

# **“Share the Wealth”**

A Critical Analysis of Private Sector Development in Uganda’s Rural and Urban Settings

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### **Dedication**

This work is dedicated to my parents, Frank and Loretta Roscitt, who raised me in a way that formed my conviction to come to Uganda.

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**List of Acronyms**

AGM.....	Annual General Meeting
CFO.....	Central Finance Officer
EDI.....	Enterprise Development Investment
EEL.....	Enterprise Expansion Investment
EU.....	European Union
NRM.....	National Resistance Movement
PE.....	Public Enterprise
UTGC.....	Uganda Tea Growers Corporation
SOE.....	State Owned Enterprise
UDET.....	Uganda Development Trust
USADF.....	United States African Development Foundation

## **Abstract**

Privatization and private sector development have been primary methods of development throughout Uganda and Africa for the last 20 years. These two valuable tools, however, have been plagued by corruption as many former State Owned Enterprises are being divested into the pockets of political cronies and influential foreigners. If State Owned Enterprises were instead divested amongst a broad section of the population, local entrepreneurs with limited capital could participate in the privatization process. If responsibly divested, private sector development would then be able to have more far reaching effects because the enterprises being helped would be owned by the people.

More than a month was spent working under the United States African Development Foundation with the two enterprises of Maganjo Grain Millers and Mpanga Tea Growers observing and researching methods of grassroots participatory private sector development. The research was carried out in urban and rural areas respectively, revealing the impact that the surrounding environment has on private sector development. A variety of casual and direct methods were used to gather this information and differed depending on the environment the research was carried out in.

Through insights and perspectives gained by experiencing private sector development with two enterprises of different environments, histories, and organizational structures it became increasingly clear that all three of these factors have a strong impact on the success of USADF's programs. It will be argued that a rural environment and a smallholder ownership structure catalyze the USADF recommendations and implementations. If privatization is more responsibly divested amongst the local people, USADF will have more enterprises with the smallholder ownership structure to work with in order to provide holistic development for Uganda.

## **Introduction**

The historian Roland Oliver writes, “Perhaps the greatest misfortune of modern African nations was that their approach to independence coincided with a period when it was generally believed that the way to a better future lay through more and longer term state planning, with its implementation led by a large and ever-expanding public sector.”<sup>1</sup> A walk down the streets of Kampala will quickly reveal that Ugandans are shrewd and astute entrepreneurs that have a knack of business. Despite these business instincts, many Ugandans are only have the capital to manage a small roadside shop or a rural farming property. When Uganda achieved its independence in 1962, the enterprises that were the backbone of the economy were not placed in the hands of the people but rather in the hands of the government stemming from the socialist model of development. The state was looked at as the best medium through which to spur the industrial development of Uganda due to the lack of capital and supposed lack of entrepreneurial skill in the private sector. When it became apparent that State Owned Enterprises were not achieving their original goals, privatization was seen as the way to diversify away from the past failures and develop Uganda. The “diversification”, however, has just been a shuffling of wealth amongst Uganda’s elite and has resulted in no development at all.

Four weeks of October and November 2007 were spent with the United States Development Foundation (USADF) researching their methods of grassroots participatory private sector development. The effects of privatization have such an influential role on private sector development because it is the medium through which many of the new Ugandan enterprises that need aid are created. The United States African Development Foundation works with struggling private sector enterprises to help them increase production, efficiency, and profitability in order to spur the development of the Ugandan people. The internship was spent with two very different enterprises under the USADF program. The first was Maganjo Grain Millers; an urban, privately owned food processing plant founded by a family of entrepreneurs. The second was Mpanga Growers Tea Factory; a rural, smallholder farmer owned tea factory privatized by the Ugandan Government. The effects of different the characteristics of the respective enterprises on

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<sup>1</sup> Hansen, Holger. Developing Uganda. Fountain Publishers, Kampala. 1998. P.3

the goals of USADF were studied by the researcher through a variety of methods and documented.

Even though this paper rigorously and meticulously surveys the accomplishments and pitfalls of Uganda's private sector development and USADF's efforts particularly, it seeks in to way to be all-encompassing on conclusive. Quite the contrary, it has used a regrettably small data set to explore the effects of the uncontrollable characteristic of environment in combination with the controllable inherited characteristic of an enterprise's organizational and managerial culture. It is hypothesized that these dynamics play a huge role in the potential successes for holistic development of USADF private sector development program and must be analyzed closely by USADF management when choosing potential enterprises to work with. This goal of the paper is to bring these complicated dynamics to the attention of the reader and serve as a baseline for future research.

## **Background**

### *History of Privatization and Public Sector Development in Uganda*

In the broadest sense, privatization has been referred to as a process of increasing the efficiency of the private sector or any policy move to foster private sector development.<sup>2</sup> More specifically, however, privatization can be defined as “a transfer of ownership or control from the public to the private sector with particular reference of asset sales.”<sup>3</sup> The post-independence era of Uganda in the 1960s saw the burgeoning of Public Enterprises (PEs) in order to provide goods and services, to take control of the ‘commanding heights’ of the economy, and to spearhead industrial development which the indigenous private sector was incapable of undertaking because of lack of capital and entrepreneurial skill.<sup>4</sup> The rise of President Idi Amin further extenuated the multiplication of PEs and State Owned Enterprises (SOEs) as he declared an “economic war” by expelling foreign-owned businesses and industries, especially those of Asians. Amin’s nationalization policy looked to indigenize the economy and therefore further put the Ugandan economy in the control of the government.

PEs were created to stimulate the economy and develop the people by acting as revenue-generating entities which could generate income for the national treasury and also act as a sustainable source of jobs. The reality could not have been further from this, however, as almost all “operated at a loss with low capacity utilization, low productivity, and decreasing liquidity.”<sup>5</sup> In fact, at the brink of the privatization movement in 1993, only one of the 156 PEs in Uganda was operating at a profit, the New Vision Printing and Publishing Corporation.<sup>6</sup> PEs failed to achieve their objectives and when President Museveni and the National Resistance Movement (NRM) came into power in 1986 it was decided to privatize them. Privatization, however, has not been able to act as the savior of the Ugandan economy either. The evidence from most African countries shows that privatization has been a slow and faltering process. At times, governments have even

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<sup>2</sup> Saiji Naya (1990) *Private Sector Development and Enterprise Reforms in Growing Asian Economies*. International Center for Economic Growth, San Fran, CA

<sup>3</sup> Hansen, Holger. *Developing Uganda*. Fountain Publishers, Kampala. 1998. P. 62.

<sup>4</sup> Hansen, Holger. *Developing Uganda*. Fountain Publishers, Kampala. 1998. P. 59

<sup>5</sup> Hansen, Holger. *Developing Uganda*. Fountain Publishers, Kampala. 1998. P. 60

<sup>6</sup> Hansen, Holger. *Developing Uganda*. Fountain Publishers, Kampala. P. 60



contemplated restructuring rather than divesting their public sector enterprises.<sup>7</sup> In Uganda, the privatization process has been plagued by corruption. A plethora of the transactions have been discriminatory and non-transparent favoring those with political connections.

Privatization has the potential of empowering the masses as opposed just the shuffling of wealth amongst the elite as is currently doing in Uganda. The Ugandan privatization laws have no restrictions which put local entrepreneurs with limited capital at a disadvantage. Other African nations such as Zambia and Nigeria have structured their privatization laws in a way that emphasizes the distribution of ownership among a broad segment of the population and also limits foreign participation. If such provisions existed in Uganda, the local entrepreneurs would be able to participate in the privatization process. This is essential for the holistic development of Uganda because when a large group of local entrepreneurs own the private enterprises there is a variety of private sector development techniques that can be implemented on the enterprises to increase profits and therefore develop those on the bottom of the development ladder.

#### *The United States African Development Foundation*

Privatization is not the final step in the development of the business sector of Uganda. Once enterprises are in the hands of the people they are able to become subject to a number of private sector development methods. The United States African Development Foundation is one of these development organizations as it works with private enterprises in Africa that were both born from privatization and also founded by entrepreneurs. The United States African Development Foundation (USADF) is an independent public corporation that was founded in 1980 by the US Congress with a mandate to reduce poverty in Africa. Unlike the majority of American aid agencies that have a purely “top-down” approach, USADF was created with a mission to increase the direct participation of Africa’s poor in development efforts. The ideals behind USADF’s mission statement are the empowerment of grassroots communities with the skills and knowledge to help themselves. USADF’s approach is “grounded in the assumption that the true development ‘experts’ are the African entrepreneurs, traders, farmers, and

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<sup>7</sup> Hansen Holger, Developing Uganda. Fountain Publishers, Kampala. P. 57

villagers who know best why they need and what works for them.”<sup>8</sup> USADF’s proclaimed approach is designed to enhance the impact and sustainability of their investments. USADF does not work through government agencies or international organizations, but rather works directly with small enterprises, micro-entrepreneurs, and cooperatives right on the ground. USADF directly invests capital, provides trainings, and conducts consultations with African enterprises in order to increase their efficiency and profitability. There is to be no “trickle-down” because they are working directly with the institutions and people whom the money is meant to go to.

When working with enterprises, there are two different types of programs: Enterprise Development Investment (EDI) and Enterprise Expansion Investment (EEI). When USADF does its analysis of an enterprise during the application process, it makes the decision of whether the enterprise will enter the EDI or EEI program. The EDI is meant for businesses which do not have the proper infrastructure necessary for growth and need a restructuring of their foundation before they are able to move forward. The funding in this program comes in the form of a \$100,000 US grant. The EEI program, on the other hand, is meant for businesses that are ready to grow and have the appropriate infrastructure and management capacity to handle a program which is meant for the *pure growth* of the enterprise. The EEI funding can be as high as \$250,000, although the Board of Directors is currently petitioning that the cap be increased to \$400,000 to better meet the expansion needs.

The keystone of USADF support is that it does not just come in the form of monetary support, but rather a comprehensive package of support which combines technical assistance and training to strengthen technical, managerial and marketing capacities, with working capital and access to new technology. Through the various trainings they also help clients to “*think commercially*,” as they are taught to diagnose their constraints, assess market opportunities, conduct rigorous financial analyses on investment options, and develop business plans to support commercially viable activities

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<sup>8</sup> United States African Development Foundation Website. [United States African Development Foundation](http://www.usadf.gov).  
[www.usadf.gov](http://www.usadf.gov)

that generate income for owners, employees, and suppliers.”<sup>9</sup> USADF does not display the typical hubris of most Western aid organizations as they realize that they are not the experts when it comes to training and many specific on the ground activities. USADF is in charge of the initial selection and consultation of the local enterprise, but once the in-depth consulting and training is set to begin they team-up with a local development trust for help. In Uganda, USADF has teamed up with Uganda Development Trust (UDET) to handle these responsibilities. The purpose statement of UDET is “to stimulate and facilitate effective participation of Ugandans in designing and increasing opportunities for community development and to encourage the growth of indigenous developmental institutions that can respond to the needs of the poor in Uganda.” The relationship between USADF Uganda and UDET is so strong that they actually shared the same building in Kampala until last month. They work hand-in-hand to facilitate the participatory development of Ugandan enterprises through a combination of their respective macro and micro expertise.

The results of USADF’s investments have been extremely impressive. In its 27 years of work since its inception in 1980, USADF has invested in more than 1,700 businesses and community-based organizations. Currently, USADF manages a portfolio of 240 investments that have helped establish thousands of new enterprises and jobs. In 2005 alone, USADF’s investments across Africa “helped create more than 110,000 jobs for poor Africans and generated \$70 million in gross revenue for enterprises and almost \$35 in export sales.”<sup>10</sup> These results have been achieved through 3 specific strategic goals:

1. Invest in businesses and social enterprises that create jobs, generate incomes, and improve the lives of the poor.
2. Expand institutional and financial capacities that support businesses and social enterprise growth.
3. Broaden USADF’s resource base and provide efficient and effective services.

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<sup>9</sup> MacAlister, Rodney. Removing Obstacles for African Entrepreneurs. United States African Development Foundation. June 8, 2006.

<sup>10</sup> MacAlister, Rodney. Removing Obstacles for African Entrepreneurs. United States African Development Foundation. June 8, 2006.

USADF's plan of developing small and micro enterprises "has broad macro and micro economic benefits, as well as social and environmental benefits."<sup>11</sup> When USADF funds enterprises in Africa and specifically Uganda through private sector participatory development techniques, the effects reverberate very far outside of the gates of the factory itself. Since agricultural enterprises are a vital source of employment and income in Uganda, increasing productivity and profitability is critical for broad-based economic growth and poverty alleviation.<sup>12</sup> When the productivity of an agricultural processing factory is increased, it not only improves the lives of the factory workers but also those of the farmers whom provide the raw materials as they will be able to sell much more of their crops. When all of an aid organization's development energies are spent on just the rural farmers, crop production is able to increase but often the farmers are without a market to sell to and end up losing much of their ripe crop. When funds are balanced between the producers and manufacturers, however, there is significantly increased market for the rural farmers' crops in addition to their added crop yield.

The USADF country program in Uganda began in 1992. The development focus for USADF in each African country is different, but in Uganda in focus in on export-oriented small and medium sized enterprises. The current investment portfolio in Uganda consists of 15 projects with a total of \$4.79 million USD being granted and lent, equaling an average funding of \$203,285. When meetings were carried out with USADF and UDET, it was requested that the researcher be able to work with a rural and urban enterprise as the dynamics of development in each are hypothesized to be very different. The Ugandan enterprises that USADF works with range from micro-finance service organizations to agriculture to manufacturing, but it was decided that the researcher would work with two organizations that are both involved in agricultural food processing in order to provide a consistent baseline to compare upon. The decision was finally made by USADF and UDET leaders that the researcher would spend 2 weeks with 2 different enterprises. Research would begin with a food processing plant in Kampala called Maganjo Grain Millers Limited. Following that time, the researcher would then spend 2

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<sup>11</sup> United States African Development Foundation Website. [United States African Development Foundation. www.usadf.gov](http://www.usadf.gov)

<sup>12</sup> United States African Development Foundation Website. [United States African Development Foundation. www.usadf.gov](http://www.usadf.gov)

weeks 13kms outside of Fort Portal Town working with Mpanga Growers Tea Factory Limited.

### **Statement of Objectives**

Throughout the time researching under United States African Development Foundation and Uganda Development Trust in working with the enterprises of Maganjo Grain Millers and Mpanga Tea Factory, the following were the objectives of research:

- To access the dynamics of Private Sector Development under USADF/UDET and to gauge its systems of implementation in the grassroots mindset.
- To compare the different advantages, challenges, and opportunities of Private Sector Development in an urban and rural environment.
- To explore how the organizational and managerial culture of specific enterprises affect how the USADF program is being successfully implemented.

