faster. This shortcoming is especially relevant taking into account lessons that should have been learned from the implementation of PEP in Uganda as well as from other countries. Although as early as August 1992, IDA staff (in response to GOU's problems to fund its contribution) suggested restructuring of the project to include fewer PEs to be restructured, it took another three years to revise the project's objectives and shift its emphasis to divestiture.
3. *Inadequate treatment of labor retrenchment issues.* Most PEs slated for privatization were overstaffed and required downsizing to become attractive to investors. The key concerns of the workers were information about retrenchment as early as possible in the privatization process and payment of severance packages in a timely manner. The project performed poorly on both accounts. Due to lack of common formula for computation of terminal benefits, various PEs had their own policies on payment of terminal benefits, resulting in different retrenchment packages. This led to agitation from workers who had received small packages, while the other PEs were committing themselves on paying amounts of money that they could not afford.
4. *Complex organizational structure comprised of 5 levels weakened the management, slowed down the decision making process and compromised the efficiency of monitoring and supervision.* The need to streamline the decision-making and reporting processes and simplify the structure became clear during a supervision mission in 1993. However, the changes became effective only in March 1996 when the project was restructured. Additional changes were introduced in the first quarter of 1999, when the structure was further simplified and attention of teams was focused on fewer and selected transactions to improve their quality and maximize their overall impact. Resultant PCU is currently supporting the implementation of a follow-up project - the PUSRP.

Similarly, the impact and the implementation of ***ICTRF component*** may have been improved, if the following two issues in the design of the scheme had been avoided. First, there were *too many layers of* approval causing unnecessary delays and communication problems, and adding to the overall complexity. In particular, the role of BOU could have been better defined or (as in the case of EIB scheme) an independent consultancy company could perform most of the BOU's responsibilities, but work more closely with the PBs. Secondly, *cumbersome credit approval and disbursement procedures ("refinance" versus "direct finance").* The approval process comprised of too many steps as PBs after having appraised and approved the credit application had to seek BOU's approval and if loan requested was larger than US$1 million, IDA approval was also required. At the same time PBs bear all the credit risk for their lending decisions. Four negative outcomes followed: (i) long(er) turn-around time (on average 30 working days); (ii) late accreditation to the scheme by PBs as they applied only after their other lines of credit were used up; (iii) unwillingness of the PBs to sponsor many projects as they were expensive in terms of time and money spent on administrative tasks, and (iv) some PBs reported liquidity problems as they had to wait for BOU refinancing. As a result the efficiency of ITCRF was compromised.

7.2 Supervision:

Overall, project supervision is rated satisfactory. There was continuity in the Bank's team, its approach was proactive and flexible to address issues in a changing environment. The supervision period was initially planned for semi annual supervision missions with a minimum of three specialists including the Task Team Leader. However, during the first five years of project implementation (1992-95), only annual field visits took place. This was mainly due to the slow rate of program implementation. When it became obvious that the project was encountering tremendous difficulties, the Bank decided to intensify supervision with an average of semi-annual supervision missions, which led to the major project restructuring in 1995 involving close cooperation with the highest levels of Government. Specialized skills for finance and privatization and private sector development were used during supervision missions. Although the project had a high turnover of Task Team Leaders - four over the course of project life - continuity was always maintained. Out of the eleven supervision missions, on three missions the project was rated "unsatisfactory". It was only towards the end of the project, after supervision was intensified, that implementing agencies recognized the value of a disciplined framework of regular progress review, accompanied by short-term, time-bound action plans and fully collaborated with Bank supervision missions. The studies conducted under the project were satisfactorily done and the project was audited regularly.

7.3 Overall Bank performance:

The overall Bank's performance was satisfactory. Despite problems with the original design, the Bank teams identified the difficulties during supervision and alerted the government. When GOU was ready to institute the needed changes, the Bank team worked closely with Government to ensure that the needed changes were brought about and the project met its revised objectives.

Borrower

7.4 Preparation:

Performance of the borrower during identification, preparation and appraisal was *satisfactory.* Despite the fact that a number of issues had political connotations (such as drafting and approving relevant laws and regulations), satisfactory progress was achieved. The Government had ownership of the program and showed commitment to the objectives of the project. High level officials actively participated in designing and preparing EDP ensuring that emphasis was placed on expediting implementation of the economic recovery program in the areas of privatization, parastatal reform, private sector development, and associated capacity and institutional building. Project content, objectives and scope were extensively discussed with IDA staff. Two internal problems on the Ugandan side led to a slight delay in project

effectiveness. Firstly, the implementation of PEP and effectiveness of EDP was disturbed by a dismissal (on August 12, 1992) of the Coordinator PERD, who headed both projects. Problems with finding a suitable replacement for this high level position for more than a year negatively affected the implementation of both projects. Secondly, due to budgetary constraints, GOU had difficulties furnishing its contribution for the Restructuring Fund and therefore suggested restructuring of the project. The option suggested by IDA to reduce the number of PEs to be restructured and liquidate them instead was not accepted. It was agreed that GOU would fulfill its obligations with a one or two years delay.

7.5 Government implementation performance:
GOU's implementation performance record is *mixed*; the project's implementation progress was rated unsatisfactory practically from mid-1993 until first quarter of 1996 (with the exception of 1994); from then onwards it has improved and been rated satisfactory with some caveats. During preparation, two risks were identified as possible causes for a slower implementation of the PE reform and divestiture program: (i) weakening of the Government's commitment to the reforms, and (ii) insufficient capacity of Government administration to carry out the policy reform and to monitor the progress of the program. The Government's implementation performance record is mixed and the reasons are directly linked to the two risks specified above. Only after one year of implementation, EDP stalled and was rated unsatisfactory on both accounts: achievement of development objectives and implementation progress (supervision mission of June 1993). The key deficiency was that the program was left for more than a year without a manager as GOU failed to appoint a coordinator for PERD. This coupled with limited experience and capacity of GOU to run the privatization program and unclearly defined responsibilities for the project implementation, which in turn led to poor internal coordination between PERD units, cumbersome decision-making process and opened the doors for political interference from DRIC. Also, lack of understanding of the project's objectives and components among the main shareholders (Parliamentarians, Ministries, PEs) contributed to diluting of the earlier political consensus on privatization and PE reform and backtracking on GOU's commitment to reforms (a Task Force was set up by MFPED in October 1992 to revisit the design and goals of the privatization component of EDP).

From 1994 onwards, GOU, in consultation with IDA, effectively worked towards addressing the main underlying shortcomings of the implementation process. The break-through came in 1995 with the Presidential Directive and subsequent EDP restructuring. As a result, between 1994-96 the project implementation showed a marked progress towards the achievement of its development objectives, which was reflected in changing its rating to satisfactory in early 1996 (supervision mission of February 1996). Nonetheless, while the number of transactions increased systematically, the quality of the project implementation on a number of accounts remained unsatisfactory: (i) divestitures were not generating the desired economic impacts; (ii) transactions were not transparent; (iii) lack of broad based participation; and (iv) there were concerns related to misuse of the privatization proceeds. These concerns led to the Parliamentary Investigation in 1998/99 and partial suspension of the program. The most important two outcomes of this investigation were: (i) a closer cooperation between the Parliament and GOU in identification of the problems and their resolution, and (ii) introduction of major changes in the institutional and legal environment, which put EDP back on track. All these efforts have significantly improved the divestiture process and provided a solid background for continuation of the privatization process under PUSRP.

7.6 Implementing Agency:
The performance of each implementation unit is rated satisfactory. Each of the revised components was implemented by a specific implementation unit: the Privatization Unit was responsible for implementing the privatization component; PMU was responsible for financial oversight of PEs, while BOU was in charge of implementing the line of credit under ITCRF component. PU was, however, the main implementation

agency. In general, the implementation performance of all three entities improved systematically during the project life as their institutional capacity increased. This was facilitated by "learning-by-doing" and gaining experience in the process as well as participation of staff in relevant training courses. Also, as lessons were learned, changes into the structure and procedures were introduced accordingly to improve units' efficiency and effectiveness.

7.7 Overall Borrower performance:

Overall Borrower performance is rated *satisfactory* despite the fact that the Government's performance during implementation was uneven and it took GOU longer than anticipated to address the arising problems . However, the commitment at the highest levels to continue with the privatization process remained. This facilitated the introduction of changes necessary to expedite the privatization process as well as improve its overall quality.

8. Lessons Learned

The following lessons can be learned from design, implementation and outcomes of EDP:

1. ***Strong government commitment to and leadership of the privatization program are essential to success.*** Despite a number of weaknesses during the project implementation, GOU commitment, ownership and Parliamentary support was a major factor to successful ending of the project. GOU demonstrated its commitment to these reforms through several actions, including sustained progress in privatization under EDP and decisive measures to restore the technical credibility and transparency of the program during and after the partial suspension of the privatization process by Parliament in 1999 followed by a Parliamentary investigation.
2. ***Accountable leadership and strong privatization agency,*** with skilled staff and empowered with appropriate authority to carry out the reform and appropriately defined responsibilities, is another key to success. This lesson was learned during the project implementation and GOU exhibited the ability to learn from the past mistakes and make the necessary adjustments to correct them during implementation. In addition, the EDP management with IDA support undertook the effort to restructure and streamline the project implementation unit and its procedures. Capacity building through provision of TA led to a coordination unit staffed with competent professionals able to continue managing the follow-up project.
3. ***Public awareness, participation of stakeholders and consensus building are essential*** to the program. The stakeholders must be kept informed and engaged from early on in the process to ensure their active participation in designing the policies and implementation of the reform. Insufficient involvement of the stakeholders resulted in delays in the privatization process, setbacks from DRIC and Parliament and the negative coverage by the press. Some of the shortcomings in the design of the ITCRF scheme with respect to the bureaucracy in the disbursement process, refinance limits, a fixed repayment schedule, that were a constraint to PBs may have been avoided if BOU and PBs had been involved in the project design as it would have ensured their acceptance and ownership of the scheme.
4. ***Need to ensure availability of resources to address the social cost of reform.*** The lack of a common policy left a number of retrenched workers unsatisfied, created a sense of instability and uncertainty and impacted negatively on the privatization process. This lesson has been taken into account in the follow-up project by funding severance packages, including training and counseling for redundant employees from privatization proceeds and/or project resources.
5. ***Capacity building facilitated by provision of training is essential if the results are to be sustainable*** . Transfer of knowledge should take place not only towards the Government agencies involved in project implementation, but most importantly towards the other players and actors. Training of BOU and PBs staff could have minimized the turnaround time and the lending risk. This knowledge and experience could then be utilized after the scheme is closed. Improving the management skills and

capacity to do market analysis and project planing at the participating enterprises may have greatly improved the quality of the projects and thus, minimize the risk of project failure.

6. ***Efficient communication between line ministries, implementing agencies and IDA*** are essential to ensure a smooth and efficient project implementation. IDA periodic reviews of the progress performed during the supervision missions are equally important in minimizing the response time to address the emerging problems. During the initial implementation of the privatization program inadequate legal and institutional arrangements of the implementing agencies significantly contributed to delays and attempts to politicize the process. Inability to clearly define responsibilities and accountability further exacerbated difficulties in coordination. In the case of ITCFR component insufficient communication between BOU and PBs led to delays in addressing the problems (such as mechanisms for setting up the interest rates charged on loans). Also, the frequency of IDA reviews should be adjusted to reflect the performance of the scheme (achievement of milestones, disbursement lag) and monitoring of the implementation of recommendations should be followed up more closely/rigorously.