## **Justification**

When looking at the broad scheme of development, private sector development is one of the most important yet overlooked tools that can be used to not only stimulate the economy but to also empower the people. The privatization of public enterprises to the private sector has been considered a tool of development since the 1980s, but this is just the first step as the enterprises must then be further improved in order to fully shake the shackles of public ownership in order to become a profitable private enterprise. Being a university student studying Finance in the United States, it was considered an unusual choice to come to Uganda to study Development because the majority of American business students use this academic training to get a job on Wall Street. Due to these stereotypes, it was thought by many to be a waste of time to come to Uganda while studying Business. The research of Private Sector Development, however, has proven to be the perfect area of study because it fuses the knowledge acquired from an American Business School Education with the issues of the development that are plaguing Uganda. This research has provided the opportunity to combine two separate academic passions in order to conduct meaningful research in the country of Uganda.

It is necessary to carry out this study because Private Sector Development is an under utilized tool that can be used to empower and develop the masses. Privatization is a development tool that has been utilized for some time, but it is often used irresponsibly and corruptly and therefore only benefits those whom are already rich. This study provides evidence of the potential successes for Privatization and the ensuing Private Sector Development if it is used to divest and broaden the government owned equity base among the powerless local population. This study, therefore, looks to display that Private Sector Development Agencies must focus their energies on private enterprises that are divested amongst the masses as opposed to ones that owned by an elite few. If used correctly, Private Sector Development can be grassroots tool to advance the poorest of the poor in Uganda.

This study is also being carried out in an attempt to benefit the United States African Development Foundation and Uganda Development Trust with their work in the Private Sector Development. The USADF does a detailed evaluation program before an enterprise is accepted into its Development or Expansion program, but often it judges on

factors that are too business related and not enough on the internal culture of the business. This study looks to show that a special internal business culture is necessary for the USADF program to be properly implemented. This internal culture cannot be judged in a short period of time but must be gauged slowly and extensively in order to properly determine if an enterprise is fit for the participatory and grassroots oriented USADF program.

## **Methodology**

### *Introduction*

Although the entire research period was carried out under the umbrella of the United States African Development Foundation, the practicum research period was split between 2 different developing enterprises. The first 2 weeks were spent with Maganjo Grain Millers in Kampala while the next 2 weeks were spent with Mpanga Tea Factory, 13km outside of Fort Portal Town. Although the same issues were being researched at each enterprise, very different research methodologies were utilized at each site due to their differing environments. The urban environment of Maganjo and the rural environment of Mpanga required the researcher to employ different variations of methods at each site because each setting has distinct advantages and disadvantages in regards to information collection. At both enterprises, the researcher had to independently develop his research program. The researcher was working under USADF throughout the practicum period, but at each enterprise USADF staff was not currently working at the sites. The researcher, therefore, was working directly with the enterprises themselves and researching USADF's development techniques from the eyes of the "recipient" as opposed to through the eyes of the "developer". This resulted in an interesting yet difficult dynamic which allowed the researcher to learn from an unbiased standpoint regarding development techniques. Despite the different dynamics of the environments, the researcher utilized a combination of organic and casual research techniques with direct and pointed research methods to obtain the necessary data.

### *Methods Used in an Urban Environment*

The first 2 weeks of research were carried out at Maganjo Grain Millers factory located in the Kawempe section of Kampala. At the beginning of the research period, the researcher thought that the research would take the form of pure practicum because of the connection with USADF. As previously discussed, however, the researcher was not working directly with USADF but rather working with the individual enterprises and observing the changes that were occurring within. On the first day at Maganjo a work schedule was organized which developed a program in which the researcher would spend a day in each department of Maganjo. The General Manager sent a memo to the manager



of each department telling them which day the researcher would be spending time in their department. Once in the specific department, the researcher would shadow the manager in the morning to learn about all the workings of the department and then branch out on one's own to conduct the needed interviews and focus groups with the various personalities in the departments.

During the first few days at Maganjo, the most valuable research tool was that of qualitative observation. Before being able to explore the specific workings of USADF at Maganjo, the researcher first had to get a general impression of the surroundings and the culture of how the enterprise operates. This qualitative observation was used to gather a variety of forms of data. Qualitative observation was first valuable in the understanding of the transparency of management structure. Through pure observation it quickly became clear that there was little communication between the lowest unskilled laborers and the top management. This initial observation was a catalyst for future quantitative observation, discussion groups, and interviews. Qualitative observation was also used to gauge Maganjo's company culture. This was measured through observations such as the timeliness of workers, the number workers seen who were idle, the communication skills between workers, and the way the instructions were given from superiors to workers. All of these variables were essential in understanding the underlying currents of the company because these dynamics will be the medium through which the USADF recommendations will be carried out. Finally, qualitative observation was used to monitor how the managers and workers were reacting to my presence at Maganjo. It quickly became clear that it was unusual for a "muzungu" to be at Maganjo because whenever I joined a department normal work operations were disrupted. Through qualitative observation of the reactions of those surrounding the researcher, one was able to gauge whether one was fitting in or rather disrupting company operations. This was essential because if company operations continue to appear to be disrupted by ones presence, data is clearly going to be skewed.

Inside of each department, the greatest tool for gather information was through the informal and unplanned interview. Since research was taking place at a busy urban industrial factory, there was rarely time or place to sit down and conduct a structured interview. Throughout the day, the researcher was gathering data while spending time

with Maganjo employees *while* the Maganjo employees were performing their normal daily responsibilities. Due to this, the researcher was always moving around with the current interviewee and constantly asking questions about what was happening at that very moment. Interviews were not easily planned because new questions were always popping up while going through the factory and working with the current interviewee. Due to this structure of the working environment, the researcher was also not able to write down notes as the informal interviews took place because the interviews were taking place simultaneously with work activities. The researcher would always try to transcribe as much as could be remembered at breaks during the day, but obviously everything could not be remembered and some data was lost.

The working environment created a variety of problems while trying to conduct the informal interviews throughout the day. Throughout the time spent at Maganjo, (but much more so in the first few days), it was difficult to gather correct information because those being interviewed did not understand exactly who the researcher was or why he was at Maganjo. Upon meeting every employee, whether top manager or common laborer, the researcher introduced himself and thoroughly explained who he was and his reasons for being at Maganjo. Despite this, it quickly became very clear that many did not understand that the researcher was working *on behalf* of USADF and not *for* USADF. Many of the managers appeared to initially think that the researcher was working for USADF and was at Maganjo evaluating their progress in the EDI program. Due to this it was very difficult to get many interviewees to answer questions such as “What is wrong with what USADF is doing here at Maganjo?” because they would be afraid to insult the researcher and the organization that he was “working for”. Only when the researcher was able to convey to the employees that he was a student that was completely independent from the institution of USADF did the true information rise to the surface.

The researcher’s race and home country also initially created some problems in the gathering of data through the informal interview process. Upon arriving at Maganjo, a meeting was arranged by the owner of Maganjo for the researcher to meet with all the managers of the various departments so that they would know who the researcher was here and why he was at Maganjo. At this meeting, the owner kept emphasizing how the researcher was “a very smart white from the United States whom the managers should try

to learn as much as they can from”. The researcher is only a 20 year-old university student, but the owner assumed that since the researcher was from the United States that he was much more knowledgeable in business operations than his current managers. This created an initial stigma of superiority of the researcher over the interviewees which prevented data collection from being correctly attained. Due to this, the interviewees were initially always asking “What can you teach me?” as opposed to being the teachers themselves. The researcher had to readjust the interviewees’ initial opinions in order for the correct relationship to be established between the two to allow a free flow of ideas to take place.

Due to the of the hectic structure of the urban industrial working environment, the researcher also had trouble conducting interviews with the members of the specific departments each day because the interviewees were so busy with their normal work for the day. Some departments were much more hectic than others, but it often became clear that the researcher’s presence in some departments was a tremendous inconvenience and annoyance for the manager. Often the manager would try to work with the researcher but find it to be too hampering for him or her and hand the researcher over to a department assistant or department accountant. Once handed off to a more junior staff member, the researcher would often find that these employees were too busy for him also. For example, more than once the researcher was handed off by the manager to the departmental accountant/clerk. This clerk wanted to answer questions for the researcher, but was very busy doing paper work and accounting work resulting in the conduction of an interview being impossible. The researcher would then either have to wait until work was completed or venture of on one’s own to find someone else in the department to learn from. This was a difficult situation to deal with but had to be expected due to the hectic nature of the workday that the researcher was interrupting for many.

An invaluable tool that was used by the researcher during the conduction of interviews in the field was the native language of Luganda. It was initially very difficult for the researcher to create solid relationships with the employees of the factory due to clear physical signs of being “an outsider”. Initial interviews were frustrating because the researcher could realize that he wasn’t fully trusted or accepted into the community. In order to break down these walls, the researcher changed his interview technique and

began all of his interviews in the native language of Luganda. The exchange of greetings with a muzungu in Luganda often caught the interviewee off guard, but always opened many doors. The interviewees realized that the researcher was not just looking at Uganda as a development experiment in a Petri Dish, but was trying as hard as he could to embrace the culture by learning the local language. This developed immediate connections and feelings of trust between the researcher and the interviewees and therefore facilitated the exchange of ideas immensely.

Once the initial background data was collected through qualitative observations and informal interviews in the various departments, the researcher was able to analyze this data and identify the specific data pieces that were missing for the research to be correctly carried out. Upon arriving at Maganjo the researcher did not even know what questions to ask, but once the initial data collection period was completed the statement of objectives for the remaining time was narrowed. These remaining questions that had not yet been answered and the new questions that were brought to the researcher's attention were then addressed through quantitative observation, direct interviews, and focus group discussions. Once the researcher knew what exact data he was looking for, he was able to form a checklist of things to look for through the method of quantitative observation. This method was particularly useful in further observation of issues regarding company transparency and production efficiency. As opposed to the earlier used qualitative observation, the researcher now had a checklist of things he was looking and was able to observe if they were occurring or not. Direct interviews were used in revisits to the individual departments once the researcher was able to analyze the initial data and identified the questions that were not answered and the new questions that formed in the initial visits to the departments. The direct interviews consisted of planned question sets and were very efficient methods of collecting specific data.

The focus group was used in discussions with the common laborers at Maganjo. A major challenge in the focus group discussions with the common laborers was the language barrier. The researcher tried as hard as possible to gather workers who could speak English, but often the "English speakers" were not proficient enough to understand the questions that were being asked. Other issue that arose in the focus group discussion with the common laborers regarded the issue of payment for their time. The researcher

was only able to hold the focus group discussion with the workers during their lunch break and it was felt that it would be only proper to pay the workers for their time lost since this was their lone time of rest during the day. After the first focus group discussion was completed, the researcher discreetly gave each of the participants 500 UGX as a small thank you. The majority of the participants were quiet and thankful, but two workers began to boast and cheer very loudly upon receiving the payment. The next day the researcher attempted to arrange a second focus group with a small number of workers, but once word got out that a focus group discussion was going to occur, almost 30 workers tried to join because they wanted to get paid. This influx of people created a chaotic scene and the researcher was forced to cancel this session.

Throughout the 2 week period at Maganjo when these data collection techniques were being implemented, the urban work place created a much different research environment. Since the factory is in a city, none of the employees lived at the workplace and therefore commuted to work everyday. The researcher's period of data collection would reflect the hours of the workday and would end everyday at 5pm. The researcher was also living on his own away from all of the employees at the factory and therefore had no research interactions outside of the workplace. Since the daily research time frame was restricted to the hours of the workday, the researcher was not able to conduct a number of essential interviews because the interviewees were always too busy during the day. These missed interviews included discussions with the General Manager and Central Finance Officer, who are 2 of the top employees at Maganjo and one of which being hired directly by USADF. If Maganjo was in a rural environment, the researcher would have been able to live with these employees and conduct interviews with them outside the timeframes of the normal workday. Location in a rural environment would also have allowed to researcher to gather data from the workers outside of the stresses of work which may have resulted in much different outcomes.

#### *Methods Used in a Rural Environment*

The third and fourth weeks of the research period were spent at Mpanga Tea Growers Factory which is located 13km outside of Fort Portal Town. Although the majority of the research tools that were used at Mpanga were the same as those used at

Maganjo, the rural environment which Mpanga was located allowed the researcher to use these methods in different way. Since Mpanga is 13km from the nearest town, the factory was its own self-sustaining village. All of management lived on the premises in row of houses that were all next to each other. The majority of the factory workers also lived on the premises in a compound that was located just down a hill from the managements' houses. Due to Mpanga's remote setting, the researcher also lived alongside management and the factory workers in a guest house that is on the premises. The guest house is brand new and is converted from one of the former manager's houses. The guest house was created because every time visitors came to Mpanga for business, research, or development purposes they were forced to sleep 13kms away in Fort Portal Town. The guest house was, therefore, opened exactly for the researcher's purpose and the researcher was actually one of the first visitors to ever stay at the guest house.

The ability to live along side the management and other employees of Mpanga was a tremendous advantage for the researcher and allowed the researcher to gather data in many ways that was not possible in an urban environment. The first advantage was that the researcher's time frame of data collection was not limited to the hours of the work day. The researcher not only worked with the employees of Maganjo but also ate dinner with them, played games with them, met their families, and shared personal stories. This family atmosphere did not just develop between the researcher and the employees but permeated the entire factory. Mpanga is one big family that does not just work together but also lives together. This family atmosphere allowed the researcher to break down many walls with the interviewees as the relationships evolved from those based purely on research to those of true friendship. Tremendous amounts of information were exchanged while just eating dinner or watching TV together. These exchanges were not meant to produce data for research as it was just friendly time being spent together, but often the conversations still inadvertently produced in data that was extremely valuable.

The rural environment also allowed the researcher to participate in a variety of activities with employees of Mpanga that did not necessarily produce "data", but allowed the researcher to gain more acceptance into the Mpanga family. For example, the researcher went for a run every evening with one of the office assistants every evening. During these hour long runs USADF was never mentioned, but bonding took place that

was more valuable than any USADF questions that could have been asked. One weekend the researcher also played soccer in the Fort Portal Corporate League with one of the Mpanga managers. As a member of “The Fatboys”, the researcher got to leave the realm of researching for sometime and just have fun with one of his new fellow employees. While these activities did not produce data, it earned the researcher respect that opened more doors for research inside Mpanga and allowed the researcher to more actively engage in the work that goes on at Mpanga. In addition to facilitating research, the acceptance more importantly resulted in friendships that will be sustained for many years to come.

The time that was previously spent in Maganjo before coming to Mpanga was another advantage that facilitated the research that was conducted at Mpanga. The researcher did not have to spend as much time conducting qualitative background observations on the role of USADF because of the past data that was already conducted at Maganjo. When going into the field the researcher already had a checklist of things that he knew he needed to look for through quantitative research due to previous experience at Maganjo. The researcher had a baseline for structuring his program because he copied the already successful structure of spending the first week with the individual departments as he did at Maganjo. Once in the field, the researcher had much more to base his observations, interviews, and focus groups on because there was the baseline of Maganjo that could always be used as a comparison.

A significant amount of time spent at Mpanga was spent in the tea fields with the tea farmers whom the USADF funding is meant to “trickle-down” to. The researcher never had this opportunity at Maganjo because the urban location of the factory is not near the farmers whom provide the raw materials to the factory. This opportunity was also not possible at Maganjo because they do not have the same relationship with their farmers as Mpanga does since it is 100% owned by the farmers and Maganjo is a privately owned company. While in the tea fields qualitative observation was frequently used. The researcher had the opportunity to attend a herbicide spraying field-training for the farmers at one of the tea estates about 10km from the factory premises. The entire training was conducted in the native language of Rutoro, but this had no effect on the researcher’s success in data collection. What really mattered was not what was said

during the trainings, but rather the interactions between top management and the farmers during this training session. The researcher was able to sit back and observe how attentive the farmers were towards top management and how accommodating management was to the farmers. The data collected was purely non-verbal and was not affected at all by the language barrier.

The researcher was also able to use quantitative observation in the field to see if what management said it was doing for the farmers was actually occurring. Through the “Premium Program” which will be spoken of later in the paper, Mpanga has invested in a variety of community projects in the rural tea areas such as clean water sources, pit latrines, and tea sheds. While touring the tea estates, the researcher was able to observe first-hand the impacts that these investments were having on the farmers’ lives and their surrounding communities. As opposed to qualitative observation, in this instance the researcher used quantitative observation techniques as he had a set check-list of the investments and projects he was looking for in the field. While in the field the researcher also used quantitative observation to gauge how hard management is working for the farmers whom own Mpanga. For example, one day when driving home from the tea estates with the Field Manager, the researcher was told that they were going to take a quick diversion to check on some of the farmers’ field roads. This “quick diversion” was a 30 minute drive down a pothole plagued road that one of the farmers had complained to the Field Manager about. This data collection was purely observational but the researcher was able to gauge how hard the management works for its farmers.

In the field the researcher also used formal interviews to talk to a variety of farmers themselves. The researcher prepared a question set before the interviews that he used in all interviews with farmers. Each farmer that the researcher spoke to was very different because some were more wealthy farmers with very large estates and others were true smallholder tea farmers with less than a hectare of land. By using a baseline question-set, the researcher was able to compare responses by different farmers whom have very different life situations. These direct interviews had a very interesting dynamic because the researcher did not conduct them at the factory when the farmers showed up for their paychecks. The researcher instead was given a driver and drove out to the farmers plantations and often hiked over 3 kilometers to find them. Having the interviews



conducted in the farmers' own fields as opposed to a more formal setting created a backdrop that was very conducive for the free flow of information. The researcher's efforts to go and find the farmers in such rural areas also helped the researcher gain a level of respect that facilitated the interviews as well.

The only planned focus group discussion that took place at Mpanga was with a group of 6 factory workers. The researcher did not have a relationship with any of the factory workers and had to use one of the assistant factory managers to gather a group together. The assistant factory manager tried as hard as he could to gather factory workers who could speak English but this proved to be extremely difficult as only 2 of the 6 in the focus group were able to. In situations like this at Maganjo the researcher was able to use Luganda to facilitate the focus group, but the factory workers spoke the language of Rutoto which is not known by the researcher. Due to this language barrier, the assistant manager had to act as the translator throughout the focus group discussion. This created a variety of problems during the focus group discussion. Firstly, all of the participants were initially very reserved and would not answer any of the questions. This is a problem that had not been encountered by the researcher before and it is believed that it was because the factory workers' "boss" was asking them rather personal questions. As the interview progressed the participants warmed up significantly. They were very open in answering all questions about the "good things about Mpanga". When the researcher asked the participants to speak of the "bad things about Mpanga", however, none would answer the question. This was clearly because their boss was conducting the interview and they did not want to say anything that would upset him. This assistant factory manager persisted to the workers in Rutoro that he wants to hear about the company's shortcomings and that he will not get angry, but this did not help. The researcher brainstormed on other ways to conduct a future focus group with them but no other format could be devised. These downfalls hampered the success of the focus group but as a whole it was very successful.

On the final day of research at Mpanga, the researcher made a presentation of all of his findings from the previous 2 weeks to all top managers and the Chairman of the Board. During the 30 minute presentation all of those attending studiously took notes on everything that the researcher said. Once the presentation ended one of the managers said,

“You have talked to us for the last 30 minutes about the good things at Mpanga, but you have not spoken enough about the problems. We want to learn from you.”<sup>13</sup> This question resulted in an informal focus group discussion in which ideas, suggestions, and criticisms were exchanged back and forth for more than an hour. During this time the researcher was able to clarify any remaining questions that he had and had many new issues brought to his attention that he was not even aware of. It was an invaluable resource having all of the heads of the company together at one time. Although unplanned and unexpected, this informal focus group was one of the greatest sources of data during the researcher’s entire research period.

### *Methodology Conclusion*

Throughout the researcher’s time spent at Maganjo Grain Millers and Mpanga Tea Factory a variety of planned and unplanned research methodologies were used. The researcher experienced a variety of problems through the use of his methodologies but was always able to regroup and devise other ways a gathering the needed information. The most unexpected issue regarding the use of methodologies, however, was the different dynamics that emerged in the urban and rural environments. After the first 2 weeks of researching at Maganjo, the researcher expected similar a similar research methodology and similar work relationships to form at Mpanga. The rural environment of Mpanga, however, created a totally different scenario in which the self-sustained family atmosphere greatly facilitated the methods of data collection. When conducting future research, the researcher will now always take into the account the rural and urban atmosphere before planning the data collection methods that will be used.

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<sup>13</sup> Mpanga Chairman and Management. *Informal Discussion Group*. 11/15/2007. 12:00 PM. Fort Portal, Uganda.

## **Findings and Discussion**

### **Maganjo**

#### *History and Organizational Structure*

Maganjo Grain Millers Limited is a food processing company located in the Kawempe district of Kampala, Uganda. Maganjo is a privately owned family company that was founded in 1984. With over 300 employees, Maganjo is one of the major employers in the area and is the primary source of income of all of those working there. Maganjo's original and staple product is maize flour. When Maganjo first opened its only product that it produced was maize flour and currently maize flour still consists of 60% of total sales. Having grown from just maize flour, Maganjo is now made up of 5 product departments: maize flour, animal feeds, soya, bakery, and juice. Through its operations, Maganjo's company mission statement is "To be committed to producing highly nutritious, affordable, and quality products that are available at all times in a way of exhibiting a leading culture of providing customer oriented services, while protecting and supporting the environment around us in our quest for feeding nations."<sup>14</sup>

Maganjo has a unique organizational structure for company operations that must be understood before further analysis can be made. Every department of Maganjo is self-sustaining autonomous entity under the Maganjo umbrella. The departments that make up the company are the procurement department (which is in charge of buying raw materials), the five previously mentioned production departments, the sales department, and the marketing department. Each department has their own cash account that is "separate" from the rest of the other departments, leaving their operations self-sustainable and unattached from the other parts of the company. To illustrate how this works, the procurement department first buys raw materials from the farmers. The procurement department then sells the raw materials at a higher price to the different production departments in order to make a profit for the department. After production, the individual production departments sell all of their finished products to the sales department, who then finally sells the goods to the buyers. Each department, therefore, just focuses on their specific task with the goal of making profits for their specific department. This

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<sup>14</sup> Maganjo Production Manager B. *Informal Interview*. 10/23/2007. 2:00 PM. Kampala, Uganda.

structure creates the unique scenario of having customers inside AND outside of the company due to the fact that the different departments buy from one another.

### *Development of the USADF Relationship*

Maganjo was first approached by USADF 2 years ago. USADF was previously doing work with many farmers groups in Uganda training them in crop production to help increase crop yields. After sometime working with the farmers, USADF discovered that although the farmers were increasing their crop yields, they were having an increasingly difficult time finding a market to sell to. Since these are smallholder farmers with no storage facilities, they lose their crop quickly if it is not sold and sometimes lose up to 50% of what they grow.<sup>15</sup> USADF talked to the farmers and asked who the biggest buyers of their crop were. Many of the farmers mentioned that Maganjo did a majority of the buying from them, so USADF approached Maganjo and asked if they wanted to join their program. USADF decided that instead investing all of their allocated capital on the farmers, they can invest some of these allocated funds and trainings into Maganjo to increase its production and efficiency. If the investments went according to plan, Maganjo would then be able to buy more from the farmers, therefore having these Maganjo investments trickle back down to the farmers.

Maganjo is currently in the Enterprise Development Investment (EDI) program with USADF. During its initial consultations with Maganjo, USADF evaluated that the enterprise had many foundational problems that needed to be fixed before it could enter the Enterprise Expansion Investment (EEI) program. Under the EDI program, Maganjo has received a \$100,000 USD grant that does not have to be paid back. This money is going towards all of the technology infrastructure, new employees, consultations, and trainings that will be soon described. After 2 years in the EDI program, Maganjo will apply for the EEI program. If USADF decides that the EDI investments were successfully implemented, Maganjo will be accepted as will receive a \$250,000 loan that will be paid back in 3-6 years with a very low interest rate. Maganjo management is already looking forward to the EEI phase with hopes to use this money to fully automate the factory, as all production except for the juice department is currently being done manually.

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<sup>15</sup> UDET Administrator. *Direct Interview*. 10/22/2007. 10:00 AM. Kampala, Uganda.

Automation will significantly increase production and save costs, resulting in more raw materials being bought from the farmers. The EEI program of automation will have the clear downfall of cutting down the unskilled workforce by more than 60%, which will severely debilitate these workers who are living under the poverty line already. This issue will be further discussed in later sections.

### *Changes Thus Far*

Maganjo has working in the EDI program for almost 8 months as the first of the proposed implementations began in April 2007. The first change that occurred at Maganjo was an overhaul of management. Through its initial assessments, USADF decided that many of the top managers had to be replaced because they were not qualified or experienced enough to bring Maganjo forward. USADF hired a new General Manager, Central Finance Officer (CFO), and Production Manager. All 3 of these new employees signed a 2 year contract, although the new General Manager has already quit. The Production Manager is overseeing all 5 of the production departments and is facilitating all of the consultants by following changes that are occurring and will occur in the production sectors of Maganjo. He does the majority of his work with the individual managers of the departments who then implement his instructions in their respective departments. The CFO has more of a detached role from the middle managers as he does all of his work regarding the cash flow of the company. He does most of his interactions with top management only. These new managers have been thrown to the top roles of the company and will be the driving force behind all of the future changes that will occur at Maganjo.

Maganjo has undergone a variety of consultations and trainings already as they are about half way done with the EDI program. The consultants who come to Maganjo are brought by UDET who does the majority of the “on the ground” work for USADF. The consultants have surveyed a variety of Maganjo’s operations like production efficiency, human resources, quality control, and environmental efficiency. The consultants compile a detailed report which is then given to Maganjo management. Due to the participatory structure of the program, Maganjo management then must decide how they want to implement the proposed changes. The General Manager must prioritize the

proposed changes under the categories of immediate change (< 1 year), intermediate change (1-3 years), or long-term change (3-5 years). This is then relayed to the managers of the specific departments whom must then integrate these changes into their quarterly work plans that they prepare every 3 months. Once the propositions are organized into the work plans, these are sent back to USADF and UDET for approval. Once approved, the agencies will then facilitate with the implementations at Maganjo alongside management.

Maganjo is still in the process of analyzing and prioritizing all of the consultants' recommendations, but they also have already implemented a number of changes that have drastically changed how Maganjo operates as an enterprise in an attempt to improve efficiency and production. In interviews with top management and middle management, it is clear that the biggest change implemented thus far has been in regards to the accounting structure and accountability of payments inside of Maganjo. As previously discussed, due to the organizational structure of the departments at Maganjo there are payments made inside of the company between the departments to purchase product. The 5 production departments must buy the raw materials from procurement, sales must buy the finished products from the production departments, and so forth. Prior to USADF coming in, each department had their own individual bank account. When departments bought from inside the company, the payments were just made between the departments with no intermediary. This was a very haphazard system and it was very difficult to keep track of money this way.<sup>16</sup> The funds were severely mishandled and money was rapidly changing hands (or disappearing) inside the company without being documented. USADF has now restructured this system and has implemented a Central Finances Office at Maganjo. Now when payments are made between departments, it must first go through the Central Finances Office. This office is now the center of all of the banking for the Maganjo departments as opposed to each department having their own bank account. Each department still has its own "individual cash" to work with, but the Central Finances Office keeps track of all of it and keeps it together in one account now. An increase in the accountability of cash should lead to an immediate increase in profits, hopefully resulting in more of a trickle-down to the farmers.

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<sup>16</sup> Maganjo Production Manager A. *Informal Interview*. 10/23/2007. 12:00 PM. Kampala, Uganda

Another change that is in the process of being implemented is auditing. Prior to the researcher arriving at Maganjo, an independent auditor had just arrived two weeks earlier to implement changes in how raw materials and finish products are being kept track of. The auditor said that his first 2 weeks on the job have been extremely difficult because before he came in there really were no auditing mechanisms in place. He is currently in the process of going to each production department and trying to develop an auditing method for each department. The auditor is also having a problem implementing auditing measures due to resistance from one of the owners of Maganjo. The auditor's goal for the auditing system is to eventually get all of the data computerized and updated daily. He was able to do this for some of the top hotels in Kampala like the Sheraton and Serena when he worked for them. The owner, however, does not trust computers nor see the importance in production auditing. This has been extremely frustrating for the auditor and displays the difficulties of private sector development when different generational business ideologies clash.<sup>17</sup>

In his development of the new auditing systems for each production department, the auditor's goal is to make the common factory workers in charge of the auditing *along* with the division manager. He believes that if the workers become more involved in the auditing process, they will become more responsible and proud employees. Right now, the common workers are "just like robots" whom produce as much as they can. There is no thought of accountability for raw materials or careful precision when packing. If the workers are given the responsibility of counting the bags that they produce, the auditor believes that they will become more responsible throughout production and result in fewer losses for Maganjo.<sup>18</sup> The auditor also believes that the auditing methods will be more sustainable if the managers and workers adopt them themselves as opposed having to force the issue. The auditor has been recently developing a new inventory plan for the animal feeds department. This is very difficult because the entire inventory is in piles and hard to keep track of. He has created a new method for the auditing and presented it to the 2 managers of the department. 5 days after giving it to them, they have not begun to use it and he is not forcing them because he wants them to "adopt their own work." The

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<sup>17</sup> Maganjo Auditor. *Informal Interview*. 10/23/2007. 4:00 PM. Kampala, Uganda.

<sup>18</sup> Maganjo Auditor. *Informal Interview*. 10/23/2007. 4:00 PM. Kampala, Uganda.

auditor is beginning to get frustrated, however, and says that he will need to start pushing harder soon.<sup>19</sup> Regardless, the development of a bottom-up auditing system will not only result in less losses for Maganjo but it will also get the common workers more involved in the development process.

Maganjo will be able to improve cash flow tremendously through more structured internal accounting and auditing programs, but an even more important way to improve the profitability of Maganjo is to focus on the quality of the product. Maganjo hired a new Quality Control Manager 3 months ago. His job has also been extremely difficult because before he came to Maganjo there were barely any quality control measures in place. The Quality Control Manager has explained that this biggest challenge is that has to change the entire mindset of the company. Before his arrival, the mindset of the company was purely production. All that the workers think about is producing as much as possible and not *how* it should be done. This is such a difficult mindset to change, however, because Maganjo has been in production mode for over 20 years now. When the Quality Control Manager tells a worker to change the way he or she is doing something because it is not sanitary, they listen to him but do not understand *why*. For example, the production mindset prevents the cleaning and upkeep of machines from ever really occurring. One shift just produces as much as they can until the next shift comes and then the dirty machines are turned over to them. There is, therefore, no time schedule for cleaning between shifts. The Quality Control Manager knows that he needs to instill a new spirit in the workers and this is a job that is still in progress.