9. Partner Comments

(a) Borrower/implementing agency:
GOU's contribution (executive summary attached in Anex 8 and 9):

1. Investment Term Credit Refinance Fund (ITCRF), Implementation Completion Report, April 1999 .
2. Enterprise Development Project, Implementation Completion Report, May 2000.

(b) Cofinanciers:
None

(c) Other partners (NGOs/private sector):
African Development Bank; Austrian Government - financed work on Uganda Stock Exchange; French Government; DFID; German Government; European Investment Bank; USAID; DANIDA; NORAD; SIDA; Swiss Government; Algerian Government; JICA; UNDP; EU; IFC.

10. Additional Information

1. Public Enterprises Project (PEP)

In 1988, GOU requested and was granted a US$15 million credit by IDA to strengthen its capacity to sustain economic recovery achievements by increasing productivity and output in the PE sector. PEP was the vehicle for the preparation of the enterprise reform program. The specific objectives were to:

- define and implement sector policy reforms and a legislative framework to strengthen PE sector administration and management;
- prepare and initiate an overall program of PE rehabilitation and rationalization, and
- implement a program for PE divestiture and liquidation.

The project implementation proved to be complex and difficult mainly due to the fact that the privatization techniques were new to the project implementation unit, there was lack of cooperation and coordination between Government ministries, and finally, there was insufficient ownership and support of the program by the Ugandan private sector. More importantly, the project put more emphasis on PEs rehabilitation rather than divestiture, which in practice prolonged the history of loss-making and delayed the privatization process. As a result, by the end of the project only 11 PEs were privatized. The restructuring and rehabilitation of PEs did not succeed in relieving budgetary pressure from GOU but it instead exerted more pressure on the limited resources. The project did, however, finance several diagnostic studies with results that were used by GOU in formulating its privatization policy (see discussion below). PEP closed as scheduled in May 1995, with US$2.7 million of the loan amount canceled.

2. Directive of the President of Uganda - January 1995

IDA review of the PE sector reform and a directive issued in January 1995 by the President of Uganda induced a number of changes which became the basis for the comprehensive restructuring of the parastatal reform and divestiture program. The following actions took place:

1. The PERD Secretariat was dissolved and a Privatization Unit (PU) under the Minister of State for Privatization in the Ministry of Finance, Planning and Economic Development (MFPED) was created instead to handle all matters related to divestiture.
2. The shares of all PEs earmarked for divestiture were vested in the MFPED.
3. DRIC was reorganized to focus on the divestiture of parastatals and its role was limited to that of an advisor and granting approval during transactions.
4. A Parastatal Monitoring Unit (PMU) was created under the Secretary to the Treasury (subsequently brought under the Minister of State for Privatization and later under MFPED) in order to improve the monitoring and financial oversight of PE sector, and impose hard budget constraint on all the PEs.

These changes enabled the project to function more efficiently as the number of implementing agencies was reduced; it also facilitated sequencing of events in the reform and expedited coordination of bureaucratic procedures of GOU. However, the issues of institutional and human capacity also played a significant role in slowing down the pace of implementation and there was heavy reliance on external technical experts at the beginning of the project.

3. Parliamentary Investigation - started in late 1998 and ended in October 1999

As a part of this investigation, a Parliamentary sub-committee was established to examine the program and investigate a number of transactions in which allegations of corruption had been made. While it concluded that transparency and governance needed strengthening, it found no evidence of corruption. The investigation led to the following changes in the institutional and legal environment resulted from the Parliamentary Investigation:

1. Detailed procedures for divestiture and for use of the divestiture proceeds designed to maximize transparency and quality were prepared and approved by GOU in June 1999.
2. The PERD Statute was amended in January 2000 to further clarify the roles and responsibilities of the various parties involved in the privatization process and streamline the decision-making process, including: (i) removal of members of Parliament from DRIC; (ii) enhanced role of Minister of State for Privatization; (iii) measures to redefine responsibilities of MFPED and line ministries over utility sector reform; and (iv) provision to allow for transfer of parastatal financial oversight to MFPED.
3. Amendments to the PERD Statute provided a number of measures on reporting requirements by PEs and their line ministries.
4. The PERD (Amendment) Statute, has also introduced penalties for asset stripping ranging from imprisonment for a minimum term of three years and a maximum term of 14 years.

Annex 1. Key Performance Indicators/Log Frame Matrix

Outcome / Impact Indicators:

Indicator/Matrix	Projected in last PSR[1]	Actual/Latest Estimate
Not specified in the project documents		

Output Indicators:

Indicator/Matrix	Projected in last PSR[1]	Actual/Latest Estimate
DO1: Reduction of PE sector through privatization or liquidation of PEs.		
I1: Divesting 85% of all parastatals to the private sector within three-year period (ending December 1997)	I1: As of March 31, 2000, PE sector has been reduced by approximately 68%. Out of 139 parastatals that existed in 1992, 95 PEs were divested (62 PEs were privatized and the others liquidated).	I1: As of March 31, 2000, PE sector has been reduced by approximately 68%. Out of 139 parastatals that existed in 1992, 95 PEs were divested (62 PEs were privatized and the others liquidated).
I2: Increased level of participation in the privatization process by the Ugandans through use of the stock market as a method for privatization of PEs.	I2: So far only one firm (Uganda Clays Ltd.) has been sold on the Uganda Stock Exchange. 20 PEs were sold to foreign investors, of which half exercised their pre-emptive rights.	I2: So far only one firm (Uganda Clays Ltd.) has been sold on the Uganda Stock Exchange. 20 PEs were sold to foreign investors, of which half exercised their pre-emptive rights.
DO2: Improved performance and financial discipline of the remaining PEs		
I1: Decreased budget subsidies to the PE sector indicate improved enforcement of hard budget constraints on remaining PEs.	I1: Direct budgetary subsidies to the PE sector (i.e., cash injections, investment subsidies and donors' grants) from a record high of Shs 87 billion (47% of the total state subsidies) in 1997 to Shs 9 billion (4% of the total state subsidies) in 1998. However, between 1997-98 indirect subsidies doubled reaching Shs 203 billion. This increase was mainly due to increases in loan and tax arrears in the utilities.	I1: Direct budgetary subsidies to the PE sector (i.e., cash injections, investment subsidies and donors' grants) from a record high of Shs 87 billion (47% of the total state subsidies) in 1997 to Shs 9 billion (4% of the total state subsidies) in 1998. However, between 1997-98 indirect subsidies doubled reaching Shs 203 billion. This increase was mainly due to increases in loan and tax arrears in the utilities.
I2: Improved economic indicators in the remaining PEs (such as productivity, profitability, utilization of resources).	I2: Due to lack of data the assessment is not possible.	I2: Due to lack of data the assessment is not possible.
I3: Creation of a separate unit (PMU) incorporated into the structures of MFPED with clearly defined authority to monitor, supervise and enforce hard budget constraints in the PE sector.	I3: PMU has been created and incorporated into MFPED with clearly defined functions and areas of responsibility and stronger institutional capacity. Two key functions performed by PMU include debt verification and cross debt settlement and monitoring of the financial flows between the government and PEs, as well as between PEs themselves. The PMU also monitors all PEs through auditing of their periodic reports.	I3: PMU has been created and incorporated into MFPED with clearly defined functions and areas of responsibility and stronger institutional capacity. Two key functions performed by PMU include debt verification and cross debt settlement and monitoring of the financial flows between the government and PEs, as well as between PEs themselves. The PMU also monitors all PEs through auditing of their periodic reports.
DO3: Generate a supply response from private and public enterprises by providing medium-term investment finance.		

I1: Increased availability of term finance to the enterprise sector.	I1: Refinancing of private investment through Investment Term Credit Refinance Scheme (ITCRF). It was closed in early 1999 disbursing all allocated funds of US$25 million.	I1: Refinancing of private investment through Investment Term Credit Refinance Scheme (ITCRF). It was closed in early 1999 disbursing all allocated funds of US$25 million.
I2: Expansion of the industrial base (investments), employment and tax revenue in the enterprise sector.	I2: The line of credit financed 40 project in 37 SMEs operating mostly in manufacturing and agro-processing with total employment exceeding 1,000 people. 22 firms expanded and modernized their equipment; 17 were start-ups and only one project was rehabilitation of a divested enterprise. Results show improved capacity and enhanced efficiency in the production process, increased tax revenue in the form of enterprise tax, value added tax and income tax.	I2: The line of credit financed 40 project in 37 SMEs operating mostly in manufacturing and agro-processing with total employment exceeding 1,000 people. 22 firms expanded and modernized their equipment; 17 were start-ups and only one project was rehabilitation of a divested enterprise. Results show improved capacity and enhanced efficiency in the production process, increased tax revenue in the form of enterprise tax, value added tax and income tax.
I3: Stronger capacity at participating banks (PBs) to manage lines of credit.	I3: In the case of PBs, this goal has been partially achieved, as only a limited number of PB staff participated in the two training courses. As a result it has been assessed that PB staff capacity is insufficient to manage lines of credit without further skill/knowledge enhancement. BOU-DFD staff is currently managing the implementation of two similar schemes.	I3: In the case of PBs, this goal has been partially achieved, as only a limited number of PB staff participated in the two training courses. As a result it has been assessed that PB staff capacity is insufficient to manage lines of credit without further skill/knowledge enhancement. BOU-DFD staff is currently managing the implementation of two similar schemes.

[1] End of project

DO: Development Objective I: Monitorable Indicator

Annex 2. Project Costs and Financing

Project Cost by Component (in US$ million equivalent)

Project Cost By Component	Appraisal Estimate US$ million	Actual/Latest Estimate US$ million	Percentage of Appraisal
1. Investment Term Credit Refinance Scheme (ITCRF)	25.00	25.20	100
2. Technology and Management Fund	11.00	0.00	0
3. Restructuring fund	16.00	0.00	0
4. Support for PE Reform and Divestiture	11.50	18.72	163
Total Baseline Cost	63.50	43.92	
Price Contingencies	2.10		
Total Project Costs	65.60	43.92	
Total Financing Required	65.60	43.92	

Project Costs by Procurement Arrangements (Appraisal Estimate) (US$ million equivalent)

Expenditure Category	Procurement Method[1] ICB	NCB	Other[2]	N.B.F.	Total Cost
1. Works	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)
2. Goods	0.34 (0.34)	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)	0.34 (0.34)
3. Services	0.00 (0.00)	0.00 (0.00)	87.38 (62.32)	0.00 (0.00)	87.38 (62.32)
4. Incremental Operating Costs	0.00 (0.00)	0.00 (0.00)	3.52 (2.94)	0.00 (0.00)	3.52 (2.94)
Total	0.34 (0.34)	0.00 (0.00)	90.90 (65.26)	0.00 (0.00)	91.24 (65.60)

Project Costs by Procurement Arrangements (Actual/Latest Estimate) (US$ million equivalent)

Expenditure Category	Procurement Method[1]				Total Cost
	ICB	NCB	Other[2]	N.B.F.	
1. Works	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)
2. Goods	0.55 (0.55)	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)	0.55 (0.55)
3. Services	0.00 (0.00)	0.00 (0.00)	40.88 (40.88)	0.00 (0.00)	40.88 (40.88)
4. Incremental Operating Costs	0.00 (0.00)	0.00 (0.00)	2.49 (2.49)	0.00 (0.00)	2.49 (2.49)
Total	0.55 (0.55)	0.00 (0.00)	43.37 (43.37)	0.00 (0.00)	43.92 (43.92)

1/ Figures in parenthesis are the amounts to be financed by the IDA Credit. All costs include contingencies.

2/ Includes civil works and goods to be procured through national shopping, consulting services, services of contracted staff of the project management office, training, technical assistance services, and incremental operating costs related to (i) managing the project, and (ii) re-lending project funds to local government units.

Project Financing by Component (in US$ million equivalent)

Component	Appraisal Estimate			Actual/Latest Estimate			Percentage of Appraisal		
	IDA	Govt.	CoF.	IDA	Govt.	CoF.	IDA	Govt.	CoF.
1. Investment Term Credit Refinance Scheme (ITCRF)	25.00	0.00	10.00	25.20	0.00	6.80	100.8	0.0	68.0
2. Technology and Management Fund	11.00	0.00		0.00	0.00	0.00	0.0	0.0	
3. Restructuring fund	16.00	12.00		0.00	0.00	0.00	0.0	0.0	
4. Support for PE Reform and Divestiture	11.50	3.30		18.72	20.50	0.00	162.8	621.2	
5. Contingencies	2.10	0.40		0.00	0.00		0.0	130.6	
TOTAL	65.60	15.70	10.00	43.92	20.50	6.80	67.0	130.6	68.0

Annex 3: Economic Costs and Benefits

Not applicable

Annex 4. Bank Inputs

(a) Missions:

Stage of Project Cycle	No. of Persons and Specialty (e.g. 2 Economists, 1 FMS, etc.)		Performance Rating	
Month/Year	Count	Specialty	Implementation Progress	Development Objective
Identification/Preparation				
February/March 1990	*2*	Team Leader, PSD Specialist		
July 1990	*6*	Team Leader, 2 PSD Specialists, 3 consultants		
Appraisal/Negotiation				
November/December 1990 (appraisal)	*2*	Team Leader, PSD Specialist		
September-October 1991 (negotiations)	*3*			
December 1991 (start-up mission)		Team Leader, 2 PSD Specialists		
Supervision				
March 1992	*1*	PE Reform Specialist	S	S
June 1993	*5*	Task Manager, Division Chief, PE Reform Specialist, PSD Specialist, Consultant	U	U
February/March 1994	*2*	Division Chief, Senior Industry Specialist	S	S
June 1995	*3*	Task Manager, Economist, Financial Analyst	U	S
February 1996	*2*	Task Manager, PSD Specialist	S	S
March 1997	*4*	Economist (mission leader), PSD Specialist (labor), Operation Officer, Financial Analyst	S	S
October 1997	*4*	Economist, PSD Specialist, Operation Officer, Financial Analyst	S	S
February 1998	*5*	Team Leader, Economist, Privatization Specialist, Financial Analyst, Legal Advisor	S	S
July 1998	*7*	Team Leader, PE Monitoring and Policy, 2 Privatization Specialists, Legal Advisor, PPI Speciallist	U	U
April 1999	*2*	Economist, Operations Officer	S	S
December 1999	*7*	Team Leader, 2 Privatization Specialists, 2 PSD Specialists, FMS	S	S
ICR				
May 2000	*2*	Team Leader, PSD Specialist	S	S

(b) Staff:

Stage of Project Cycle	Actual/Latest Estimate	
	No. Staff weeks	US$ (,000)
Identification/Preparation	58.0	111.3
Appraisal/Negotiation	22.1	45.2
Supervision	190.2	594.0
ICR	6.0	35.0
Total	276.3	785.5

Annex 5. Ratings for Achievement of Objectives/Outputs of Components

(H=High, SU=Substantial, M=Modest, N=Negligible, NA=Not Applicable)

	Rating				
☒ *Macro policies*	○ *H*	● *SU*	○ *M*	○ *N*	○ *NA*
☒ *Sector Policies*	○ *H*	● *SU*	○ *M*	○ *N*	○ *NA*
☐ *Physical*	○ *H*	○ *SU*	○ *M*	○ *N*	● *NA*
☐ *Financial*	○ *H*	○ *SU*	○ *M*	○ *N*	● *NA*
☒ *Institutional Development*	○ *H*	○ *SU*	● *M*	○ *N*	○ *NA*
☐ *Environmental*	○ *H*	○ *SU*	○ *M*	○ *N*	● *NA*
Social					
☐ *Poverty Reduction*	○ *H*	○ *SU*	○ *M*	○ *N*	● *NA*
☐ *Gender*	○ *H*	○ *SU*	○ *M*	○ *N*	● *NA*
☒ *Other (Please specify)*	○ *H*	○ *SU*	● *M*	○ *N*	○ *NA*
Retrenchment of PE Workers					
☒ *Private sector development*	○ *H*	○ *SU*	● *M*	○ *N*	○ *NA*
☒ *Public sector management*	○ *H*	● *SU*	○ *M*	○ *N*	○ *NA*
☐ *Other (Please specify)*	○ *H*	○ *SU*	○ *M*	○ *N*	● *NA*

Annex 6. Ratings of Bank and Borrower Performance

(HS=Highly Satisfactory, S=Satisfactory, U=Unsatisfactory, HU=Highly Unsatisfactory)

6.1 Bank performance	*Rating*
☒ *Lending*	○ *HS* ○ *S* ● *U* ○ *HU*
☒ *Supervision*	○ *HS* ● *S* ○ *U* ○ *HU*
☒ *Overall*	○ *HS* ● *S* ○ *U* ○ *HU*

6.2 Borrower performance	*Rating*
☒ *Preparation*	○ *HS* ● *S* ○ *U* ○ *HU*
☒ *Government implementation performance*	○ *HS* ○ *S* ● *U* ○ *HU*
☒ *Implementation agency performance*	○ *HS* ● *S* ○ *U* ○ *HU*
☒ *Overall*	○ *HS* ● *S* ○ *U* ○ *HU*

Annex 7. List of Supporting Documents

1. Enterprise Development Project, Memorandum and Recommendation of the President of the International Development Association to the Executive Directors, October 31, 1991.
2. Enterprise Development Project, Staff Appraisal Report, October 31, 1999.
3. Supervision missions back-to-office reports and Aide-Memoires.
4. Enterprise Development Project, Implementation Completion Report prepared by GOU, May 2000.
5. Investment Term Credit Refinance Fund (ITCRF), Implementation Completion Report prepared by GOU, April 1999.
6. Public Enterprises Project, Implementation Credit Report, April 30, 1996.
7. Public Enterprises Project, Performance Audit Report, January 7, 1999.
8. Assessing the Impact of the Privatization Process in Uganda (draft report), Uganda Manufacturers Association, Consultancy and Information Services Limited (UMACIS), 2000.
9. Uganda. Country Profile 1999-2000, The Economist Intelligence Unit (EIU) Report.
10. Uganda: Selected Issues and Statistical Appendix, IMF Staff Country Report No. 99/116, October 1999.

Annex 8. Executive Summary: ICR Report on EDP, May 2000

Introduction and Background

When the National Resistance Movement (NRM) assumed command in Kampala in 1986, it inherited an economy that had been shattered by years of civil war, political instability, and economic mismanagement. The power, telecommunications and water supply systems were hardly functional. Industrial facilities lay abandoned, much of the transportation network was in ruins. The NRM also inherited 129 parastatals employing about 45,000 workers. The sector was in shambles; it had become a significant financial burden on the Government. Net financial transfers between 1982 - 1986 to public enterprises (PEs) were approximately US$ 25 million and the Uganda Commercial Bank (a state owned bank) had lent about US$ 74 million in foreign exchange to PEs. Reducing the financial burden of PEs was therefore an overriding concern in bringing about the concept of PE reform. In May 1987 the Government embarked on an economic recovery program to bring about economic rehabilitation, promote growth, and reduce internal and external imbalances, as well as reduce inflation. Despite significant improvements in macroeconomic performance, Uganda's economy remained fragile, and both the fiscal and external imbalances remained high.

Government Policy for PE Reform and Divestiture. As of 1991, the PE sector consisted of 156 PEs of which 133 were commercially oriented. Government recognized that many of the PEs had no justification for being in the public sector and decided to reduce its direct role in the Ugandan economy, promote a greater role for the private sector, and improve the efficiency and overall performance of those PEs that in the short term would remain in its ownership, possession and control.

To develop a strategy for PE reform, Government classified the PEs in five classes depending on its future level of ownership from full ownership to immediate liquidation. This classification was subject to review during implementation; changes in the classification of individual PEs were the responsibility of the Divestiture Implementation Committee, which was a Cabinet sub-committee.

Action Plan for PE Reform and Divestiture. To achieve the objectives of divestiture and improve the performance of PEs that would remain in Government possession in the short to long term, the Government sponsored a program of intensive preparation of a longer term PE Reform and Divestiture program through sector-wide studies and to identify the most effective means of bringing about such a program. This Action Plan for PE Reform and Divestiture (APPERD) was thus defined with a five-year first stage during which 59 PEs would be divested and liquidated, and measures would be adopted to improve the performance of the remaining PEs.

Two related projects were approved by the World Bank to support implementation of PE restructuring and divestiture in Uganda. These projects were the Public Enterprise Project (PEP) approved in November 1998 with a credit of US$ 15 million and the Enterprise Development Project (EDP) approved in 1991. **PEP's** specific objectives of rehabilitation and restructuring were misplaced. Without private sector management and incentives, rehabilitation merely prolonged the history of enterprise losses and pressure on Government resources; little attention was paid to the complex details of privatization and as a result, only 11 enterprises had been shifted to the private sector by 1994 and there was little demonstrated effect visible to the Government and the public. Moreover, despite the Government's intention of imposing a hard budget constraint on PEs, there was little reduction in the financial burden shouldered by Government on account of PEs. The project as originally designed and implemented revealed that its sustainability was unlikely. The project closed in May 1995 and the undisbursed balance US$ 2.7 million canceled. **EDP** was approved in 1991 before PEP closed in 1995. It was designed to finance implementation of the comprehensive PE reform plan prepared under PEP. It was also based on the premise that completing PE divestiture would take longer than the time remaining under PEP. As a result, there was a considerable overlap between PEP and EDP in content and duration. The objectives of EDP were to improve the operating environment for all enterprises, public or private, generate a supply response from all enterprises, and contribute to reducing the budgetary deficits, by reducing the size of the public enterprise sector and improving the performance and the financial discipline of the remaining public enterprises.

It was envisaged that the project would strengthen existing enterprises, generate viable projects in the private sector and enhance exports. The PE reform component would help reduce the size of the public sector and indirectly enhance the role of the private sector, thereby reducing the financial burden on government.

The Public Enterprise Reform and Divestiture (PERD) Statute. PEs were established in one of the two ways, either under Statute specific to the PE, or under the Companies Act Cap. 85 of 1964 edition of the Laws of Uganda. The mode of establishment determined the mode of liquidation or winding up of a particular enterprise. "Umbrella Legislation" governing the establishment, operation and liquidation of those entities was prepared; the Public Enterprise Reform and Divestiture (PERD) Statute was approved by Parliament and enacted in 1993 to give effect to the Government policy for PE Reform and Divestiture published in Gazette No. 48 of 1 November 1991 and to APPERD. The provisions of this legislation included all the appropriate policies, procedures and regulatory measures, established an institution/agency to implement the divestiture program, ensured maximum transparency of the privatization program and maximum protection of all bodies concerned; and ensured uniformity in all privatizations even though specific modalities and techniques would vary from enterprise to enterprise. 107 PEs were classified into five Classes depending on the level of Government ownership, though the number was estimated to be about 156 PEs; an oversight resulted in the fifty or so PEs being left out of the count.