In order to cultivate this new spirit in Maganjo, the Quality Control Manager has implemented a variety of new mechanisms that he is in the process of installing. First, he has developed a “daily cleaning checklist” that must be filled out for each department 3 times a day. This checklist covers areas such as floor, walls, stores, roof, packing section, surroundings, and workers. There is more attention being paid to sanitation in the factory and these checklists will make the manager and workers accountable for it. In regards to quality of product, the Quality Control Manager has developed a routine of collecting bi-weekly samples of each product. He occasionally sends these out of chemical testing to make sure that the product is healthy. He also keeps the samples on hand because often

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<sup>19</sup> Maganjo Auditor. *Formal Interview*. 10/26/2007. 2:00 PM. Kampala, Uganda.



there are “fake Maganjo products” on the market in which vendors will take their sub-par product and put it in a Maganjo bag in order to sell it for more money. If these are returned to Maganjo, the Quality Control Manger is able to compare these to his samples and prove whether it’s Maganjo’s fault or not. Despite these improved measures, Maganjo’s laboratory is severely lacking. There is only 1 tool in the lab which is a “moisture analyzer” and the majority of the quality control testing is done by taste. The Quality Control Manager said that if he had just a few specific tools he would be able to perform his job much better. Unfortunately, there is nothing in the EDI budget for new laboratory equipment and the Quality Control Manager believes nothing will come until the EEI phase which is more than a year away.<sup>20</sup>

The USADF program also believes that Maganjo’s operations will improve if they hire more educated workers and provide funding towards some workers’ future education. Management has been actively pursuing workers with university degrees to join Maganjo. The Production Manager has also been doing an internal education audit because he believes that there is currently no correlation between education level and level of pay amongst the common workers. He is collecting data on all of the workers education levels and their current salary so that he can begin to get it in line. He says that many of the leaders amongst the common workers in the factory are in their positions not because of their level of education but rather of the amount of time they have spent at Maganjo. The Production Manager is trying to identify not only who has the most education but who the natural leaders are who have little education. The long-term plan is to try to develop a system where those natural leaders who are lacking education can be sent to pursue further education certificated paid for by USADF/Maganjo. By furthering the education of Maganjo’s naturally talented leaders, the enterprise would be improved from the inside while developing some of the individuals at the bottom of the development ladder as well.

#### *Why Maganjo Has Not Moved Forward*

Despite the last 8 months of frequent trainings, consultations, meetings, and capital infusion from USADF and UDET, Maganjo has not moved forward as an

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<sup>20</sup> Maganjo Quality Control Manager. *Informal Interview*. 10/24/2007. 9:00 AM. Kampala, Uganda.

enterprise and may have even moved backwards. Private sector development and development as a whole is not a process that can be expected to occur overnight. Patience is extremely necessary in the field of development as impatience is often the reason that many programs fail. When development programs/funding are given a small window of time to display ostensible physical results, things are often carried out the wrong way and failure becomes imminent. Despite this, one is often able to see access if the opportunities for development are on the horizon due to the structure and dynamics of a program's operations. The current impacts of the USADF funding and training in combination with observations of dynamics of how the program is being implemented inside the enterprise of Maganjo leads the researcher to believe that in the long run this funding is not going to trickle down to the "poorest of the poor".

When \$100,000 USD is infused into a struggling Ugandan enterprise, operations many not be expected to go forwards right away, but they should not go backwards. Unfortunately, this is what has been happening at Maganjo. The most visible evidence of these deficiencies has been the inability to pay workers. Through a variety of interviews with workers and middle managers, it has become evident that in the last 4 months there have been a variety of cash flow problems that have prevented the common factory workers from getting the little salary that they do earn. One worker whom said that he gets paid 50,000 UGX/month says that he used to always get paid on time but now in the last 2 months he has stopped being paid on-time and this makes life very difficult. Other than providing salary, Maganjo provides no other incentives to its workers so the basics of life all must be covered by the 50,000 UGX a month. The worker said that this is almost impossible to do and that he sometimes does not have enough money to get a taxi to work and is forced to hitchhike. Despite these adversities he has been able to persevere. In the last 2 months, however, his pay has not been on time and he has not received any salary for 1.5 months now. This is making life even more difficult than it was before and he does not know what he is going to do if he does not get paid soon because he will get kicked out of the home that he is renting.<sup>21</sup>

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<sup>21</sup> Maganjo Common Factory Workers. *Focus Group Discussion*. 10/31/2007. 11:00 AM. Kampala, Uganda.

The departmental managers have had to deal with these issues of the workers not getting paid because it is very hard to run a production department when their workers do not even have the basics staples of life when they go home. A manager of one of the production departments said that communication between the lowest worker and the top management at Maganjo is horrible as “those at the top do not hear the cries of the common workers.”<sup>22</sup> This manager said her workers have had such a difficult time the last few months not getting paid that she has actually had to give loans to her workers so that they are able to keep on coming to work. The salary payment problems have not just affected the common worker but the middle management as well. This manager pointed out that the dynamics of the problem between the two groups are much different. When the top bosses sit down the educated and well-paid middle management and tell them that they are not able to pay them on time, these managers are able to understand because they understand how a business works and also have savings to fall back on. These common workers who are making 50,000 UGX/month (or less) are very dependant on salary being paid on-time and have no way of “understanding” or coping with company cash flow problems. It is very curious that these cash-flow problems were not as issue before USADF funding came and signals that the funds are not being managed correctly.<sup>23</sup>

A second problem that has become evident at Maganjo since the USADF program started is that production goals are rarely being met anymore. The new USADF hired Production Manager has spent much of his efforts analyzing daily production of each department and comparing them to a set production goal for each day. Production goals are rarely met for any of the 5 departments. It was thought that these production goals were recently upgraded due to USADF’s goals of increasing production and that improvement has just not yet occurred. These goals, however, have not been increased since USADF’s arrival and are the same as they have been for sometime. It was revealed by an assistant in one of the production departments that before the USADF program began the production goals were often met and departments that reached their goals would receive “gold stars”. Throughout the researchers 2 weeks at Maganjo, however, only 1 department reached its production goal on 1 day. In addition to these production

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<sup>22</sup> Maganjo Production Manager C. *Informal Interview*. 10/25/2007. 12:00 PM. Kampala, Uganda

<sup>23</sup> Maganjo Production Manager C. *Informal Interview*. 10/25/2007. 12:00 PM. Kampala, Uganda

problems, it was also revealed through the same interview that although Maganjo used to have savings in the bank for future investments, this cash is no longer there. This clearly seems to be affiliated with aforementioned salary problems and is further evidence to the mismanagement of the capital being infused.<sup>24</sup>

The problems that are most discouraging at Maganjo right now are not production or accounting problems but rather the lack of bottom-up grassroots dynamics inside the company culture of Maganjo itself. This top-down managerial culture is preventing Maganjo from fully embracing the USADF trainings. The things that need to be changed inside Maganjo to make it a more productive and efficient company are not just business related problems but also issues of company culture and transparency which *unlimited* USADF funding cannot change. One of the most prevalent problems voiced by middle management was the replacement of the majority of top management by USADF in such a short period of time. In a very short period of time 3 of the top positions at Maganjo were replaced. While these new employees are very qualified individuals, it was complained that these people do not “necessarily understand what Maganjo is all about” and that this has created serious problems in the enterprise’s corporate culture. It was explained that the culture of Maganjo is not of just blind labor, but rather more a more relaxed atmosphere that is embraced inside of each department. With the majority of top management being infused by new personalities that do not understand the culture, the way that the company operates has been drastically changed. In addition, the General Manager whom USADF hired actually quit only 6 months into the job because he couldn’t take it anymore. He was supposedly not very hard working at all and would come to work at 8:30am and sometimes as late as 10:00am when everyone is supposed to arrive at work at 7:00am. This is a horrible example to the rest of the company and negates any positive changes that were being introduced during his time. One of the departmental managers said the other new top managers hired by USADF are “very qualified and hard-working” but said that problems will always occur when “you throw someone onto the top of the ladder and do not allow them to slowly crawl up from the bottom.”<sup>25</sup>

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<sup>24</sup> Maganjo Production Assistant. *Informal Interview*. 10/29/2007. 11:00 AM. Kampala, Uganda.

<sup>25</sup> Maganjo Production Manager C. *Informal Interview*. 10/25/2007. 12:00 PM. Kampala, Uganda.

USADF also decided to change the salary of the existing managers at Maganjo when they arrived. The consultants felt that the current managers were not getting paid enough for their position and raised some salaries by more than 50%. One manager commented that “not coincidentally” production and quality has dropped since this pay raise. The manager’s opinion was that “there was an assumption that money would motivate. But when money is just thrown at you and you have not had work accomplishments to earn it, then motivation DOES NOT go up, but rather goes down. People have grown complacent and have no longer taken pride in the work they are doing and have failed to understand the positive correlation between hard work and raising salary.”<sup>26</sup> This problem is ostensibly due to the western “quick fix” attitude that if you give someone/something money it will automatically improve. This is clearly not the case, however, and is another thing that has disrupted the managerial dynamics of Maganjo.

Even more troubling than the problems inside of upper management is the lack of transparency between upper management and the lowest workers in the company whom are absolutely necessary for the ideals for participatory grassroots development to be correctly carried out. Many of the young assistants in the production departments have a lot of interaction with upper management in addition to the common workers so they were a valuable source of information regarding transparency. One said that there is “no communication between top management and the lowest worker” as the common worker has no idea that USADF is even working at Maganjo. The informant said that it is very obvious to the common worker that there are changes occurring and the common worker is able to sense that there is “something bubbling under the surface”. Management has many detailed plans for Maganjo that hinges on the operation of the common workers but the common workers have no idea what these plans are. A firm example of this lack of communication is seen in the production goals. As previously discussed, management has very detailed production goals (daily, monthly, quarterly) for each department. The common workers producing the goods, however, have no clue what these goals are as they are not even posted.

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<sup>26</sup> Maganjo Production Manager C. *Informal Interview*. 10/25/2007. 12:00 PM. Kampala, Uganda.

There is also a severe lack of transparency between the departmental managers and top management. The departmental managers are extremely qualified and all have university degrees in relating to their respective fields. The Sales Manager is especially qualified with a business degree from Makerere in addition to being in the midst of graduate business studies. In conversations with her, she was incredibly insightful and had many ideas regarding the problems of the organizational structure of the company. One of her most astute observations regarded how the lack of streamlining has resulted in the majority of departments neglecting the customer in its operations. Due to the structure of the company, only the sales department has to pay attention to the customer and at this point the final product has already been produced. All of the departments first thought should be the customer, but rather they are only thing about selling to the next buyer which is *inside* the company. This results in clear reductions in quality and efficiency because the first lesson for a successful business is that the customer is always the first priority. When asked if she had the opportunity to present her idea to top management, she said that they told her to “put it on paper and get back to them” and she has not heard anything since. Maganjo needs to realize that their all their workers are an invaluable resource and that they can receive *free* consultations from them in addition to the help they are receiving from USADF.<sup>27</sup>

The researcher observed that almost every morning there were meetings going on and did not understand the arguments that there is a lack of transparency at Maganjo. Ostensibly it appeared that upper management was meeting with the departmental managers several times a week. Through further investigations, however, a top accountant said that although they have these meetings there is no real exchange of ideas. The informant said that at meetings any suggestions that go to top management go “in one ear and out the other”. Top management is not listening to those working under them and turning the USADF process into a top-down development program as opposed to the bottom-up program that it is supposed to be. The common workers cries are never heard as one of the workers said, “I just wish that there was more of a paternal atmosphere here. I wish that the managers would look at me as more of a person and not just as a means of

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<sup>27</sup>Maganjo Production Manager D. *Formal Interview*. 10/29/2007. 4:00 PM. Kampala, Uganda.

production.”<sup>28</sup> The USADF vision has the lowest worker being one of the most important participants in the development process but this could not be further from the truth. When approached over the issue of the common workers not being engaged in the USADF process, a top manager said, “The only way to get the workers in line with company goals is if you give them more money.”<sup>29</sup> This is in direct opposition to the ideas of grassroots development because when the workers are treated as people and included in the development process, they will develop a monumental sense of pride for Maganjo and work as hard as they can to help Maganjo meet its goals.

There are also many conflicting issues regarding development the “poorest of the poor” when the USADF progresses from the EDI stage to the EEI stage. When Maganjo graduates to the EEI stage, the goal is to totally automate the factory. Currently, every department except for the juice department is completely manual. Due to this, there is a significant amount of unskilled manpower needed to complete simple tasks such a packaging. Currently 10 people are packed in one room packaging the maize flour when it could be done by 2 people if the process was automated. Automation will *significantly* improve production capacity and product quality by relying on machines as opposed to unskilled laborers. This transition *should* then translate into more raw materials bought by Maganjo resulting in more money trickling down to the poor farmer. While the poor rural farmer’s life is being improved, over 60% of the unskilled laborers at Maganjo will lose their job due to this automation, therefore increasing the number of urban poor. This automation is resulting in more of a trickle-down to the farmers, but is also just relocating the poverty from a rural setting to an urban setting. This is not true development as some are progressing at the expense of others’ regression. When asked about this conflict, a top manager at Maganjo responded, “Automation has always been our long term goal. The unskilled workers who lose their jobs HAVE to survive and they will.”<sup>30</sup> This response is acceptable for an enterprise that is only trying to make as much money as possible, but is unacceptable for an enterprise that is increasing profits thanks to funds that are meant to develop “the poorest of the poor”.

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<sup>28</sup> Maganjo Common Factory Workers. *Focus Group Discussion*. 10/31/2007. 11:00 AM. Kampala, Uganda.

<sup>29</sup> Maganjo Auditor. *Formal Interview*. 10/26/2007. 2:00 PM. Kampala, Uganda.

<sup>30</sup> Maganjo Administrador. *Formal Interview*. 10/27/2007. 1:30 PM. Kampala, Uganda.

When USADF first arrived at Maganjo there was “an incredible amount of rejuvenation and hope. There were assumptions that since these highly educated and experienced workers from outside the country were coming in that things were automatically going to get better.”<sup>31</sup> According to one of the department managers, however, there has been too much stock put into USADF recommendations. There was no internal analysis done before USADF coming resulting in the recommendations being “blindly accepted as gold”. The department manager feels that there needs to be a better balance between USADF recommendations and tradition. Maganjo is a company that has been around for almost 20 years. There are many processes that have been used for a very long time and USADF is just charging in and changing them. This has resulted in the disgruntling of many employees. This, however, is not USADF’s fault. USADF is not in charge of making sure that a balance takes place. This is a participatory development program and Maganjo does not have to implement anything it does not feel appropriate. Maganjo, however, did not properly conduct an internal analysis of their problems before USADF came resulting in an inability to actively participate with their ideas on development.