The Divestiture and Reform Implementation Committee (DRIC). The Statute established an institutional framework to implement its provisions. The framework constituted the Divestiture and Reform Implementation Committee (DRIC), charged with the responsibility for implementing Government's policy on reform and divestiture of PEs under the Statute. In addition, the Committee would have other such functions as were prescribed in the Statute to be carried out by the Minister responsible for Finance. These included: (i) approving transfer of the proprietary interest of the State in, and also any right, asset or proprietary required to be transferred for giving effect to any divestiture of a public enterprise; (ii) approve transfer of any right, asset, property, obligation or liability of any existing PE to any other PE established to replace it in pursuance of this Statute; (iii) approve the subscription for or acquisition of the requisite number of shares in any enterprise in which the State is required to hold shares; and (iv) approve the making of regulations for giving full effect to the provisions of the Statute. DRIC's membership comprised of the Minister responsible for Finance, as the Chairperson, the Attorney General, the responsible Minister (for the PE), the Chairman of the Committee of the Legislature on the Economy, the Chairman of the Committee of the Legislature on Parastatal Bodies, the Chairman of the Uganda Investment Authority, and three eminent Ugandans, none of whom shall be a Minister, appointed by the Prime Minister on the advice of the Cabinet.

The PERD Secretariat was created, with the Minister responsible for Finance as its Chairman, with the objectives of formulating the operational policies to give effect to the Divestiture program, determining the optimal sequencing of firms to be privatized or otherwise divested, preparing proposals for Government decisions on sale and allotment pattern of Government shares or assets in such designated enterprises, and carrying out all activities required for the successful implementation of the divestiture program in such areas as advertising, negotiation, financing and legal aspects.

To assist in reviewing of policy issues (PERD Secretariat being the implementing organization), the Policy Review Working Group was created. It consisted of Permanent Secretaries of relevant ministries, which would advise the Secretariat on all relevant policies and programs. As can be noted from the points above, DRIC did not have much in terms of decision making and its role was largely limited to approving decisions made by the Minister responsible for Finance. As such the main responsibility it had been charged with of implementing Government's policy on reform and divestiture of PEs was lost through the statutory definition of its responsibilities.

Reform of the PERD Secretariat. A study conducted by the World Bank in conjunction with Government revealed that the operations of the PERD Secretariat were being hampered by political interference amongst other things. The findings were presented to the Executive; based on these a Presidential directive was made on January 4 1995 changing the organizational structure for implementing the program. The lack of a proper institutional framework with a clear mandate to execute the program, which resulted in a slow progress of the implementation of the provisions of the Statute made the changes necessary.

The PERD Secretariat and the PRWG were dismantled and replaced with the Privatization Unit (PU) to handle all matters relating to divestiture, including day-to-day implementation of the program and the Parastatal Monitoring Unit (PMU) under the responsibility of the Secretary to the Treasury to monitor financial flows to Parastatals. A Minister of State for Finance and Economic Planning (Privatization) was appointed as the responsible Minister for the operations of privatization, as stipulated in the PERD Statute. The privatization period, by the end of which period 85% of the Public Enterprises were to be fully transferred to the private sector, was reduced from five to three years ending December 1997. The pace of divestiture before the Presidential Directive was very slow; the pace increased significantly in 1995 and 1996 after the Directive before slowing once again in 1997 and 1998 owing to the increasing complexity of the transactions. As of December 1999, a total of 62 PEs had been divested representing 95 divestitures.

Amendments to the PERD Statute. The PERD Statute was amended twice, in 1997 (First Schedule and Second Schedule) and in 2000. Following the 1997 amendment of the First Schedule, the classification changed to reflect the decision that in the future Government would either retain a majority shareholding in strategic PEs or divest itself from others. The number of PEs in the classification increased to 114, through the capture of PEs that had not been classified previously under the Statute, and Government opted not to keep minority shareholding in PEs and hence the revocation of Class III.

The amendment of the Second Schedule of the Statute aimed at: (i) completing transfer of 85% of the PEs intended for divestiture by the end of 1997; (ii) divesting PEs into competitive markets, purchasers would not obtain an intact or unregulated monopoly; (iii) placing a moratorium on new Government investments in enterprises targeted for privatization, except for financial and operational restructuring measures that would be necessary to prepare enterprises for sale; (iv) privatization sales generally to be on a cash-only basis and extended terms of payment to be avoided; (v) where there is pre-qualification of bidders, the successful bidders shall be required to deposit a non-refundable amount not exceeding US$ 10,000. The amount shall count towards payment of the agreed price in the case of successful bidders; and (vi) where operations of a PE under the supervision of the responsible Minister conflicts with the divestiture program, the divestiture program shall prevail.

On 24th November 1999 Parliament passed the PERD (Amendment) Bill, which received Presidential assent on 28th December 1999 and came into force on 6th January 2000. The main objectives of the amendment include: (i) the reconstitution of DRIC by removing representation of Parliament, reducing participation by the executive and increasing participation by private sector representatives; (ii) clarifying principles and procedures for usage and operation of the divestiture and redundancy accounts; (iii) prohibition of participation in divestitures by officials concerned with the implementation of the divestiture programs; (iv) providing statutory authority for the monitoring and financial control of public enterprises and establishing an effective enforcement mechanism to ensure compliance; and (v) introducing penalties for offenses including, asset stripping and causing financial loss.

Progress of Utility Regulation and Reform. Reform and divestiture in the telecommunications sector is well advanced; a mobile phone operator (Celtel) and an operator of payphone service (Starcom) were licensed in 1993, legislation for the liberalization and regulation of the sector, the Uganda Communications Act 1997, was passed, the former posts and telecommunications PE, UPTC, was "unbundled" into three separate limited liability companies in February 1998 (Post Bank (U) Ltd (PBU), Uganda Posts Ltd (UPL), and Uganda Telecom Limited (UTL)), a Second National Operator, MTN, was licensed in 1998 in a competitive tender to provide mobile and terrestrial telecommunications services in competition with UTL, and a regulator, the Uganda Communications Commission was established in 1997, and it is now operational. The economic reform and liberalization efforts in the utility sectors saw the establishment of sector-specific regulators through the enactment of legislation, for example, the Electricity Act 1999, The Water Statute, 1995, the National Water and Sewerage Corporation Act 1995.

Divestiture Procedures Manual. The procedures of the PERD exercise were to a large extent subjective. This was because they had not been specifically spelt out thus leaving room for the various parties involved to interpret the PERD Statute requirements to their suiting. The end result was unnecessary delays in the process especially when parties had different interpretations of procedure. It therefore became a priority to develop a manual detailing specific procedures to the process. The Divestiture Procedures Manual was prepared and officially launched on May 12, 1999. The Manual would help streamline divestiture procedures and enhance the transparency, integrity, pace and effectiveness of the divestiture process.

Assessment of Development Objectives and Design

The original objectives of the EDP were to improve the operating environment for all enterprises, public or private, to generate a supply response from all enterprises; and to contribute to reducing the budgetary deficits, by reducing the size of the public enterprise sector and improving the performance and the financial discipline of the remaining public enterprises.

Original Components

1. ITCRF Line of Credit - to be made available, through BOU, to Participating Banks for provision of medium/long term financing for investment projects. US$ 25 million allocated for this component;
2. Technology and Management Fund - aimed at providing funding for the provision of selected technology and management services to strengthen public and private enterprises. US$ 11 million allocated for this component;
3. Restructuring Fund - to provide sub-loans and investments to finance the restructuring of viable public enterprises. US$ 16 million were allocated for the RF;
4. Technical Assistance - with a total allocation of US$ 9MM; it had the following components: (i) BOU - provision of consultants' services and the acquisition of computers, vehicles, office equipment and supplies to strengthen BOU's capacity to manage the line of credit under EDP, the technology and management fund under EDP, and the Credit Guarantee Fund; (ii) UDB - strengthening UDB's capability to manage the restructuring fund, through consultants' services and the acquisition of vehicles, office equipment and supplies; (iii) Industrial Enterprise Secretariat (PIES) to manage the Action Plan for Public Enterprise Reform and Divestiture (APPERD) through consultants' services and the acquisition of office equipment and vehicles; (iv) Ministry of Commerce, Co-operatives and Marketing - carrying out of the Export Development Studies (EDS) to formulate an export development strategy; (v) PES and PIES - strengthening Public Enterprise Secretariat (PES) and Public Enterprises - assistance to individual public enterprises through consultants' services, training of managers and the preparation of corporate restructuring plans; and (vi) Export Promotion and Development Project, Ministry of Trade and Industry- integrate and harmonize the activities of the Uganda Export Promotion Council (UEPC) and Export Policy Analysis and Development Unit (EPADU), restructure the rationalize UEPC, and design a national export promotion and development program as well as carrying out export development related studies.

In 1995 a report titled "Public Enterprise Reform and Divestiture in Uganda, Program and Project Restructuring", prepared by the World Bank found that the Technical Management Fund and the Restructuring Fund were redundant and recommended that they be canceled, and that Public Enterprise Project be closed and the related project cost savings be canceled.

Redundant Components.

1. Restructuring Fund was based on the original assumption that Government would move more slowly in privatization and divest only 50% of all PEs within the timeframe of the PERD program (1992 – 1999). However, at the time of the study, the situation was found to be totally different. Government wanted to privatize faster retaining ownership of utilities and some commercial PEs; the RF was designed for industrial PEs and, it would not be the appropriate vehicle to restructure utilities. The remaining industrial PEs did not depend a lot on government subsidies; furthermore, Government intended to discontinue all direct and indirect subsidies to industrial PEs. The RF would thus contravene the new policy. Industrial PEs could achieve the same objectives of the RF through other instruments: debt equity swaps and debt swaps to improve solvency ratios, and better financial management and sale of some assets to improve liquidity. Once solvency and liquidity had been improved, these PEs would be able to access the banking system and use resources under the ITCRF component of EDP. Finally, Government had also informally adopted the policy of selling each PE "as

is".

2. Technology & Management Fund. It had been envisaged that Uganda would continue having foreign exchange problems and hence would need the TF. However, the study observed that the premise under which the TF had been conceived was no longer valid since the Uganda shilling was appreciating against other currencies and earnings from coffee were doing well. The study recommended that in light of the above the component be canceled. The Government agreed and the component was canceled in 1995.

Canceled Components

1. Public Industrial Enterprises Secretariat recorded a number of achievements: (i) it organized workshops for senior managers of IPEs ranging from topics such as management information systems and value added management; (ii) it assisted IPEs in costing, budgeting and business planning, systems development and improvement; and (iii) it assisted IPEs that were being privatized on the computation of staff retrenchment packages; and (iv) it monitored performance of IPEs using the monthly management reports submitted by the IPEs. The Presidential Directive of 1995 with the reform of the implementing institutions of the PERD program ultimately meant that PIES would be duplicating the efforts of PU and PMU. All PEs now fell under PU and there was no need for categorizing PEs as industrial and non-industrial and the monitoring and assistance of PEs now fell under PMU; there was no longer a need for PIES.

Modified Components

1. Investment Term Credit Refinance Fund (ITCRF). It was to cater for all sector needs, including rehabilitation of PEs after divestiture and for rehabilitation or new investment for exports or import substitution. The scheme was implemented by the International Development Association, Enterprise Development Program, Development Finance Department (DFD) at BOU on behalf of Government and the participating banks, which were to include private commercial banks. Ideally, the credit would cater to Uganda's transitional term-finance requirements. The 1995 study revealed problems and proposed the solutions in the areas of on-lending rates, management of the line of credit, and project preparation facility. The details are addressed in the ITCRF executive summary.
2. Technical Assistance Support. This component was aimed at financing management and technical training, consultant services, equipment and materials for these programs to be achieved through strengthening the relevant institutional arrangements as follows: (i) at the Bank of Uganda for the line of credit, the Technology and Management Fund, the Credit Guarantee Fund, the Export Revolving Fund; (ii) at UDB for operation of the Restructuring Fund; (iii) for specific PEs, through PES and PIES for coordinating the Corporate Restructuring Plans, various studies, consultant studies, and for training; (iv) for PES and PIES to implement APPERD; and (v) for the Ministry of Commerce, Cooperatives and Marketing to conduct studies for developing an export strategy program.

The TA component was designed to support the initial structure of PERDS. However, following the Presidential Directive of 1995, there was a change in structure of PERDS and EDP and hence the TA component was redesigned to support the new structure through the reallocation of amounts in the DCA, and hence the budget for TA component was revised from about US$ 9 million to US$ 17.4 million with IDA and the GOU contributing US$ 15.7 million and US$ 1.7 million respectively. In addition, the unallocated amount in the budget was to be used for paying BOU expenses on ITCRF, including a pilot program to assist entrepreneurs in preparing business plans; review/studies on the impact of the PERD program; services of a public relations agency; and work on macroeconomic aspects of PE reform and divestiture.

The component was successful particularly in the areas of capacity building in Uganda (Bank of Uganda, Ministry of Finance etc.) achieved through training, use of consultants, workshops, and seminars. Consultants were used to prepare diagnostic reports and audits, and to carry out valuations of PEs being prepared for divestiture. The people involved in PERD activities underwent training to develop relevant areas of expertise; they participated in workshops and seminars, both in and out of country.

Rating of the Project and Its Justification

Having looked at the operations of the project from inception to closing we have carried out a broad rating based on implementation and impact. We have also taken into consideration the ratings during various visits by the World Bank supervision missions. Overall the project is rated as satisfactory for Impact and Implementation.

Achievement of Objectives and Output

Assessment Of Project Outcome And Degree Of Success Relevant To Objective. EDP was successful in terms of achieving the revised project objectives and specific outputs:

1. Privatization of public companies paved the way for management innovations that have led to new product brands/improved packaging for existing brands to enhance consumer satisfaction; (2) The availability of private capital, modern technology and expertise has increased with privatization and liberalization making investment opportunities in Uganda increasingly attractive to both local and foreign investors; (3) Several privatized PEs consolidated their newly acquired businesses through investments in new plant and equipment, renovations of business premises, rehabilitation and renovation of previously dilapidated PEs. The developments not only expanded production capacity of the privatized PEs but also confirmed Government's policy of fully entrusting management of the economy to private entrepreneurs; (4) Several privatized enterprises increased their levels of output. From a survey of 22 divested PEs, capacity utilization increased from an average of 11% in 1993 to 51% in 1998. Notable increases in capacity were observed in GM Tumpeco (from 8% in 1994 to 40% in 1999), and Crown Beverages Ltd. (from 22% in 1993 to 39% in 1998); (5) In several privatized PEs, employment levels have risen. A study conducted by Uganda Information Services Limited in 1996 revealed that of the 36 divested PEs studied, 70% had recruited new staff after privatization; and (6) A substantial number of the PEs privatized (63%) have been bought by Ugandan owned firms.
2. Treatment of Labor. One of the key problems facing the privatization process is the treatment of labor especially with regards to the calculation of terminal benefits. To date no standard formula has been established and as such different methods are applied to individual PEs when divesting. This has resulted in numerous complaints from the affected staff. That notwithstanding, a total of approximately UgShs 48 billion has been paid out as terminal benefits to the affected employees since the commencement of divestiture of PEs.

Table 1: Privatization Proceeds (Source: EDP)

Item	Amount UgShs
Net Sales*	120,661,985,079
Collections to Date	103,065,371,599

* Net of the liabilities assumed by the buyer

Output per Component

1. Technology and Management Fund (TF) and the Restructuring Fund (RF). The TF and the RF were canceled after they were deemed not useful in the 1995 report by the World Bank; the funds were allocated to other components.
2. EDP Privatization. A total of 95 divestitures have been carried out so far; they include the sale of 62

PEs and the striking off from the register of 34 PEs.

3. Export Development Studies. During a supervision mission in 1997 it was agreed that to some extent the scope of work of ESDU duplicated existing studies of the MoTI and that the functional demarcation between the MoTI and the Export Promotion Board was unclear. It was thus recommended that required studies and further assistance to the MoTI would be looked at on a case-by-case basis and funding be sought outside the project. As a result, the ESDU component of EDP was terminated on 31st December 1998. It would be important to note that by the time of termination a number of studies had been undertaken and a listing is provided in Appendix VII.
4. Public Relations. The project hired in 1995 a public relations firm to conduct a public relations campaign. The Project also recruited an Information Officer to handle public relations and protocol in the Minister's Office and specifically to work with the appointed public relations firm. Actives carried out include Privatization Billboards, Privatization Television Documentary Programs, International Conferences, Privatization Awareness, Media Relations, Privatization Magazine Opinion, Consensus Building, Road Shows, Survey, Investors Forum.
5. EDP Parastatal Monitoring (PMU) undertook the following functions during the operation of the project: (1) Debt Verification And Cross Debt Settlement - PMU began preparing bi-annual debt management reports in 1997 to supplement efforts in monitoring Government loans to the PEs and facilitate their timely and accurate billing. The scope of the bi-annual reports was broadened to cover Government guaranteed loans to PEs to assist in monitoring Government guarantees to PEs and ascertain the ability of the PEs to meet their obligations. The bi-annual report as at 30th June 1999, with information from 44 PEs, revealed that 18 PEs had guaranteed loans and 26 PEs did not have any loans from Government; (2) Enterprise Level Subsidy Reduction Plan - PMU prepares an annual subsidy report to monitor the nature and magnitude of financial flows between Government and PEs, and between the PEs themselves. A sample of PEs is selected and the subsidies monitored. The first study carried out in financial year (FY) 1993/94 covered a sample of eight PEs. The sample increased over the subsequent years to 41 in Financial Year 1997/98; PMU is moving to monitor the entire population of PEs; (3) Parastatal Monitoring - PMU carries out monitoring of all of the PEs using monthly, quarterly and annual reports from the PEs and audit reports of the PEs; (4) Utility Reform - PMU spearheaded the utility sector reform activities and contributed to PE restructuring and to setting the reform agenda by producing various cabinet and other papers on the establishment of a Multi-Sector Regulator and UDB restructuring; and (5) Corporate Governance - This is a new function of PMU primarily concerned with the enhancement of board performance and ultimately profitability and efficiency of PEs and their capability to create wealth and employment, the long-term competitiveness of PEs in the local and international markets, the relationships between PEs within the economy and their sustained ability to participate in the international market, and the relationship between PEs and their various stakeholders comprising of Government, managers, employees, customers, suppliers, labor unions, communities, finance providers etc.

   PMU has faced a number of difficulties in its operations. The main ones are: (1) Lack of Mandate – line Ministries and the PEs themselves render PMU work difficult. Information availed to PMU is usually outdated and of little value. The general lack of stiff penalties and/or sanctions makes it difficult to force them to submit the required information. The PERD (Amendment) Statute 2000 has provided specific penalties for officials of the PEs who fail to submit the required information; (2) Inadequate Staffing - the unit has three staff members overlooking the remaining PEs (3) Reporting Structure and Supervision - PMU reports to the Director Economic Affairs in the Ministry of Finance Planning and Economic Development. The Director's office is based in a different building with the PMU; there is need for the unit to have a direct operational head who would then be reporting to the Director Economic Affairs; and (4) Conflicting Demands on the PMU's Time - PMU has in the recent past spent considerable time providing information to the parliamentary investigative committee and

this has impeded the operations of the unit.

Was Design Appropriate, Realistic, Ambitious To Achieve Output?
The design was initially very ambitious and could not achieve the intended output. However, as a result of consultations between Government and the World Bank, the design was changed accordingly with the first major change occurring in 1995. PU and PMU replaced the PERD Secretariat and the PRWG to allow for a better functioning operational framework. In addition, the amendments to the PERD Statute in 1997 and 2000 also allowed for a better operation of the program. The formation of the Utility Reform Unit to oversee the reform of PEs in the utility sector has helped improve the project's focus.

The revised target of privatizing all PEs by end of 1997 was not met due to the challenges the process met but significant results have been achieved to date. Furthermore, these challenges have been well addressed by the Government, the implementers of the reform and the World Bank. Reviews from both parties have continued over the years to December 1999 and any weaknesses or obstacles to the process were identified and resolved.

Were Performance Indicators Appropriate, Quantifiable?
To a reasonable extent The performance indictors used were quantifiable. For example, in the case of PU, the performance indicators used included the following criteria: (i) quantity - number of enterprises divested and associated number of employees; (ii) quality - a transparency rating would be designed to measure investor interest, evaluation method, public opinion, closure at signing of contracts; and (iii) cost - time and cost of completing divestitures. For the EDP as a whole, the World Bank and Government made use of benchmarks, including for each benchmark the assigned responsible party and the timing for its completion. This was a more suitable system of setting performance indicators since it allowed Government ownership for the strategies and targets and it made it easier to identify areas affecting the achievement of the targets or the success factors.

Benefits of the Project
Reduction of Subsidies to PEs. The statistics reveal that the subsidy level in absolute terms in UgSh has not changed much over the period but the composition has changed. For example, the level of direct subsidies has dropped significantly from UgShs 100 billion in 1997 to 9 billion in 1998. This has freed Government resources to allow it to focus more on provision of essential social services like health, education and infrastructure.

GDP Growth. The PERD exercise has had its impact to some extent on the GDP growth rate. An analysis of the figures from 1992 to 1998 shows growth rates averaging 7% per year.

Capacity Building. The capacity building in the project has been significant. There is less reliance on external advisors in the operations of the project and the few that are there today are limited to very specialized areas. Furthermore, a good illustration of capacity building can be seen in the current Directors of Privatization and Utility Reform. Both are Ugandans and have attended courses and seminars and developed skills in their respective areas and are now charged with the responsibility of overseeing the operations of the reform process in their respective capacities. The privatization skills are therefore in the hands of Ugandans; this will ensure the sustainability of the divestiture and reform exercise. Closely related to this point is the fact that the process is more organized today than it was at start and this can be attributed to the regular reviews of the process that have been carried out over the years. The environment for privatization and PE reform is a lot better today than it was at the start of the program and the EDP project. Overall efficiency and total economic output of the Ugandan economy has increased as a result of privatization.