#### *The Future of the USADF Program at Maganjo*

There is a difficult line that development agencies must straddle when trying to balance between patience and the admission of failure of a particular development process. The USADF program at Maganjo has not shown results yet, but Maganjo is currently in the “awkward middle stage” of the EDI program. Mpanga has had the majority of the \$100,000 EDI grant already invested in the form of technological infrastructure, salary raises, consultations, and trainings. Maganjo has just completed the last of its consultations in the various departments of the factory and is not prioritizing how they should begin to be implemented. In a conversation with one of the administrative officers at Maganjo it was said that, “Everyone at Maganjo right now is very anxious and somewhat angry right now because they think that since USADF is here, they should be seeing immediate results. This is not the case right now, however, as currently this is the most tumultuous part of the process as the whole foundation of

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<sup>31</sup> Maganjo Production Manager C. *Informal Interview*. 10/25/2007. 12:00 PM. Kampala, Uganda.



USADF is being overhauled and reestablished. Therefore, right now some changes that may seem very negative right now could actually be very positive in the long run.”<sup>32</sup> She also pointed out that since USADF some things have come in many things have gone downhill and wrong, but a big problem is that now managers are blaming ALL of their problems on USADF, even when it is an internal Maganjo problem.

Despite the validity of these points, it is not the workings of USADF that is preventing the EDI program from being successful at Maganjo but rather the top-down organizational culture of Maganjo that is preventing the vision of USADF from being carried out. The United States African Development Foundation are self-proclaimed “pioneers in grassroots development” and this is true at the “macro level” because they are not investing their funds through the government or other NGOs but rather investing directly into a Ugandan enterprise of the ground. At the “micro level” inside of Maganjo, however, the internal company culture has resulted in the implementation of the USADF recommendations being top-down in nature and therefore in direct conflict with the USADF mission statement. Maganjo’s connection with the farmers whom the funding is supposed to trickle-down to is not strong enough resulting in development being completely dependant on the pure expansion of Maganjo. When/if this expansion does occur, poverty is not being relieved but rather just relocated. The dependency of automation on expansion will result in a significant number of the urban unskilled laborers losing their jobs and therefore increasing urban poverty while rural poverty is being reduced. The interaction between these two locals of poverty of essential and must not be looked at as separate entities.

## **Mpanga**

### *History and Organizational Structure*

Mpanga Growers Tea Factory Limited is a public limited liability company that is 100% owned by the smallholder farmers whom provide the green leaf tea to the factory for production. Mpanga first operated under Uganda Tea Growers Corporation (UTGC) along with three other tea factories called Igara, Kayonza, and Mabale. UTGC was a State Owned Enterprise (SOE) that was formed by the Ugandan government in 1966 and

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<sup>32</sup> Maganjo Administrator. *Formal Interview*. 10/27/2007. 1:30 PM. Kampala, Uganda.

charged with the empowerment of smallholder tea farmers through “the promotion of tea growing, processing, and marketing.”<sup>33</sup> The political turmoil of the Amin Era greatly disrupted this campaign, leaving the Ugandan tea industry as a whole on the brink of destruction. UTGC attempted to recover, but in 1995 it divested itself from the tea business by privatizing the four tea factories and leaving them to assume their own corporate identity. Deciding to stay in line with the original vision of empowering the smallholder farmers, Mpanga began to sell shares to the tea growers whom provided the green leaf to the company. To help the four factories in the new path of privatization, the European Union (EU) came in 1995 to provide significant aid and contracted the management company Agrimark to manage the company on behalf of the growers. At this time, Mpanga was looked at the “runt” of the four companies and was not expected to survive the EU aid program. Since no one expected Mpanga to survive this tumultuous period, Mpanga did not receive many of the aid benefits that the other 3 companies did.<sup>34</sup> Mpanga persisted, however, and in the 2000 the company was officially 100% purchased by the smallholder farmers and management responsibilities were taken over by the farmers themselves, leaving them completely independent. Mpanga has progressed forward from this point until today.

The total registered share capital of Mpanga is 1 billion UGX divided into 200,000 shares. These shares are each worth 5,000 UGX and owned by 460 different farmers.<sup>35</sup> Mpanga has developed a unique method for the farmers to acquire shares in the company. As opposed to paying direct cash, the company deducts 10 UGX from each kilogram of green leaf supplied as directed by the farmer. Since one share is equal to 5,000 UGX, when the farmer sets aside 500 kilograms of tea for share ownership, he or she is given one share in the company. Due to this format, membership is always open and members are always able to “buy” more shares. Membership is still open and the only requirement for becoming a shareholder is that one must be a legal landholder growing green leaf tea in the area that Mpanga operates.

The enterprise of Mpanga is run by the Board of Directors, which is made up of 5 smallholder farmers whom are shareholders in company. The Board of Directors consists

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<sup>33</sup> USADF Administration. Mpanga Final Project Paper. August, 2007

<sup>34</sup> Mpanga Head Accountant. *Formal Interview*. 11/09/2007. 10:00 AM. Fort Portal, Uganda.

<sup>35</sup> Mpanga Shareholders. 2006 Annual Report from the 12<sup>th</sup> Annual General Meeting. August, 2007.

of a Chairperson, Chairperson of Production, Chairperson of Finance, and 2 other directors whom are members of the Production and Finance Committees respectively. The Board of Directors is elected at the Annual General Meeting (AGM) which is held once a year. At the AGM, all of the shareholders gather in order to receive the audited accounts from the previous year, elect new members to the Board of Directors, and to vote on any “special business”. Each board member serves a 3 year term and is elected by the farmers themselves, and therefore represents the farmers as the head of the company. The Board of Directors is responsible for hiring the management of the company, whom is responsible for the day to day operations of running the company itself. Upper management is made of the General Manager (CEO), Factory Manager, Accountant, Field Manager, and Administrative Manager. Due to this structure of governance, all of the heads of the company have an enormous amount of accountability to the owners of the company, the smallholder tea farmers. The Top Management is not employed at Mpanga to make as much money as they can for themselves, but rather know very well that they are there for the farmers.

The accountability of management in respect to the farmers is clearly displayed in the 7 point purpose/goals statement of the company. These are: <sup>36</sup>

1. To increase the production of tea as one of the cash crops for the farmers and to fetch better prices.
2. Increase household incomes of the farmers.
3. Eradicate poverty from the tea growing farmers.
4. Increase the living standards of the farmers.
5. To enlighten the farmers awareness to modern farming practices.
6. To increase foreign exchange.
7. Provide employment opportunities and improve social welfare.

The reason for Mpanga is the farmers and they are the sole focus of all operations. Every decision that management makes is not made in the best interest of themselves because they do not own the company. Rather, every decision that the General Manager makes to increase the profitability and efficiency is made in light of the farmers and the achievement of the seven goals. If management does not act in this responsible way, it is

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<sup>36</sup> Mpanga Shareholders. 2006 Annual Report from the 12<sup>th</sup> Annual General Meeting. August, 2007.

immediately noted by the Board of Directors and the farmers. The misbehaving manager can then be voted out at the Annual General Meeting and be replaced by a leader who understands the true purpose of Mpanga.

### *Development of the USADF Relationship*

It is this unique and grassroots managerial structure of Mpanga that makes it so suitable for USADF funding. Mpanga is currently in the very early stages of the USADF funding and training process, but they have been in communication for over two years now. The first visits to Mpanga by USADF representatives occurred in March 2005 and May 2005. During these visits, the representatives did a detailed overview of Mpanga including its history, organizational structure, production bottlenecks, and accounts. Mpanga then submitted an application and awaited a response. In August 2005, Mpanga received a letter from USADF saying that their application had been rejected. USADF cited the rejection for a variety of reasons including over-leverage, no loan repayment schedule, no opportunity cost figures, under utilized capacity, and the fact that they had already received previous aid.<sup>37</sup> The Chairman of the Board was very distraught by this and sent a very detailed response back to USADF addressing each issue that Mpanga was criticized for and how it has improved/will be improved in the future. USADF must have been very impressed with this or must have not acquired a correct picture of the enterprise during its first 2 visits because they then reversed their decision and decided to accept Mpanga for the Enterprise Development Investment (EDI) program.

Through the Enterprise Development Investment Program, Mpanga will go through a series of consultations and trainings with USADF and UDET. These consultations and trainings will be in a variety of areas that will look to improve upon the infrastructure of the company as it continues its transformation from a start-up company constrained by the liabilities of prior government ownership to a growth oriented company. Although Mpanga has a bottom-up governance structure and well organized system of accountability, there is still a lot to be done to improve Mpanga's efficiency and production. The EDI program will look at improving three major areas of the

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<sup>37</sup> Mpanga General Manager. *Direct Interview*. 11/06/2007. 9:00 AM. Fort Portal, Uganda.

company: Internal Operations, External Operations, and Operational Capacity.<sup>38</sup> The Internal Operations consultations will look at areas including accounting, marketing, management, and quality standards. The External Operations review will consult and train Mpanga on areas such as clonal tea nurseries, providing fertilizers, and extension services to farmers. Finally, the Operational Capacity review will analyze the efficiency of the factory to see how production can be improved upon. Due to the smallholder ownership structure of Mpanga, all of these improvements will have immediate effects on the “poorest of the poor” that the money is meant for and it’s surrounding communities due to the many channels for development that Mpanga provides

#### *Internal Catalysts for USADF Implementations*

Although USADF will look to improve upon many of Mpanga’s operational business structures, one thing that the USADF training cannot change is the company culture that exists in an enterprise before it comes. If there is a poor internal culture that does not embrace the ideals of grassroots development, the enterprise will have a very difficult time moving forward. If a company’s managerial culture embraces the ideas of participatory development before USADF begins its work, however, it will be able to use this existing environment as a catalyst for all of the improvements that the consultants will bring to the company. Mpanga clearly possesses this catalytic participatory culture, leaving it ready to embrace all of the changes that USADF training will bring.

One component of Mpanga’s business that will allow USADF improvements to not only help the farmers and factory workers but also the surrounding community is its relationship with Café Direct, a Fair Trade coffee/tea company. The Fair Trade program is carried out by companies whom avoid middlemen and buy coffee and tea directly from the farmers in order to improve their quality of life. When tea farmers/producers are forced to sell through middlemen, they are often squeezed out of any profits and are forced to sell below the price of production. Café Direct always buys tea from Mpanga *at least* at the cost of production which guarantees that the farmers are not squeezed out of their deserved profits. On top of this revenue that is brought in from the tea sales, Café Direct provides Mpanga with “premium”. Café Direct provides Mpanga with \$0.78 USD

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<sup>38</sup> USADF Administration. Mpanga Final Project Paper. August, 2007.

premium cash per kilogram of tea sold that goes into a social development fund and is invested in social programs for the community. Since 2000, it is estimated that more than 200,000,000 UGX has been invested into premium projects at Mpanga. In the year 2006 alone, 43,554,420 UGX was acquired for these community social development projects.<sup>39</sup>

One of the committees under the Board of Directors is the “Premium Committee”. The Premium Committee is a group of shareholders whom vote and decide how the premium funds will be invested. The premium money is very closely accounted for and the projects are very visible all over the factory, farmers’ field areas, and the surrounding community. In visits to the field, the researcher was able to experience first hand how the premium investments are improving life in the entire Kabarole District. One of the first projects observed was a borehole that had been built less than a week ago. The borehole is located deep in one of the tea estates where many of the farmers and their fellow community members are unable to get to clean water. It was brought to the attention of the Premium Committee that the community members in the area of the tea estate were suffering from water borne illness, so it was voted that the borehole would be built here. Although the borehole was less than 5 days old, there was already a trail of people hiking up and down to the source all day, displaying its immediate impact.<sup>40</sup>

Premium projects have been invested in a variety of other ways throughout the area. Many of the premium funds are used to construct quality tea sheds for the farmers. Tea sheds are concrete floors with roofs covering them that allow the farmers to store the already picked green leaf in the shade until it is picked up at night to prevent it from being burnt out by the sun. Although the tea sheds have this practical tea picking purpose, they are also used for a variety of community gathering events such as town meetings and weekly markets. Premium funds also went towards building a very large cafeteria/meeting center for the Mpanga factory workers. The cafeteria provides a clean place for their meals to be cooked/eaten and also provides a structured meeting place for the workers to meet with management and each other to voice their problems and concerns. Other things that the Premium funds have also been used for are pit latrines in

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<sup>39</sup> Mpanga General Manager. *Direct Interview*. 11/06/2007. 9:00 AM. Fort Portal, Uganda

<sup>40</sup> Mpanga Field Manager. *Informal Interview*. 11/08/2007. 9:30 AM. Fort Portal, Uganda.

the villages, new bathrooms on the factory premises, a DSTV room for factory workers after work, and improvement of the field roads.

Premium is a dynamic catalyst for the USADF funding because the more that Mpanga's efficiency and production improves, the more tea they will be able to sell to Café Direct, directly resulting in more Premium funds for the development of the workers, farmers, and community members lives. There is no "trickle down" as the money immediately goes directly to those who really need it.

Another catalyst that exists in the managerial culture of Mpanga is transparency. In discussions with upper management, middle management, factory workers, and farmers it was immediately apparent that the communication between in highest manager and the poorest farmer is superb. In a focus group discussion with a group of factory workers, all said that they have a *very* good relationship with their managers. Every Monday, they have a meeting where they voice all concerns that are bothering them. They say that this Monday morning meeting is a routine/tradition and that they are very comfortable voicing all of their problems.<sup>41</sup> When asked if they ever meet with top management, it was revealed that top management actually attends this weekly meeting. This direct communication between top management and the factory workers is essential for the implementation of USADF recommendations.

There is also outstanding communication between the farmers and top management. Due to their direct representation in the form of the Board of Directors, all of the farmers whom the researcher conducted interviews with said that all major events that occur between management and the Board are directly reported to them. The Board of Directors also acts as an outlet for all of the farmers problems. The farmers said that the Board of Directors and the Field Extension Staff are always in communication with them to find their problems and how to fix them. At the Annual General Meeting, new problems are not brought up, but rather the Board presents solutions to all of the problems that they have heard from the farmers throughout the year since they have been in communication the whole time. Many of the farmers whom were interviewed have been able to experience the transition of being just a tea farmer to being an owner of the company. Before the farmers were shareholders, there was never this kind of

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<sup>41</sup> Mpanga Factory Workers. *Focus Group Discussion*. 11/07/2007. 4:00 PM. Fort Portal, Uganda.

transparency and communication because there was always a feeling of a “power separation” between management and the farmers. Now, however, the farmers know that this is “their company” and it is their voices that run Mpanga.<sup>42</sup>

The transparency between management and the workers and farmers is also an essential tool for current trainings and USADF trainings. When management does not listen to the cries of the farmers and workers, there is no way that the farmers and workers will listen to management when they try to train them. When the channels of communication are lined by trust and respect, however, there is a free flow of ideas and development. The researcher was able to go into the field and experience one of the field trainings for the farmers and see how this communication occurs. The training was for herbicide spraying and was meant for the 32 field assistants. Field assistants are part of the field extension staff and each is in charge of a group of farmers. The Field Manager conducts this training for the field assistants, who then go and train the individual farmers. The initial organization/communication of the meeting was not very good. There was no official communication put out and the Field Manager was just telling people of the meeting the night before as they came into his office. Despite this disorganization, 31 of the 32 field assistants showed up so this clearly was not much of a problem. The key focus of this training was not only on how to spray herbicide but even more focused on the safety measures involved. They lectured for about 2 hours about all of the precautions that must be taken, all of the safety equipment that is needed, and how it should be properly worn. After the “theoretical discussion”, there was a practical sessions where the field assistants went into the fields and practiced getting dressed correctly, preparing the chemical safely, and spraying correctly.<sup>43</sup>

The majority of the training was conducted in the native language Rutoro, but this did not affect the gathering of the intended data. The group sat in a shady section of trees during the meeting and everyone was attentive and very pleased to have this training. The field assistants were told that today “the field assistants would not be compensated for their training”, so it is assumed that they usually get some sort of payment for coming which is added motivation for attendance. During the training, the Field Manager also

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<sup>42</sup> Mpanga Smallholder Farmer B. *Formal Interview*. 11/14/2007. 11:30 AM. Fort Portal, Uganda.

<sup>43</sup> Mpanga Field Management. Herbicide Field Training Session. *Qualitative Observation*. 11/13/2007. 12:00 PM. Kasunga, Uganda.



bought 2 crates of soda for the trainees to share during the long lectures. Little things like that seem to keep those getting trained very open and grateful for all of the new skills they are receiving. The field assistants said they have about 3 trainings a month. The trainings vary depending on the time of year. For example, January and June is pruning season so they will have pruning trainings at that time. Right now it is spraying season so that is why those trainings are occurring right now.<sup>44</sup> The channels of communication between the field extension staff and the Field Manager were very impressive and will be an essential asset for further USADF trainings. If those getting trained feel they are not appreciated by those who are training them, it is very doubtful that much will be retained.

Mpanga's corporate culture is also embodied in their human resources department. One of the main consultations of the USADF training will be in the human resources category, but once again if the necessary relationship between management and the workers is not in place the human resources training will be useless. To improve the efficiency and usefulness of the Human Resources Department some improvements are needed like an updated human resources software package, but the foundation that is necessary for these future implementations is already in place. The Administrative Officer (Human Resources Director) says that she does not only deal with work related problems, but also helps her factory workers and farmers with problems that come from outside of work such as family issues. She says that the most common domestic problem is a women whose husbands that have just abandoned the family for another woman. She will talk to women, console them, and refer them to a probation officer who can help the women get assistance from the estranged father. She says that "although these are not work issues, if one is not settled at home, one cannot perform at work." This holistic approach to human resources is a tribute to the family atmosphere that makes up the Mpanga corporate culture.<sup>45</sup>

Another support that Mpanga management provides to its factory workers and farmers is advances. If a worker needs a significant amount of money that monthly salary is not able to provide for such as school fees or medical expenses, the worker is able to get an advance on salary. All of the staff accountants revealed that this is very

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<sup>44</sup> Mpanga Field Management. Herbicide Field Training Session. *Qualitative Observation*. 11/13/2007. 12:00 PM. Kasunga, Uganda.

<sup>45</sup> Mpanga Administrative Officer. *Formal Interview*. 11/12/2007. 2:30 PM. Fort Portal, Uganda.

challenging for cash flow and keeping proper track of the books, but it is just another thing that was voted for by the farmers through the Board of Directors. If a cost-benefit analysis were to be done regarding the economic benefits of giving advances towards company profits, it would obviously be a negative one. Advances are something that the farmers (as the owners of the company) decided to implement because even though it may not be the best for the company in the long run, they are able to realize that these advances are essential for their day to day survival. If management was running the company for their own economic benefit, advances clearly would not be allowed for the farmers. This is just another example of how the farmers are able to use Mpanga for their own development and how management runs this company for the farmers themselves.<sup>46</sup>

#### *Private Sector Development in a Rural Environment*

Mpanga Tea Growers Factory Limited provides many services to its factory workers and farmers that are only possible due to its rural setting. One of these is its provision of the basic life elements of shelter, food, water, and electricity. A majority of the factory workers whom work at the Mpanga tea factory actually live on the factory premises. On the factory premises Mpanga has housing that is equipped with electricity and water. This housing is given to the factory workers for free as part of their compensation package for working at the factory. There is not enough room for every factory worker, but from conversations with the factory workers it was implied that everyone who really wants the housing has been able to attain it. This is a tremendous benefit that is not a possible provision in an urban setting due to land and cost restrictions. The three basic essentials of shelter, water, and electricity are what the majority of most paychecks are spent on. Since these are provided by Mpanga, the workers do not have to worry about paying for the basic elements of life that they need to stay alive. There are many plans in the budget to expand on these services as well to provide more room for the workers who do not have housing and also in anticipation of future growth. Mpanga has also recently purchased two very large estates called Kasunga and Kabale Tea Estates. These tea estates are not the personal property of the smallholder farmers, but rather are investments made by the corporation of Mpanga. Since the farmers own Mpanga,

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<sup>46</sup>Mpanga Head Accountant. *Formal Interview*. 11/09/2007. 10:00 AM. Fort Portal, Uganda

however, they own these two new estates also. On these estates Mpanga has a considerable number of farmers and pluckers that it employs. Mpanga is in the process of planning how to provide housing for these new employees and hopes to have housing for them within the next year.

Another basic essential of life that Mpanga provides for is health. Located on the grounds of the Mpanga premises is a Health Center 2. The clinic was originally operated by Mpanga on its own funds, but it then applied to the government and now gets grants to help run it. With the government money that Mpanga receives 50% is meant for drugs and the rest is for the general upkeep and improvement of the facility. The health center has 2 permanent nurses who work there and also have a supervising doctor who comes in once a week from one of the hospitals nearby. The health center is completely free of charge, resulting in free health care for all workers and farmers in addition to their spouses and biological children. The clinic is able to care for many of the general matters of health care such as malaria, cough, and less serious infections. When there is more advanced health care needed, however, Mpanga covers all of the costs including transportation to a Health Center 4 or 5 and the costs of care there.

In line with Mpanga's other community projects, the health center is not just meant for just the employees but also for the entire surrounding community. The health center is open to members of the entire community surrounding Mpanga. When one looks at the health center visitor book, more community members than employees have visited the health center in recent months. Mpanga and the health center realize that transportation is a huge problem and it is very difficult for sick people living in the villages to get to the Mpanga premises to go to the health center. To tend to this problem, the nurses do weekly outreach trips to the surrounding villages to tend to the ill that are not able to make it to the health center. In addition to the community outreach, the health center provides less costly services such as condom distribution and HIV/AIDS sensitization that will hopefully try to further curb the AIDS epidemic.

There are many plans to expand the clinic facilities because it will significantly cut costs. Right now, for example, Mpanga is spending a substantial amount of money on just transportation to bring ill employees to the hospital for more advanced care. If the Mpanga clinic was able to improve on its services provided, however, it would not have

to send as many people into Fort Portal Town for care because they would be able to tend to the health issue at the Mpanga health center. Some of the proposed expansions are a laboratory, maternity ward, and another medical assistant. The provision of full medical care to staff would not be as possible in an urban environment because the government would not provide supporting funds since there are so many health care centers in the area already. Although urban environments have accessible healthcare centers, they are plagued by corruption and are never “free”. Also, in an urban environment community outreach is just as needed, but is not provided for reasons of impracticality.

Once the basic essentials of life are provided for, the poor are able to begin to climb up the ladder of development through savings and investment. Savings, however, is a very difficult concept to learn and trust and therefore requires a significant amount of sensitization. At Mpanga, there already exists a woman’s savings and credit group that is made up of female management, factory workers, and farmers alike. The leader of the group says that the group has been in existence for a few years and is really beginning to take off. It costs 10,000 UGX to join and the women save 10,000 UGX a month.<sup>47</sup> The group already has 30 members and membership is still growing. The community and family atmosphere of a rural enterprise helps create the dynamics of trust that are necessary for a savings and credit group. For a savings and credit group to succeed there must be a trust amongst the members that money will not be embezzled and that all loans will be paid back. When all the members live together in a family atmosphere at a rural enterprise like Mpanga, the development of trust is greatly facilitated since they all live together. At an urban enterprise, however, these family dynamics are not as commonly encountered and interactions with fellow workers (and therefore members of the savings group) end immediately when work ends for the day. As previously discussed regarding the formation of the farmers savings and credit group, past negative experiences with savings and credit groups can stifle the formation even in a rural environment. It is, however, still much easier to form savings and credit groups in a rural environment, resulting in an expedition of individual development.

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<sup>47</sup> Mpanga Administrative Officer. *Formal Interview*. 11/12/2007. 2:30 PM. Fort Portal, Uganda.

### *Current Problems at Mpanga*

Mpanga has a variety of problems that will be addressed by USADF training to improve production, efficiency, and profit making. One of the chief problems that is troubling Mpanga currently is marketing. The world black tea market is very profitable as in 2010 world net imports of black tea, a proxy for consumption, will amount 1.15 million tons, reflecting an average annual increase of 0.6% from 1.08 million tons in 2000.<sup>48</sup> World black tea production is also expected to increase to 2.4 million tons in 2010, an annual average growth of 1.2% from 2.15 million tons in 2000. The Ugandan growth rate, however, is expected to be 2.7% which greatly exceeds the world growth rate. This variance is due to the fact that Uganda's tea sector is on an upward recovery trend from total near collapse. As seen in figure 1.1, the growth has been impressive:<sup>49</sup>

<b>Year</b>	<b>Production (MT)</b>	<b>Export (MT)</b>	<b>Export Value (US\$) mn</b>
<b>2001</b>	33,225	30,427	35.3
<b>2002</b>	33,800	32,500	46.5
<b>2003</b>	36,000	35,000	46.2
<b>2004</b>	37,000	32,000	42.2
<b>2005</b>	38,000	37,000	45.6

While all of the above figures regarding increasing consumption and production are ostensibly encouraging, a considerable problem is that the production growth rate is rapidly outpacing the demand growth rate. This has forced Mpanga and all other tea producers in the area to resort to selling the majority of their tea by auction, letting the world markets determine the prices.

Mpanga has three broad categories of market outlets: the Mombasa auction, Fair Trade, and the local market. The Mombasa auction is a tea trading house in Kenya and is the largest target market from tea in factory. As seen from the below figures, 98% of Mpanga's sales to go Mombasa, 1.6% to Fair Trade, and 0.4% to the local market.

<b>Mpanga's Sales by Volume (kg) in 2003-2006</b>					
	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2006%</b>
Mombasa Auction	1,552,227	1,904,858	1,770,038	1,954,364	<b>98%</b>
Café Direct	25,342	31,100	28,899	31,908	<b>1.6%</b>
Local Market	6,336	7,775	7,225	7,977	<b>0.4%</b>
<b>Total Sales</b>	<b>1,583,905</b>	<b>1,943,733</b>	<b>1,806,162</b>	<b>1,994,249</b>	<b>100.0%</b>

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<sup>48</sup> USADF Administration. *Mpanga Final Project Paper*. August, 2007.

<sup>49</sup> USADF Administration. *Mpanga Final Project Paper*. August, 2007.

<sup>50</sup> USADF Administration. *Mpanga Final Project Paper*. August, 2007.

When selling at Mombasa, there are significant costs involved including trucking and warehousing. Mpanga then has to pay Venus Tea Brokers to auction the tea. These costs include cataloging, fees, freight, and insurance. Then on top of this, Mpanga is not able to control the price of their product that they are selling! Since this is auction, the market price and exchange rate (the tea is sold in USD) is always fluctuating and this creates a very challenging scenario for budgeting. For example, when making the 2007 budget, the UGX:USD exchange rate was set for 1850. Right now, however, the exchange rate is around 1700 and in June and July it was as low as 1670. Due to these fluctuations, budgets are not being met for reasons that having nothing to do with Mpanga's production and sales. Also, due to the previously mentioned supply outpacing demand, a kilogram that usually sold for more than \$2.00 USD is now selling for less than \$1.00 USD.

One of the keystones of the USADF program will be the hiring of a Marketing Officer to repair these problems. One of the key things that the Marketing Officer will explore is the opportunities of sales in the Ugandan market. The 0.4% sales that Mpanga currently has in the local market are just to employees. Ugandans consume substantial amounts of tea, but for some reason Ugandan tea companies have not ventured into their own market. Mpanga is not alone in not taking advantage of local markets as this is trend is indicative of the majority Uganda tea producers. By selling tea inside of Uganda, all costs associated with the Mombasa Auction will be cut and Mpanga will also be able to control the price of the tea when they put it to market. The Marketing Officer will also try to negotiate an increased quota of sales with Café Direct under the Fair Trade Agreement. The deal with Café Direct does so much for Mpanga, its workers, and the surrounding community that it would be a huge advantage in terms of development to increase sales with them.

Another problem that has been an ongoing issue for Mpanga is their farmers diverting their green leaf to other tea factories in the area. When the farmers agree to farm for Mpanga and agree to become shareholders, they must sign a legal agreement saying that they will sell ALL of their green leaf DIRECTLY to Mpanga and not to any other factory. It is very important that the tea comes back to Mpanga because Mpanga is providing the workers with loans for many inputs such as fertilizer and it is a huge loss if

the harvest of these inputs does not return to Mpanga for production. It is a very interesting scenario that forces the farmers to sell to outside competitors, but is a critical aspect of the dynamics of business in a developing nation. Mpanga pays their farmers 230 UGX a kilogram, as opposed to 200 UGX by local competitors. The big difference, however, is how the farmers are paid. Mpanga uses a payroll system so the farmers are not paid the moment they hand over the tea. When competitors come in and buy from Mpanga growers, however, they farmer gets the money *right away*, which is very necessary at times.

When the farmers divert their green leaf, it has nothing to do with an issue of loyalty. The Mpanga farmers are extremely proud of their company that they own, but it is their poverty that forces them into this situation. What the farmers who divert frequently do is come back to Mpanga a few months before they are supposed to get fertilizer. Once they get the fertilizer, they then leave and begin selling leaf to other companies. One of the Zone Managers (supervisor of Field Assistants) said that despite these issues of betrayal, Mpanga never abandons their farmers. Mpanga is always looking out for the welfare of their farmers and do not leave them out in the cold, even if the farmers are temporarily hurting Mpanga. The Zone Manager said that it is this devotion to the farmers that distinguishes Mpanga from other more high-profile competitors such as Mukwano or James Finlay. The purpose of these competitors is purely production and this results in total exploitation of the workers. Mpanga's reason for existence is not pure production, but rather the welfare of the farmers. This creates managerial decisions that are not necessarily profitable but focused on the development of the poorest of the poor.<sup>51</sup>

Another problem that is severely troubling management is the issue of inputs, specifically fertilizer. One of the most helpful benefits that Mpanga farmers receive is fertilizer from the company. Fertilizer is a significant upfront cost for the farmer, but pays incredible dividends once the tea is harvested because it improves output quantity and quality tremendously. Mpanga has been experimenting with various methods to help the farmers obtain needed fertilizer, but it has been extremely difficult. The original agreement made with the farmers in their contract was that Mpanga would take out a loan from the bank on behalf of the farmers to buy the fertilizer. Mpanga would shoulder the

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<sup>51</sup>Mpanga Zone Manager. *Informal Interview*. 11/13/2007. 10:00 AM. Fort Portal, Uganda.

interest and therefore the farmers would be able to pay back the fertilizer costs slowly and at 0% interest. This has become increasingly difficult for Mpanga's cash flow situation, however, due to the previously mentioned issue of green leaf diversion. Mpanga was providing the farmers with fertilizer on credit, but once many of the farmers receive the fertilizer they run away and do not pay back Mpanga. Mpanga is allowed to pursue the farmers in the court for this, but this is not practical nor worth the time and money. Due to these tremendous losses, Mpanga has now decided that the farmers must take the loan for fertilizer out of the bank directly on their own behalf. This, however, has resulted in very high interest rates and various other complications for the farmers.