Major factors Affecting Implementation and Outcome

Factors Outside Government Control

1. PMU Mandate. Lack of co-operation from line ministries and PEs, together with the absence of enforcement mechanisms or any obligation to cooperate rendered PMU's main objectives difficult to achieve. In addition, most PEs did not comply with the mandatory provisions of information established in the PERD Statute regarding publication of financial statements or operational plans. Information available to PMU was frequently out-dated and of little value. The PERD Statute, 2000 has provided a number of measures on reporting requirements by PEs and their line ministries to ensure this problem does not persist.
2. Communication with IDA. A number of the difficulties of EDP stemmed from a lack of clear understanding of when and how to approach IDA. To resolve this training in project management and procurement was carried out for EDP staff, directors and advisors in 1997 and 1998. IDA guidelines were distributed and agreements were reached with Task Team for communication and response times.
3. Parliamentary Investigation. Between December 1998 and April 1999, Parliament decided to review about 14 PE divestiture operations. This created conflicting claims on EDP staff time since they had to address these inquiries while carrying out the project. The PERD (Amendment) Statute 2000 came into force this year with the key aims of establishing the foundations for a successful privatization program. Key features include: removal of members of Parliament from DRIC; enhanced role of Minister of State for Privatization; penalties for asset stripping; measures to redefine responsibilities of Ministry of Finance and line ministries over utility sector reform; and provision to allow for transfer of parastatal financial oversight to Ministry of Finance.
4. Speculation/Lack of Committed Investors. The divestiture process was plagued by lack of credible investors in a requisite financial capacity. This was characterized by prolonged negotiations and the defaults to pay agreed prices on time as in the case of MIDROC for Apollo Hotel Company Limited. PU has for its own use developed a procedures manual. The procedures provide for a non-refundable submission fee. The procedures also provide for a bid bond whose amount is determined at the time that the bid documents are prepared and which counts towards the purchase price for the successful bidder.
5. Sale Value of PEs. There was a lot of misunderstanding on the part of the public about the discrepancy between the worth of the PEs based on net asset value and the eventual sales price, leading to the belief that Government had given away "family silver". However, valuations of PEs were only meant to serve as a guide for Government in negotiating the price of a particular PE, but the final sales price would be determined by market response. Government has continued to use the promotional activities to explain this. The road show carried out last year also touched on this area.

6. Asset Stripping and Fraudulent Transfer. Delays that occasionally occurred in concluding the divestiture of some PEs would sometimes lead to asset stripping and siphoning of cash by employees who were uncertain of their future employment. The PERD (Amendment) Statute, 2000 has now introduced penalties for people who commit the above offenses. The penalties range from imprisonment for a minimum term of three years and a maximum term of 14 years.

Factors Subject To Government Control

1. Transparency. Transactions completed in 1995 lacked transparency due to political interference and absence of adequate prior selection criteria. An example of this was the privatization of Uganda Grain Milling Corporation where selection criteria were defined ex-post, and this resulted in a questionable outcome. The PERD (Amendment) Statute, 2000 has the necessary provisions to ensure that the operations of the divestiture exercise proceed in a more professional manner with minimal political interference.
2. Comprehensive Update of the PE Register. There exists a number of PEs which need to be recognized and brought into the register of PEs. The amendments to the First Schedule of the PERD Statute has tried to capture these PEs.
3. CMA Development. Due to lack of a Capital Market and Stock Exchange, which would have allowed for the broader participation in the purchase of PEs, participation of ordinary Ugandan's in the privatization process could not take place. USE was established and the sale of Government shares in one PE, Uganda Clays, was successfully carried out in 1999 through USE. Other PEs will be privatized through USE, with BAT being the second one planned in 2000.
4. DRIC and EDP Relationship. There was excessive interference from DRIC in technical matters which tended to politicize the decision making process. DRIC, however, bore the statutory responsibility for implementing the divestiture policy and thus was entitled to challenge recommendations it believed to be inaccurate or incorrect. The amendments in the PERD (Amendment) Statute 2000 have removed the participation of members of Parliament from DRIC and this is expected to depoliticize the approval process further.
5. Use of Divestiture Accounts. The use of the Divestiture Account, as defined in the PERD Statute, enabled Government to use proceeds for a range of activities, including preparation for divestiture. However, the funds were not always used for these activities. Consensus was reached and funds are used primarily for divestiture preparation.
6. Collection of Problem Arrears. About 41% of the collections (approximately U. Shs. 15 billion) as of June 1998 could not be collected because of various problems including insecurity in some regions, poor contract management and investors refusal to pay citing misrepresentation on the part of the Government. No solution has been identified at this time, but collections will not be a problem in future transactions.
7. Mandate. The mandate and enforcement of compliance in execution of the PERD Statute provisions underwent severe challenges. This was because the role and responsibilities of the MoF and PMU in terms of financial supervision of PEs were not rigorous in the PERD Statute thus resulting in reluctance form the Line Ministries and some PEs to provide the required information. In addition, the Statute did not stipulate sanctions on PEs that engaged in illegal activities like incurring unnecessary expenses and asset stripping. The PERD (Amendment) Statute 2000 has introduced specific penalties for deliberate misconduct and negligence in the management of PEs.
8. Opposition to Sale of Some PEs. Members of Parliament would in some cases be opposed the sale of various strategic PEs either due to disagreement in sales strategy or an outright rejection of the sale. Examples of this can be seen in the case of Uganda Airlines and Coffee Marketing Board. The PERD (Amendment) Statute 2000 has removed MPs from DRIC.

Factors Subject To Implementation Agency

1. Sale Completion. Of the UgShs 37 billion in deferred payments in 1997, UgShs 15 billion were still to be paid and the bulk of it had to be rescheduled for various reasons, in addition to the ones mentioned in the previous section. The reasons included flaws in the sale agreements, lack of disclaimers in the sale contract of memorandum of offering and delays in delivery of land title deeds or other licenses and agreements. Standard agreements have been developed and are in use. In addition, transaction and legal advisors are used in each transaction to advise Government.
2. Pre-divestiture Process. A supervision team from the World Bank in January 1997 noted that the pre-divestiture process had too many steps, which should be collapsed into one. A contract should be awarded to a single auditor to conduct all audits for a given enterprise. More attention should be paid to improving the content and quality of audits and to selection of audit firms, especially those with a poor track record. The mission proposals were implemented in the process thus reducing the number of steps. In addition, a shortlist of acceptable audit firms was agreed upon with the Auditor General and the World Bank thus removing an element of poor audits.
3. Lack of Common Procedures for Computation of Terminal Benefits. PEs had their own policies on payment of terminal benefits, resulting in different retrenchment packages. This led to agitation from workers who had received small packages e.g. Uganda Meat Industries, who rejected their pay cheques twice. Some PEs were even committing themselves to paying amounts of money that they could not afford. A Labor Study was commissioned and a formula is being worked on and will be implemented soon to all PEs.
4. Operational Constraints. Interference by DRIC in setting the work plan and inadequate staff time and expertise to handle the resultant work plan. Inadequate in-house skills to handle highly specialized tasks. The restructuring of DRIC through the latest amendment to the PERD Statute should remove the interference of DRIC. Additionally, on-the-job training and seminars for staff together with out-sourcing of expertise for specialized tasks has allowed for the enhancement of the in-house skills and improved quality of the transactions. By and large, the process is now almost fully managed by Ugandans.
5. Organization and Staffing. EDP's organizational structure was reasonably well defined. But, some of the reporting responsibilities were not clear. Staff were overburdened by meetings and reduction in these would have helped improve efficiency. This is a point to be considered for future Government programs to ensure that staffing numbers are appropriate to run a project. In addition, it is also important for a regular review of staff to be undertaken in order to address such problems in a timely manner.
6. Procurement. Several procurement actions had not followed IDA procedures e.g. advertisement on the Economist of June 30 1995 requesting statement of capabilities from firms interested in offering privatization services. The Divestiture Procedures Manual clearly spells out the steps to be undertaken in the process. The project staff should ensure that they follow they laid down procedures.

Sustainability

The Need for PERD. As stated in the earlier sections of this report, there was a need for the Government to divest from commercially oriented PEs in order to ease the financial requirements on the Government and to ensure their profitable operations and continuity. As an illustration, responses gathered from visits to two former PEs indicated that without privatization the companies were not going to be operational in the medium to long term. The process has progressed well and focus is now turning more towards the reform of PEs in the utilities sector. They constitute the largest number of PEs in terms of operations and asset size

and have for a long time been very inefficient in their operations. As of December 1999 they accounted for 61% of the total subsidies from Government. The Utility Reform Unit has been working towards the formulation of strategy for regulation of the utility PEs and divestiture of distribution of their services they offer. Once this has been achieved then they PEs will significantly reduce the amount of subsidies required from Government and their functions will be more efficient and profitable.

Availability of Credit to Carry out PERD. The financing made available under the EDP project has helped in carrying out the PERD process. This would have been very expensive on Government and on taxpayers if donor support lacked in providing financial assistance to carry out the process. As the Government now focuses on the public utilities reform, it would invariably be necessary for the credit to be made available to support this process. Government is negotiating with the World Bank on the funding of this utility reform and of the divestiture of the remaining non-utility PEs.

Capacity Building. In the initial year, Government and implementers of the PERD program depended heavily on support from international advisors on the implementation of the program. However, the need for these advisors has significantly reduced. Specific needs for international consultants are now only in the areas that are very technical and hence require people with the specific skills.

Bank and Government Performance

Bank Performance During Lending. In the initial period, the project was very ambitious and thus made it difficult for the Government to meet the Banks expectations. However, through consultative meetings in the process, the project became a lot more realistic and manageable. There were communications breaks between the Bank and the Government in the initial periods. However, this was later sorted out. Overall, the consultative approach to the project has helped in its effective implementation.

Government And Project Implementation Unit During Preparation Of Project. The Government has had its good points and its bad points during the PERD process. Credit has to be given to the Government for seeing the need for PERD and looking for ways and means of supporting it. However, especially in the early stages Government seemed to want to take full control of the process rather than let the project implementation unit handle it. However, the Executive paid keen attention to the process and has intervened where necessary to allow for the smooth operations of the project. This began with the Presidential Directive of 1995 that changed the structure of the implementing units. However, as time went on, a few Government members somewhat frustrated the operations of the implementation unit. This is seen from the interference by line Ministries and delays from MPs conducting their investigations into various matters. The various amendments of the PERD Statute have been aimed at depoliticizing the process and allowing the implementation unit to operate in a less frustrating environment.

Lessons Learned

Need for Privatization. The need for privatization is without a doubt evident. When the new regime came into power about 14 years ago it inherited 156 PEs. This placed an enormous strain on the scarce resources availed to Government and which also had to be used for the provision of essential services. The process of divestiture and reform over the years has to enabled a more efficient and vibrant economic sector as can be seen from the GDP figures and also it has enabled Government focus more on providing essential services to the population. Labor: There is a need to develop a standard policy to be applied towards labor in terms of terminal benefits or retrenchment packages. The lack of a common policy has left a number of displaced workers unhappy and this could impact negatively on the privatization process. It is important that this issue is addressed before the next major exercise of the reform commences.

Implementation vis-à-vis Impact. During the process of privatization and restructuring there will always be a trade off between implementation and impact. Much as the intention may be to achieve satisfactory results in both areas throughout the process, in practice this is difficult to obtain. As is evident from the experiences of Uganda, a lot of effort had to be put into implementation, not only in the initial stages of the project, but also as the complexity of the transactions increased, and this had an effect on initial expected impact. The Presidential Directive of 1995 instructed that all PEs would be divested by the end of 1997. However, this was not achieved in practice, because in the process of implementation a number of obstacles or issues had to be ironed out and this slowed down the project at various intervals.

High Presidential Profile. The commitment of the Executive at the highest level to public enterprise reform and divestiture is imperative if the exercise is to achieve expected results. An example of this can be seen in the Presidential Directive of 1995 which changed the organizational structure for implementing the PERD program. The directive increased the pace and efficiency of the process. Subsequent Presidential interventions were crucial in moving the process forward at difficult junctures.

Many Players. The involvement of many players in the PERD process in most cases had a negative impact on the process, authority and accountability became diffuse. The consolidation of the process into fewer units improved the operations and accountability of the process. In the privatization exercise, t is therefore important to have fewer more focused players with clear a definition of authority and accountability.

Premature Cancellation. The TF and RF were canceled in 1995. Perhaps a better course of action would have been to suspend the components rather than canceling them. At a later stage they could have been revived (this would have been the case with the TF), or restructured to suit the prevailing conditions and needs of utility reform as with the case of RF.

Legislation. For any privatization to be carried out, it is necessary to have a legal framework in place that provides the mechanisms for privatization, provides the structure of the implementing agencies and provides penalties for anyone who frustrates the successful operations of the process through fraudulent means.

Reviews. Regular reviews of the privatization process are important to ensure that any material obstacles and weaknesses in the design are addressed in a timely manner. It also prevents the loss of credibility of the privatization process. With the Utility Regulation exercise already underway, it will be necessary to be carrying out regular reviews of the process to prevent loss of interest by potential investors whether local or foreign.

Focused Public Information Campaign. In any privatization process, it is important that a campaign aimed at providing information to the public and to stakeholders is conducted in a proactive manner. Issues must be anticipated and answers developed and presented to the various concerned parties without allowing them to develop into a crisis.

Annex 9. Executive Summary: ICR Report on Investment Term Credit Refinance Fund (ITCRF), April 1999

Background

The Government of Uganda (GOU) negotiated a Development Credit Agreement (DCA) of US$ 65.60 million with the World Bank to undertake a comprehensive reform of Public Enterprises (PEs) and support economic reforms being undertaken by the Government under the Economic Recovery program (ERP) and Structural Adjustment Program (SAP). Under the Agreement, an Investment Term Credit Refinance Fund (ITCRF) of US$ 25 million was established at the Bank of Uganda (BOU), Development Finance Department (DFD), to provide a refinance facility to viable enterprises in the industrial sector. The disbursement of funds under the project was expected to be completed by June 30, 1999. The Credit Component of the project has, however, been exhausted almost one year ahead of the disbursement schedule. The Fund has supported 40 projects, through 10 accredited Participating Banks - PBs - Bank of Baroda (U) Ltd., Development Finance Company (U) Ltd., East African Development Bank, Gold Trust Bank (U) Ltd., Greenland Bank (U) Ltd., International Credit Bank Ltd., Orient Bank Ltd., Stanbic Bank (U) Ltd., Standard Chartered Bank (U) Ltd., TransAfrica Bank (U) Ltd.). Although Barclays Bank (U) Ltd. was accredited to ITCRF, it did not fund any projects under the scheme.

Eligible Purposes

Based on the Appraisal Mission Dossier (April 23, 1991) and the Project Agreements, the ITCRF scheme was targeted at: (i) investment by private entrepreneurs in public enterprises on divestiture; (ii) investment by private entrepreneurs for modernization and expansion of existing registered/licensed enterprises, as well as for setting up new enterprises; (iii) credit for incremental working capital needs associated with new fixed investment; and (iv) credit for acquisition of consumable production inputs, such as tools, spares, etc.

Program Indicators

The ITCRF scheme aimed to achieve the following objectives: (i) increased flow of medium and long-term credit through participating banks and credit institutions for productive purpose in projects, particularly to meet their foreign exchange needs; (ii) effectiveness of BOU in implementing the scheme; (iii) increased capabilities of PBs to undertake medium to long-term lending on a sound basis through provision of required analytical and technical services; and (iv) increased investment in internationally competitive productive enterprises both in public and private sectors.

The ITCRF scheme was implemented by the International Development Association (IDA), Enterprise Development Program (EDP), DFD – BOU on behalf of the Government of Uganda, and the PBs.

Key Findings

The largest number of projects funded under the scheme (22 projects) utilized the funds for expansion and modernization of existing enterprises. From our survey, we learnt that most of the expansion projects involved the importation of new machinery and equipment using fairly modern technology that in most cases improved capacity and enhanced efficiency in production. Of the funded projects, 17 were start-ups while only 1 project was a divested enterprise that utilized the funding for rehabilitation purposes. All the sub-projects funded corresponded to the eligible purposes outlined in the Draft Staff Appraisal Report, 1991.

The manufacturing sector was the largest beneficiary of the scheme in terms of fund allocation. On the whole, manufacturing and related sectors, for example, agro-processing, received over 70% of the funds allocated under the scheme. Other sectors funded under the scheme and the corresponding funds utilized

are: broadcasting (6%), education (4%), tourism (6%), property development (4%) and health services (9%). Of the enterprises funded under the scheme, 30 are located in Kampala, 2 in Mbarara, 2 in Mbale and 3 in Jinja. It should be noted that 3 enterprises received two loans, hence the 40 projects.

Prior to the introduction of the ITCRF scheme, only one of the commercial PBs, Bank of Baroda, was providing medium to long-term loans to projects. To date, although medium to long-term lending is still not a sizable percentage of commercial PBs' loan portfolios all, except Barclays Bank, have provided medium to long-term financing to projects. Nevertheless, only 3 commercial banks have been able to provide medium to long-term lending using their resources. The PBs reported that they could neither provide medium nor long-term financing using their own resources as they only have short-term resources.

Applications Submitted for Funding under ITCRF. A total of 62 applications were submitted for funding under ITCRF. Out of these, 40 (66%) received funding under the scheme. Although 13 of the projects submitted were approved for funding, the PBs retracted them for the following reasons:

1. The PBs obtained alternative funding for the sub-projects under other lines of credit for six of these loan applications.
2. The PBs that submitted six loan applications did not take up the loans offered because the sub-projects did not offer adequate security to cover the loans.
3. One loan to a sub-project was retired by the PB because the company was over-exposed as it had outstanding loans with the PB.

PBs submitted 9 sub-projects, which were rejected for the following reasons:

1. Four projects were rejected because they did not fulfill the eligibility criteria outlined in the Draft Staff Appraisal Report, 1991.
2. Two projects were rejected because key information to show their technical feasibility and financial viability was not provided.
3. One project submitted was not financially viable.
4. ICB submitted a loan application during the time it was under review by BOU.
5. Sembule Investment Bank Ltd. submitted a loan application for a project, when it was not accredited to the ITCRF scheme.

Four of the PBs that were accredited to the scheme did not sponsor many projects for the following reasons:

1. The reports and returns requested for under the scheme were very demanding.
2. Administrative costs were very high.
3. The disbursement procedure was cumbersome. It involved the PBs having to finance the projects using their own resources and submitting receipts or showing confirmed letters of credit in the case of imported products, before being refinanced.

Repayment Schedules. Starting in May 1997, BOU introduced a loan recovery system called the 'Recovery at Source System', where BOU directly debited the accounts of the PBs on the due dates of the loan payment, to ensure timely recovery of loans. Previously, it was the PBs that remitted interest and principal payments to BOU. It should, however, be noted that because ICB has been closed since September 1998, DFD has not been able to recover the money that the two sub-projects sanctioned by the PB should be remitting in respect of ITCRF.

Findings from the Survey of Sub-projects. There was overall consensus that the availability of term lending to private sector companies was vital for the achievement of long-term strategic objectives. Many of the entrepreneurs interviewed, however, expressed the following misgivings about the scheme: (i) the interest rates are high; (ii) the loan duration could be longer. Based on our review, the average loan period was 5

years including a grace period of 1 year, and (iii) restriction to local currency loans was prohibitive as it exposed the project to exchange rate fluctuations. On the macro-level, some of the key issues affecting the sub-projects as they implement their various projects include power shortages, which severely constrain production and unfair competition from smuggled goods.

Our survey of the sub-projects further indicated that all, but one of the projects were currently able to service their ITCRF loans. However, 7 of the 20 sub-projects were servicing their loans using revenues generated from other resources. This raises questions about the sustainability of these projects, as they are currently unable to generate enough funds to meet their loan obligations. The projects that are successful have the following two features in common: experienced management and available demand for their products.

Some of the causes of poor performance of some projects and therefore their inability to generate enough revenue to meet their loan obligations were: (i) weak management; (ii) poor market analysis; (iii) laxity in project supervision resulting from insider lending; (iv) diversion of funds; (v) poor project planning and finally (vi) Access Communications Ltd. a project sanctioned by ICB generates enough revenue to meet its loan obligations but it does not service its loan because the PB is closed.

Evaluation of the Scheme

Denomination of the Loan. Based on the project design, loan funds were to be made available to sub-projects in Uganda shillings only. However, sub-projects that earn revenue in foreign currency e.g. tourism projects and export-oriented projects may be more capable of repaying their loans in foreign currency.

'Refinance' versus 'Direct Finance'. It is unclear why the scheme was designed as a 'refinance' facility and not a 'direct financing' facility given that the PBs bear the full commercial risk on the loans advanced and would therefore, it would be expected, ensure that the funds are properly utilized.

Refinance Limits. Sub-projects had to contribute a minimum of 25% of the project cost as equity, which is reasonable. However, it is unclear why in addition to the minimum equity contribution, refinance limits were set on the local fixed assets (90%) and working capital components (80%) of the loan.

Terms and Conditions of Sub-loans. Since ITCRF was a medium to long-term financing facility, the minimum loan repayment period should have been specified to ensure that PBs do not use the facility as a cheap source of short-term funds.

Performance of BOU. Based on interviews with the Ministry of Finance, Planning and Economic Development, EDP and PBs, the DFD managed the line of credit to the satisfaction of the stakeholders and the implementers. On a scale of 1 to 5, where 1 is poor, 2 is average, 3 = good, 4 = very good and 5 is excellent, the PBs reported that BOU had done a good job managing the scheme. The average ranking of BOU's performance was 3.

The highest ranking of BOU's performance was 'very good' with respect to turn-around time for loans and disbursement rate of approved refinance and 'excellent' for response time to inquiries made by the PB and its role in monitoring the performance of the sub-projects. The minimum ranking was poor (1) by Standard Chartered Bank Ltd., because of the delays in sanctioning the loan to Century Bottling Company Ltd. The PB, however, did not supply the information required in a timely fashion. DFD received a high ranking with respect to the disbursement procedure, in spite of it being cumbersome, because the PBs blamed the bureaucracy of the process on IDA and not BOU. The PBs believed that DFD did the best it could to

minimize the inconveniences of the process.

From our review, the LSC efficiently processed applications for approved refinance, made disbursements to the PBs once all requirements were complied with. In addition, the LSC followed up repayments regularly by directly debiting the accounts of the PBs on the due dates of the loan amounts i.e. recovery of the loan amounts at the source. Based on the data obtained from the files of the projects in the sample frame, PBs that provided all the information pertinent to their applications as outlined in the ITCRF Circular, had their sub-loans sanctioned by the LSC within an average period of 10 days. This was well within the limit of 15 days that BOU set for communicating its loan sanction to the PBs following receipt of the completed application and supporting information.