During conversations with the farmers in the field, it was this issue of fertilizer that received the greatest number of complaints. One farmer who has been with Mpanga since its inception in the 1960s says that now since she has to pay interest on these loans, she barely has any profits after she sells her green leaf to Mpanga. With these profits, however, she has to pay her pluckers and other workers so she has nothing for herself in the end. She was also complaining that the administration at the bank was mismanaging the terms of her loans. In her loan agreement she signed that she would pay back the loan in 1 year, but right now the loan repayment schedule has her paying back in 6 months, putting her current cash flow situation in serious jeopardy.<sup>52</sup>

Mpanga knows that the current scenario of the farmers taking the loans directly from the bank is not the sustainable solution to the problem of fertilizer obtainment. Mpanga obviously does not want to put its farmers in this situation as the goals of the company are to pull the farmers out of poverty, not drive them into further debts. Mpanga management, however, could not afford to keep on incurring the losses from outstanding fertilizer loans because if they piled up anymore there would be no more company for the farmers to own. Mpanga management is trying to solve this problem by creating a farmers savings and credit group. Mpanga plans on hiring a SACCO clerk to manage the savings and credit group with each farmer contributing a fixed amount of their income to the group every month. The farmers would save all year and then when it came time to

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<sup>52</sup>Mpanga Smallholder Farmer A. *Formal Interview*. 11/14/2007. 10:00 AM. Fort Portal, Uganda.



buy fertilizer, they could borrow from each other as opposed to being at the mercy of the bank.<sup>53</sup>

While the management is thrilled about this idea, the farmers have not yet bought the idea. In conversations with the farmers it quickly became apparent that they have no trust in savings and credit groups. In the 1970s and 80s savings and credit groups were rapidly forming throughout Uganda as a new method of sustainable development. Many of the farmers were part of these, but the majority of these groups were very corrupt and the farmers lost all of their money. Due to these negative past experiences, the farmers have no trust in the system and are very afraid that the same thing will happen again. In one conversation with a farmer that actually did like the idea of the savings and credit group, she said that even though she thinks it will work, she cannot support it because all of her peers do not support it as they work as a group.<sup>54</sup> Management realizes the skeptical opinions that the farmers have and have devised a series of plans to change the view of the farmers. The first thing that they know is essential for the groups success is sensitization. They are planning on holding a number of meetings with the farmers to teach them about how the group will operate, its advantages, its accountability, and how the farmers themselves will benefit. Management also knows that another essential aspect is to gain the farmers' trust. Management has therefore proposed the idea of joining the savings and credit group also. It is believed that this will have a two-fold advantage of first jump-starting the savings of the group and then also showing the farmers that the managers trust the group in hopes that the farmers will then trust it also.<sup>55</sup>

#### *Why Mpanga is Ready to Move Forward with USADF*

Due to the nature of Mpanga's current problems, its current shortfalls are not a disadvantage but rather a tremendous stepping stone for the future of the company and its owners. These current problems are purely business related issues and can be easily addressed by the USADF program. Through its work with Mpanga, USADF will use its infused capital, trainings, and consultations to help Mpanga solve its problems of Internal Operations, External Operations, and Operational Capacity. What USADF is NOT able to

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<sup>53</sup> Mpanga Administrative Officer. *Formal Interview*. 11/12/2007. 2:30 PM. Fort Portal, Uganda.

<sup>54</sup> Mpanga Smallholder Farmer A. *Formal Interview*. 11/14/2007. 10:00 AM. Fort Portal, Uganda

<sup>55</sup> Mpanga General Manager. *Direct Interview*. 11/06/2007. 9:00 AM. Fort Portal, Uganda.

do, however, is change the culture of the company, which is what will catalyze the changes that USADF introduces. USADF uses bottom-up participatory methods to implement its programs of private sector development. If the culture of the enterprise that USADF is working with does not have the same bottom-up managerial culture, however, it will be very difficult to successfully implement the changes. Through time spent with Mpanga top management, middle management, factory workers, and farmers, it is increasingly clear that the proper personalities and culture are in place to embrace the work with USADF.

The pride that the farmers have for the enterprise of Mpanga will enhance all of the improvements that USADF introduces. One of the biggest changes that one of the Zonal Managers has seen in his farmers in the past 5 years is the politics of the company. The farmers have become very empowered in the past few years. When the factory was initially privatized, the farmers thought that the Board of Directors was in charge of the company and it was theirs to run. The farmers, however, have become increasingly enlightened and voice all of their concerns very clearly now. If something/someone has done something wrong, the farmers make sure the perpetrator is held accountable.<sup>56</sup> This dynamic will make sure that all of the USADF implementations do truly benefit those who they are meant for. If the farmers see that the money being pumped into the company is not benefiting them, it will immediately be brought to the Board's attention and be tended to immediately.

The pride that the farmers and factory workers have for Mpanga will also ensure that all the improvements that are introduced to Mpanga will be utilized to their fullest extent. There have been problems with green leaf quality at Mpanga, but this is not due to the farmers' lack of work but rather lack of inputs. One of the field managers said, "The farmers always give the best green leaf they can because they pick from the heart since it is their company."<sup>57</sup> With the right inputs and sufficient capital, quality will improve and income will increase expediently. In conversations with the factory workers, their pride for the product they produce was very apparent. A focus group of 6 factory workers were asked the question, "If you could change one thing at Mpanga, what would you change?"

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<sup>56</sup>Mpanga Zone Manager. *Informal Interview*. 11/13/2007. 10:00 AM. Fort Portal, Uganda.

<sup>57</sup> Field Supervisor A. *Informal Interview*. 11/08/2007. 10:00 AM. Fort Portal Uganda.

The researcher was expecting answering regarding their personal quality of life. Surprisingly, however, 3 of the 6 responded “I would guarantee that we produce quality tea.”<sup>58</sup> It is almost impossible to find a factory worker who has so much pride for the product that he/she produces. Factory workers live very difficult lives well under the poverty line and the first thing on their minds has to be survival. Mpanga, however, has alleviated these worries of survival by providing the basic needs of life for these workers. The workers clearly appreciate this and have developed love and feelings of pride for the company they work for.

### *Future Implementation of the USADF Program*

Mpanga is now in the very early stages of the EDI program and will be moving forward rapidly as seen from the schedule below:<sup>59</sup>

<b>Task/ Activity/ Objective</b>	<b>Start Date</b>	<b>End Date</b>	<b>Responsibility</b>
Develop A Comprehensive Business Plan	April 1st, 2008	August 31st, 2008	Mpanga Management
Hire a Marketing Officer	Oct 1st, 2007	Dec 31st, 2007	Mpanga Board and UDET
Direct Sales Contracts	Jan 1st, 2008	June 30th, 2008	Mpanga's Marketing Officer
Rescruitment of Out-source Contractors	Jan 1st, 2008	June 30th, 2008	Mpanga Management
Website, LAN and e-mail accounts development and connectivity	Oct 1st, 2007	Dec 31st, 2007	Mpanga Management
Acquire and Install Computers	Oct 1st, 2007	Dec 31st, 2007	Mpanga Management
Integrate the Management Information Systems	Jan 1st, 2008	June 30th, 2008	Mpanga Management
Acquire and Install Appropriate Accounting Software	Jan 1st, 2008	March 31st, 2008	Mpanga Management
Corporate Governance- Board Re-Alligned	Oct 1st, 2007	Dec 31st, 2007	Mpanga Management
Facilitate the signing of Consultancy Contracts Between Mpanga and the selected consultants	Oct 1st, 2007	Dec 31st, 2007	Mpanga Board and UDET
Test the effectiveness of the consultants recommendations	July 1st, 2008	Sept 30th, 2008	Mpanga Board and UDET
Commission an Environmental Review	Jan 1st, 2008	June 30th, 2008	Mpanga Management

Mpanga will have its entire updated technological infrastructure installed by the end of this year and have the consultants coming in to evaluate all of its operations through 2008. In the 3<sup>rd</sup> quarter of 2008 Mpanga will test the effectiveness of the consultants' recommendation in order to begin streamlining them into existing company operations. Although no one can be positive of how successful the EDI program will be carried out,

<sup>58</sup> Mpanga Factory Workers. *Focus Group Discussion*. 11/07/2007. 4:00 PM. Fort Portal, Uganda.

<sup>59</sup> USADF Administration. Mpanga Final Project Paper. August, 2007

research carried out at Mpanga displays strongly that the program will be successful. The grassroots USADF program in combination with the bottom-up organizational structure of Mpanga should result in a very successful relationship and extremely positive results moving into the future.

## **Analysis**

### *Introduction*

Working under the United States Development Foundation with two enterprises of significantly different physical environments, ownership structures, and history has revealed a number of valuable lessons and insights regarding the various stepping stones

and challenges of Private Sector Development. The respective urban and rural locations of Maganjo and Mpanga significantly affect how the development program can be carried out. Each setting provides different advantages, challenges, and opportunities for development that the other does not. The ownership structure of the two companies also had a significant impact on how the Enterprise Development Investment program could be implemented. Maganjo's family business private ownership structure and Mpanga's smallholder farmer ownership models greatly affected the managerial dynamics of the respective organizations and either helped or hindered the grassroots vision that USADF has in implementing its recommendations. Finally, the two enterprises have differing histories as Maganjo was originally an entrepreneurial venture and Mpanga was a part of a former Ugandan Government tea program that was later privatized. These differences accentuate the dynamics that the differing histories have on future development and Mpanga particularly can be analyzed as a model for the possibilities for the successes of privatization in developing nations.

### *Urban vs. Rural Setting*

The research of private sector development in the urban setting of Maganjo and the rural setting of Mpanga has displayed not just the extreme differences in implementing the USADF program in each setting but has also displayed the links between urban and rural private sector development also. Definitions of poverty based on income levels don't reflect the many forms of deprivation that factor into rural and urban poverty. This results in nations and multilateral organizations underestimating how many people live in poverty and in what conditions.<sup>60</sup> The classic measure of poverty used by development organizations is "less than 1 dollar a day", but this measure does not take into account the minimum essential "consumption basket" needed in each environment and the different prices faced for goods and services. The urban and rural poor face a variety of respective challenges and development programs have had more success addressing some more than others.

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<sup>60</sup> Satterthwaite, David. Rural and Urban Poverty: Understanding the Differences. International Institute for Environment and Development. P. 1

The scale of urban poverty is often underestimated as traditional thoughts of African poverty are associated with rural settings. Nearly three-quarters of the world's urban-poor now live in Africa, Asia, and Latin America with Africa's urban population now being larger than North America's and with a higher proportion living in poverty.<sup>61</sup> The government statistics on urban poverty are based on poverty lines that are too low regarding the cost of living in cities because of the high costs for many non-food essentials. These essentials include staples such as public transportation, education, housing, water, health care, and child care. The goals of the USADF program are not to just improve upon the production of the respective enterprises, but to also improve upon the internal human resources so that the common laborers are better taken care of. As seen in the findings derived from Maganjo and Mpanga, this is much easier to do in a rural setting as opposed to an urban setting. The unskilled common laborers at Maganjo and Mpanga receive comparable salaries, but Mpanga has been able to provide all of the previously mentioned high-cost non food essentials to its workers which therefore make its workers much wealthier than those at Maganjo. The majority of the laborers at Mpanga live on the premises so they have no cost of transportation. The laborers at Maganjo, however, have to pay for daily transportation and since they are not paid on time they often do not have enough money to pay for this transportation. Since land is much less expensive in a rural than an urban area, Mpanga has also been able to make the investment on free housing for its workers while Maganjo workers have to pay for expensive urban rents. In regards to health care, all Ugandans are supposed to receive "free health care". In the urban areas the majority of these health care facilities are very corrupt and therefore there are still high costs associated with healthcare. Healthcare in Mpanga is much different, however, due to its remote location. The usual problem associated with rural health care facilities is the distance that one must travel to reach the clinic. Mpanga, however, has opened a Health Center 2 that provides absolutely free health care for its employees, their families, and the surrounding community. The comprehensive services that Mpanga provides are not typical for all rural enterprises and should not be thought of as ordinary. All of these services that Mpanga provides would

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<sup>61</sup> Satterthwaite, David. Rural and Urban Poverty: Understanding the Differences. International Institute for Environment and Development. P. 2

be impossible to provide in an urban environment and there is no way that the USADF funding being provided to Maganjo can allow it to match the essentials that Mpanga provides its employees.

The rural environment at Mpanga also allows a communal family to form at the workplace that is not able to be cultivated at Maganjo. At Mpanga the majority of management, middle management, and factory workers not only work together but also live, eat, and sleep together. These living dynamics create a very different family work environment that is only formed through communal living. Regardless of any managerial working culture implemented at Maganjo, it could never reproduce the camaraderie and trust that exists between the employees at Mpanga. This special camaraderie and trust that has developed through communal living has allowed many unique opportunities for development to arise at Mpanga that are not possible at Maganjo. For example, at Mpanga there is currently a 30 member women's savings and credit that is thriving and a second farmers savings and credit group that is on the brink of being formed. Savings and credit groups require a colossal amount of trust that can only be formed between those living with each other. In a rural enterprise environment like Mpanga, everyone is always together so there is very high accountability. Members feel very accountable to the savings of the group because it is the money of their community members. In an urban enterprise setting, however, it would be next to impossible to form this type of savings and credit group. Workers commute from home and are only together during their work shifts. Turnover of workers is very high and the workers don't know where each other live. Due to this non-static environment there is no trust developed because any member can take out a large loan and never be seen again, therefore destroying the group. Community is a foundation of many development practices and this keystone is often absent in urban environments.

The overriding purpose of the USADF private sector funding is to allow the enterprises to increase their production and efficiency so that the money will trickle down to the farmers whom are on the lowest rung of the development ladder. Being in a rural environment 13km outside of Fort Portal Town, the Mpanga factory is surrounded by its tea that it produces and has daily interactions with the farmers whom provide it. The Maganjo factory, however, is in the middle of Kampala and never has any interactions

with the farmers who are providing them with the raw materials (and whom the development funds are truly meant for). Mpanga's proximity to the farmers results in much higher levels of accountability for the USADF funds being invested because they have daily interactions with the farmers and are able to physically see if the "trickle down" is occurring. At Maganjo, on the other hand, has no relationship with the farmers and just receives the raw materials from contracted truckers. Maganjo management is never able to see the plight of the farmers whom grow their maize or observe whether the invested USADF funds are actually helping them. If the trickle down is not occurring, Maganjo will not even realize the deficiencies and operations will go on as usual. The differing rural and urban environments, therefore, have great significance regarding internal development of employees in addition to the external development of the farmers.