Performance of PBs. The PBs interviewed met their obligations with respect to: refinance limits, eligible purposes and terms and conditions of sub-loans as outlined in the PBA between themselves and BOU and the MOU signed between BOU and themselves. Nevertheless, during implementation, BOU at times encountered problems resulting from some PBs' defaulting in submission of quarterly reports on projects funded; irregular supervision of projects; defaulting on payment of interest on a quarterly basis as stipulated in the MOU, hence the introduction of the 'Recovery at Source' system; and defaulting in submission of project implementation completion plans.

Impact of Project Agreements on Project Implementation. The effect of the Project Agreements on project implementation has been assessed based on DFD, the PBs and sub-projects' views on the following: Loan Approval Conditions; Refinance Limits and Eligible Purposes; Terms and Conditions of the Sub-loans; Interest Rates; Principal and Interest Repayment Schedule; and Disbursement Procedure of Refinance. On a scale of 1 to 5 where 1 is no constraint and 5 = severe constraint, the effect of the terms and conditions in the Memorandum of Understanding (MOU) were ranked 1, which is 'no constraint' to PBs' implementation of the ITCRF scheme. Some exceptions, however, did exist with respect to individual banks as outlined below.

Refinance Limits. Gold Trust Bank and EADB considered the refinance limits outlined in the MOU a moderate and major constraint, respectively. GTB could not match the terms and conditions under ITCRF especially regarding the interest rates for the remaining 10% of the loan that was to be financed from other resources. EADB reported that the scrutiny that was required to ensure that the loan amount requested for by the sub-project did not exceed the limits set under ITCRF resulted in a tedious project appraisal process.

Eligible Purposes. The PBs would also have wanted the eligible sectors under the scheme to be explicitly stated.

Conditions to be met by the Sub-projects. Greenland Bank considered the requirement of a minimum contribution of 25% of the project cost by the promoter a moderate constraint. This is because under ITCRF, investments by the promoter prior to the loan application are not considered part of the equity. However, each new investment is looked at as a new project and it would be quite prudent for promoters to put up equity; the 25% equity contribution is not unreasonable.

Repayment Period. DFCU, Orient Bank, Standard Chartered Bank and EADB ranked the restriction of the maximum repayment period to 7 years and grace period to 2 years a moderate constraint. These PBs recommended that the loan repayment periods be determined by the nature of each sub-project and the cash flow forecasts in the project feasibility study.

Interest Rates. Standard Chartered Bank considered the interest rates prescribed by BOU a severe

constraint to their lending activities to projects. The high treasury bill rate to which was added an interest margin by the PB resulted in the final borrower being charged interest almost as high as that charged on the bank's short-term funds.

Repayment Schedule. Orient Bank ranked the half-yearly repayment schedule a major constraint. Standard Chartered Bank ranked it a moderate constraint. The PBs found that the projects they were funding were better able to meet their repayment obligations if they repaid the principal in smaller installments (i.e. monthly) as opposed to half-yearly. The banks recommended that the PBs should set the loan amortization schedule of the sub-projects in consultation with BOU. The PBs unanimously reported that because of the amount of paperwork as well as the bureaucracy in the disbursement process, the ITCRF scheme was only used as a last resort when other lines of credit were used up, or for sub-projects that were not eligible for funding under other lines of credit. In addition, the project promoters interviewed reported that the major constraint they faced during project implementation was delay in disbursement of funds.

Sustainability of the Scheme

The sustainability of the ITCRF scheme has been gauged from the following:

Effective demand for term credit. There is high effective demand for term credit for development projects. The ITCRF scheme was expected to be utilized by June 30, 1999. The credit component has, however, been utilized almost one year ahead of the disbursement schedule. From our findings, by the end of 1997, over 90% of the total funds under ITCRF had been allocated to sub-projects. Similarly funds under another scheme, the European Investment Bank (EIB) – Apex I, were utilized within a period of 24 months from the launch of the scheme. The scheme had been planned to run for a period of 36 months. Many projects surveyed required additional funding for expansion or working capital. The ITCRF facility has therefore stimulated a financing demand gap, which merits the attention of the policy makers and justifies the continuity of the line of credit.

Availability of lines of credit. Based on the current arrangement, the repaid amounts are to be credited to a GOU, Enterprise Development Account, to be used by GOU to finance the cost of parastatal reform and privatization. However, there is still a great need for medium to long-term credit to sub-projects.

PBs' willingness to engage in term lending and to participate in similar schemes. Five of the eight commercial banks interviewed reported that following their participation in the ITCRF scheme, they were more willing to engage in term-lending, and would be willing to participate in schemes similar to ITCRF once the following issues are addressed:

- Bureaucracy in the reporting and disbursement process should be reduced.
- The cost of capital (interest rate) should be reasonable so that it makes good business sense for the PBs to participate in the scheme.
- The terms and conditions of the loan should be flexible with respect to the grace period and repayment period of the loan.
- The commercial risk on the loan should be shared between BOU and the PBs.

All the commercial PBs, however, would not be able fund projects using their own resources because they only have short-term funds. Since the introduction of the ITCRF scheme, the situation of PBs with respect to availability of medium and long-term resources has not improved. Two PBs are less willing to participate in term lending to sub-projects. These are Gold Trust Bank Ltd. and Bank of Baroda Ltd. Based on their experience, the PBs distrust promoters and believe that they are not likely to repay the loans made available to them. Standard Chartered Bank's willingness to participate in term lending depends on the economic situation and general economic stability. The PB is very risk averse and prefers to lend money to

international companies or established regional companies.

PB Staff Capacity to Manage Lines of Credit. Under the scheme, two courses were organized for the staff of PBs (Credit Management at the Bank of Baroda Staff College, Ahmedabad, India; and Credit and Business Management conducted at the Standard Chartered Bank, South Africa). Many of the employees handling term credit within the PBs did not benefit from the training courses organized under ITCRF. This was because for some PBs, the staff that were trained left the PBs after receiving the training. In addition, some PBs reported that they could not afford to participate in these training programs, much as they needed the training. Nevertheless, the need for training of staff is obvious especially for those PBs that have non-performing projects. Staff in PBs that are performing well would also require refresher courses from time to time, particularly if new staff are recruited to run lines of credit during the course of the scheme.

Capacity of DFD Staff to Manage Lines of Credit. Based on the performance of the scheme, the competence of the LSC and overall performance of DFD-BOU, the staff is capable of managing lines of credit. Subsequently, the Department is managing other lines of credit: the EIB - Apex private sector loan scheme established by GOU in 1995 and the World Bank funded – Cotton Sub-sector Development Project (CSDP) Credit Component also established by GOU in 1995, to the satisfaction of the donors. In addition, the Department is expected to manage three credit programs that are in the pipeline (The Bank of Uganda Export Credit Guarantee Fund (BOU/ECGF); The Export Promotion Fund (EPF) under the Uganda Apex Private Sector Loan Scheme; The Uganda capacity building activities for women financial intermediary organizations under the International Fund for Agricultural Development (IFAD).

Entrepreneurs' Ability to Competently Manage Projects. Based on interviews with some PBs, many of the entrepreneurs that invest in the industrial sector are drawn from the commercial sector. The nature of commerce whereby returns are generated within a short period is, however, different from industrial projects which have a 'gestation period', during construction and production. Therefore, while a number of entrepreneurs have the basic 'raw material' to manage projects, there is need for entrepreneurs to undertake Entrepreneurship Development Skills courses to prepare them to understand and be able to undertake development projects.

Contribution of ITCRF to Economic Growth

Expansion of the Industrial Base. By providing funds for term credit, the ITCRF scheme enabled a number of companies to undertake expansion programs as well as fund start-up projects. Over 70% of the beneficiaries were industrial concerns involved in value-added activities principally in the agro-processing and manufacturing sectors.

Creation of Employment. The enterprises funded under ITCRF employ more than 1,000 people. The projects located out of Kampala contribute to increased employment in the areas in which they are located. The enterprises in Mbale employ at least 145 people. The projects in Mbarara employ at least 70 people and in Jinja over 200 people. These employees, in turn, contribute to increased economic activity in these areas resulting from their increased spending power and improved standard of living.

Generation of Tax Revenue. The enterprises funded under ITCRF will contribute to increased tax revenue in the form of corporation tax and value added tax. Although figures are not available, a number of the projects funded under the scheme contribute significantly to the tax base. These are Shell (U) Ltd., Uganda Breweries Ltd. and Nile Breweries Ltd. The employees of these industries also contribute to the general tax base through income taxes that are remitted monthly to the government. Nevertheless, the availability of term lending is not the only requirement for continued industrial growth. The availability of adequate and properly functioning infrastructure is also critical to the development of the industrial base.

Lessons Learnt and Recommendations

Need to Involve Stakeholders in Project Design. Some of the shortcomings in the design of the ITCRF scheme with respect to the bureaucracy in the disbursement process, refinance limits, a fixed repayment schedule, that were a constraint to PBs may have been avoided if all the stakeholders had been involved in the project design. There is, therefore, need to involve all stakeholders in the project design of future schemes.

Periodic Review of the Scheme. Periodic reviews, in addition to a mid-term review, should be undertaken after a scheme has been established to address issues that could affect the success of the scheme but may have been overlooked in the project design.

Terms and Conditions of ITCRF. In setting the conditions of the scheme, especially with regard to loan duration and loan amounts, a minimum period should also be set to ensure that the scheme is utilized for the purposes and intentions for which it was established

Need for Sustainable Lines of Credit. Based on our interviews, much as PBs are willing to undertake medium or long-term financing to projects, they are unable to use their own resources and would therefore require sustainable lines of credit. ITCRF has created demand for term funding for investment projects, which needs to be sustained.

Regular Training of Entrepreneurs. Inclusion of a training component for entrepreneurs benefiting under the scheme in the project design could minimize the risks of project failure.

Need for On-going Local Training of PBs. There is a need for 'on-going' local training of PBs in managing credit lines as opposed to 'one – off' training. Training courses conducted in Uganda e.g. at the Management Training Institute (MTAC) would draw more participants from individual PBs.

Need for Refresher Courses for BOU Staff. There is need to include refresher courses for BOU staff in the

Need for a Project Monitoring Unit (PMU). There is need for a Project Monitoring Unit (PMU) to undertake an advisory role to DFD under the scheme.

Committed Management a Key to Project Success. It was observed that a committed management team is central to the successful implementation and good performance of projects. The requirement for good management should therefore be emphasized during pre-financing project appraisal.

What Happens when a PB is Insolvent. In future schemes, a covenant could be included in the scheme Agreement such that in case of bank insolvency, funds extended to sub-projects from BOU lines of credit should, like depositors, be ranked among the priority creditors of the bank.

Risk Aversion of Commercial Banks. Commercial banks are very risk averse and are only willing to lend resources for a period, generally not exceeding 5 years. Therefore, having commercial banks share the risk with another party or having the risks of project failure considerably reduced may encourage them to lend for longer periods.

Need for Greater Communication between PBs and BOU. BOU needs to clearly explain to the PBs what the objectives of the scheme are, the role of each participant and how much the participants gain. This transparency will avoid misconceptions about the scheme.

Lack of Credibility among Project Promoters. A number of PBs indicated that they are more willing to lend funds to established entrepreneurs who they are sure would be willing to repay their loans than to fund projects that may be sound and promising but whose promoters do not have a long-track record.