Although private sector development has many different dynamics in urban and rural environments, the development of each is not mutually exclusive. The economic "interdependence between urban-based enterprises and rural consumers and between rural producers and urban markets, and the reliance of many household on both rural and urban-based resources...hold a potential role in local economic development."<sup>62</sup> Urban and rural enterprises interact and depend on one another meaning that their development must be planned in respect to one another. Poverty in rural and urban areas cannot be measured separate from one other because the two environments have a high degree of interaction. For instance, "a rural household's response to poor crop yields may be to send one its members to an urban area to see work and an urban household may respond to declining income by sending their young children to rural relatives."<sup>63</sup> For poverty levels to be reduce development agencies must not relocate the poor put rather raise the standard of living of individuals in the urban and rural context.

This interaction between the urban and rural poor has been ignored by the USADF plan at Maganjo and is essential for true development to take place. As previously discussed, the completion of the Enterprise Development Investment program at Maganjo will lead to the Enterprise Expansion Investment program which will call for

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<sup>62</sup> Satterthwaite, David. Rural and Urban Poverty: Understanding the Differences. International Institute for Environment and Development. P. 2

<sup>63</sup> Satterthwaite, David. Rural and Urban Poverty: Understanding the Differences. International Institute for Environment and Development. P. 4



complete automation of the factory. This automation will *drastically* increase production and efficiency at Maganjo. This will then lead to an increase in purchases of raw materials from the local farmers and the ensuing sustainable flow of capital into the pockets of the local farmers. While these rural farmers are climbing the ladder of development, the urban factory workers who are losing their jobs to machines at Maganjo will be falling off development ladder. These unskilled laborers who were barely surviving due to their low salaries and high costs of urban living will have their sole source of income taken away from them. These factory workers will therefore either contribute to rising urban poverty levels if they stay in Kampala or will help rise rural poverty levels if they relocate outside of the city. Regardless of where they move, there is no development taking place as poverty is being relocated instead of relieved. For a private sector development program to properly help “the poorest of the poor” it must be designed in light of the links between urban and rural poverty as opposed to just focusing on one or the other.

#### *Family vs. Smallholder Ownership*

Another characteristic of the two enterprises that significantly affects the private sector development opportunities is the ownership of the two respective enterprises. Maganjo is a family held enterprise which is owned by three shareholders, all of which are family. They make all of the decisions for the company and are the ones who make the final decisions on how the USADF recommendations will actually be carried out. Mpanga, on the other hand, is 100% owned by the smallholder tea farmers whom contribute the green leaf tea to the factory. Although the urban environment that Maganjo is located in creates natural disadvantages and fewer opportunities for holistic development, its ownership structure also hinders the development opportunities due to the top-down managerial culture that it spurns.

In the time spent with Maganjo it became immediately clear that the USADF program was being run from the top with barely any contributions from lower management and the common laborers. Focus group discussions with the common laborers revealed that not one of the workers was aware of what USADF was or that it was doing any work at Maganjo. When management was approached about why those at

the bottom of the company were not involved or even informed of the developments occurring at Maganjo, there was confusion on why the workers would even be involved. The workers are stereotyped as uneducated and unintelligent and therefore not necessary for the development of the enterprise. These workers, however, are essential for the development of Maganjo because they are the foundation of the company. Qualitative observations and interviews performed with the common laborers on the Maganjo factory floor made it evident that there is a lack of passion and love for the enterprise of Maganjo. The common workers feel downtrodden, overlooked, and forgotten. When the researcher asked them the question, “What is one thing that you would change at Maganjo to make your life better?” they were ostensibly shocked that they were being asked for *their own* opinion. Their suggestions were very little things such as different food for lunch, occasional advances of payment, and opportunities to speak with top management. The implementation of these requests would cost Maganjo very little money and would automatically boost production and efficiency. Production is not just improved by changing the layout of the factory and purchasing automatic machines, but is also improved when workers are happy and proud of the company that they work for. Proud workers will do everything they can for their company and this will pay monumental dividends in the future.

Mpanga’s ownership structure creates a much different managerial culture and is a catalyst for the USADF program. Since the farmers are the owners of the company and the intended final benefactors of the funding that is being pumped into Mpanga, there is a guarantee that the money will get to those it is meant for. This ownership structure results in true grassroots development because it is those on the ground whom are making the decisions of how the USADF recommendations will be implemented. As previously discussed, the farmers are represented by the Board of Directors which is made up of 5 of their peer smallholder farmers. The Board of Directors appoints management and works hand in hand with them in organizing the operations of the company. The Board of Directors is the final decision maker for all of the implementations and make sure that these changes are benefiting the farmers themselves. At Mpanga there is also a second line of accountability due to the Annual General Meeting. If the Board of Directors for some reason were not making decisions that benefited all of the farmers, the farmers have

the opportunity to vote new members to the Board in order to promote someone who will help them. At Maganjo these checks and balances do not exist as the decisions are being made by 3 individuals whom have no connection with the farmers. This lack of accountability is troubling and could result in decisions being made only with individual profits in mind.

The ownership structures of the respective enterprises also affect the number of channels that the USADF funding is able to develop the local farmers. Due to the private ownership structure of Maganjo that is detached from the local farmers there is only one channel for the USADF aid to reach the farmers. This singular channel is the purchase of raw materials and its increase is dependant on just the expansion of production. Even if production does increase, the connection between the farmers and Maganjo is not extremely strong so there is no guarantee that the money will even “trickle down”. Maganjo does not always buy from farmers groups but also buys from middlemen. When buying raw materials from middleman the trickle down may stop at them and never make it down for the poor smallholder farmers. As opposed to Maganjo, the smallholder ownership structure of Mpanga has created multiple channels for development for not only the smallholder farmers but also the factory workers and the surrounding community. Increases of production and efficiency have the same increase in raw materials purchasing channel as Maganjo does. The smallholder farmers will be able to sell more green leaf tea to the factory and therefore make more money. The opportunities do not stop there, however. As the owners of the company, an increase in profits for Mpanga will not go into the pockets of a few individuals but instead into the pockets of the farmers. Mpanga has not been able to pay direct dividends since 1999, but as profits increase and past liabilities are paid off these dividends will be paid to the farmers at the end of the year, resulting in a direct increase in income. The third channel for development is through the Premium project with Café Direct/Free Trade. As mentioned earlier, Mpanga receives \$.78 USD per kilogram of tea sold to Café Direct that goes towards social development programs. Café Direct decides how much tea it will buy from a given enterprise based on production capacity and quality. As the USADF program progresses and production and quality increase, Mpanga will be able to sell more tea to Café Direct. This will result in more money in the premium fund which will be directly invested in

projects not just for the farmers but also for the factory workers and the surrounding community members. This is true holistic development and a model of how successful private sector development can be.

### *Potential for Privatization*

Following the independence of Uganda in 1962, Public Enterprises were seen as the pragmatic method of providing economic stability for the government and the people. The Uganda Tea Growers Corporation (UTGC) was created in this light in 1966 with the goal of promoting tea growing, processing, and marketing. Governments in independent Africa have always assumed a leading and wide-ranging interventionist role in their economies. Any measure of the government's performance, however, has been disappointing as "they have proved a drain on public finances and have generally been characterized as inefficient and unprofitable."<sup>64</sup> In the 1980s this problem was identified and the privatization of state owned entities was seen as the development solution. Government corruption has hindered this process as many of the sales have been benefiting only the powerful and the privileged. This was seen all over Africa and specifically Uganda in cases such as the 1997 sale of Uganda Grain Milling Corporation to a group which President Museveni's brother had a controlling interest.<sup>65</sup> This corruption has failed to create an environment that is properly conducive for privatization to achieve its desired results.

Despite the failures, privatization has shown glimmers of hope when performed outside the realms of corruption. In his work *Parastatals, Privatization, and Private Enterprise*, Roger Tangri writes, "In Uganda diverse divesture methods have been adopted to broaden the equity base and thus give privatization greater interest among the local population. Public offerings to small investors of more profitable concerns have been introduced and arrangements for employee participation have also been initiated, both to mobilize popular support."<sup>66</sup> Mpanga is the blueprint of these divesture methods which broaden the enterprise's equity base as over 500 smallholder tea farmers now own

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<sup>64</sup> Tangri, Roger. *Parastatals, Privatization, and Private Enterprise*. Fountain Publishers, Kampala. 1999. P.5

<sup>65</sup> Hansen, Holger. *Developing Uganda*. Fountain Publishers, Kampala. 1998 P. 60

<sup>66</sup> Tangri, Roger. *Parastatals, Privatization, and Private Enterprise*. Fountain Publishers, Kampala. 1999. P.56

Mpanga. With the equity base not only widespread but spread amongst the some of the poorest in Uganda, Mpanga has proven that the grassroots are able to spearhead the privatization movement. With many enterprises now leaving the public sector, USADF has come in to help these fledging businesses to improve their profitability and marketability. USADF, however, should focus its efforts on enterprises with a widespread equity base as opposed to the condensed model of Maganjo as its investments will be felt much more throughout Uganda in the Mpanga model.

The Uganda government needs to focus its privatization programs on enterprises such as Mpanga where it is possible to divest the equity base over a large population. President Museveni has voiced that he is a proponent of this when he said, “Government recognizes the vital role that private investment plays in economic development and it will accordingly provide the proper environment for their profitable activities.”<sup>67</sup> If Museveni acts as he has spoken he will also be divesting his power to the people. This is very hard for a leader like Museveni who is too power-hungry to even leave his Presidential pedestal when he is supposed to. Museveni could continue to privatize Uganda without divesting his power buy selling the public enterprises to cronies and foreigners because they do not present an alternative center of power. Private Sector Development organizations, therefore, must direct privatization to the benefit of the disenfranchised Uganda citizens just as Mpanga has. If done correctly, privatization will be an invaluable tool for Uganda’s development and private sector expansion organizations such as USADF will have more and more smallholder enterprises such as Mpanga to work with in order to promote holistic development for the country of Uganda.

## **Conclusion**

Overall, the course of research has indicated that a variety of factors have a tremendous impact on the United States African Development Foundation’s success in the realm of private sector development. The differences between a rural and urban environment have a considerable impact on the way that a grassroots participatory

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<sup>67</sup>Tangri, Roger. Parastatals, Privatization, and Private Enterprise. Fountain Publishers, Kampala. 1999. P.91

program can be carried out. The self-sustainable family atmosphere that a rural enterprise creates is much more conducive to participatory development techniques as opposed to an urban one. The research has revealed not only the differences in urban and rural settings in private sector development but also the links. Urban and rural enterprises are extremely dependent on one another and cannot be developed independently. USADF must be careful when designing its aid programs because it is very easy to think that true development is taking place when the poor are just being relocated to a different setting.

Even more influential on the success of USADF projects is the internal managerial and organizational culture of a given enterprise. When USADF designs its project in the grassroots mindset, it will be incredibly difficult to implement its plans at an enterprise with a top-down managerial culture. While USADF cannot neglect urban enterprises, it can choose not to work with enterprises with this top-down characteristic because its severely hampers its chances of success.

The development of Uganda does not depend on international aid or foreign politics but rather the power of the local people. The Ugandan people are capable of taking control of Uganda's former State Owned Enterprises as evidenced by the successes of Mpanga. If privatization is able to be focused on the local people whom are the true businessmen and women of Uganda, the possibilities for private sector development are infinite because its aid will not only develop the economy but the local people whom own the enterprises as well.

## **Limitations and Recommendations**

### *Limitations*

Before putting forth recommendations, one should be reminded of the limitations that were placed on this research. This research period consisted of only 6 weeks, 2 of which had to be dedicated to the writing of the report. Due to this time constraint the

researcher only had the ability to spend time with 2 different enterprises. The time spent with the 2 specific enterprises was sufficient to gauge their operations, but in order to truly understand the dynamics of the USADF program the researcher would have had to spend time with some of the other enterprises they are working with. USADF has over 15 projects in Uganda and the researcher was only able to spend time with 2, hardly enough to constitute enough study. The researcher was able to spend time with one rural enterprise and one urban enterprise. While the researcher was able to juxtapose the differences of the two environments, it would have been desirable to work with multiple urban and rural enterprises so that comparisons could be made between enterprises in the same environment. Despite these limitations, it is felt that sufficient research was carried out to satisfy the original statement objectives and to make the following recommendations.

### *Recommendations*

This research has resulted in number of encouraging signs regarding Uganda's quest for development through privatization and private sector development. This study, however, has also lead to realizations of a number of discouraging signs that show Uganda and its cooperating development agencies have many changes it must make in order to reap the potentials of private sector development. At the "macro-level", the government must use privatization and the ensuing private sector development to empower the powerless instead of putting more money into the pockets of the existing Uganda and foreign elite. A cornerstone of Museveni's NRM movement has been to attract foreign investment and this has been achieved by opening privatization to foreigners. While foreign investment is essential aspect of economic growth, it should not be done at the expense of the development of the Ugandan people. Mpanga Tea Growers Factory is a testament that economic growth can be put into the hands of ordinary citizens such as tea farmers. When former government equity is spread amongst the Ugandan people, the possibilities for private sector development are endless. Ugandan lawmakers must follow the example of countries such as Zambia and Nigeria that have made the objective of privatization the spreading of ownership and the empowerment of local entrepreneurs as opposed to the current Ugandan goal of investment by foreigners.

At the “micro-level” of USADF and its systems of private sector development, this research has made it very clear that USADF must firmly inspect the company culture of the enterprise that it is working with before working at them. USADF does not haphazardly distribute funds and makes potential enterprises go through a detailed application and consultation process before being accepted. The company culture, however, can not be judged by accounting books and production efficiency numbers. The company culture is only assessed through a significant amount time spent with the specific enterprise and conversations with employees at every level of the company. In an interview with a UDET manager, it was admitted that “it is a wish that all companies we work with are companies like Mpanga...but it is very rare.”<sup>68</sup> Although Mpanga is the best case scenario, there must be careful selection of enterprises because if the management operates in a firm top-down fashion the recommendations will not be implemented as planned.

This micro-level recommendation for USADF is firmly intertwined with the macro-level recommendation for Ugandan law makers. If Ugandan privatization law is revised so that the equity of former PEs is spread out amongst the local people, USADF will have more enterprises like Mpanga to work with. Not all Ugandan privatization has been corrupt or diverted to foreigners and Mpanga is an example of that. Mpanga must be used as a model for the potential successes for privatization and private sector development due to the number of channels that has to develop local farmers, factory workers, and the surrounding community. Mpanga has displayed the business potential of the Ugandan people and the possibilities of using business to help people help themselves. If noted and replicated, this model could be a precious for the development of Uganda.

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