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DEVELOPMENT FINANCING: THE CASE OF THE UGANDA DEVELOPMENT BANK

Joe Oloka-Onyango

The spawning of the Uganda Development Bank (UDB) can be traced to theThird Five Year Development Plan, originally conceived by the first post-colonial government and implemented by the military dictatorship under Idi Amin.[1] The Plan stipulated the principal social, economic and political aspirations of the government of the day. Its proclaimed goals in general, and those of the UDB in particular, were to provide for the much-desired impetus to the economy that had hitherto not been "adequately provided for by the operations that had been in existence earlier."[2] It was further argued that the establishment of an "indigenous" banking institution was essential to overcome the problems of an inadequacy in the administration of loan funds, supervisory assistance and an insufficiency in the volume of credit to meet "worthwhile and legitimate demands."[3]

The objective of this paper is to evaluate critically the role and performance of the Uganda Development Bank. Although the study is principally rooted in the law and in the institutional mechanisms that emerge from it, it is as much grounded in the concrete socio-economic

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1 Government of Uganda, *Third Five Year Development Plan (1971-1976)* (Entebbe: Government Printer, 1972).

2 Ibid., pp. 255-256. The Plan was making reference to other existing financial institutions, viz: the commercial banks, the Cooperative Bank, the Development Finance Company, the Housing Finance Company and certain subsidiaries of the Uganda Development Corporation.

3 Ibid., p. 256.

and political conditions which have underlied the UDB since its inception.[1] In concrete terms, this means an appraisal of finance capital and the multilateral facet of imperialism that is in existence today.[2] The paper also examines the distinction between traditional "commercial" banking and that practiced by "development" -oriented institutions such as the UDB. At a more substantive level, it examines the roots of the paradox of Uganda's political emancipation from the shackles of colonial domination, and its continued economic dependence and underdevelopment.

The paper is in two sections. Part I deals with the general concept of development financing and the role of the development bank as intermediary in this process. Part II is a critical analysis of the UDB and the impact the institution has had on Uganda's economic development.

I. The Concept of Development Financing and the Role of Development Banks

No strict legal or statutory definition of the concept of "banking" is present in the several treatises and legislation that deal with this area of the law.[3] Likewise, the judiciary on its part has stopped short of espousing any doctrinal interpretations of it.[4] It is, however, a generally

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[1] Our cue is taken from the necessity to proceed beyond the superficial analysis of specific legislation or legal regimes, and to delve into their substantive content. The compartmentalization of the study of law has only served the function of obfuscating its *real* content, and its relationship to ideology and the control of power in society. See Sumner Colin, *Reading Ideologies: An Investigation into the Marxist Theory of Ideology and Law* (London: Academic Press, 1979), p. 9.

[2] Nabudere, D.W., *The Political Economy of Imperialism* (London: Zed Press, 1977), pp. 144-153.

[3] See, for example, Megrah, M., and Ryder, F.R., *Pagets' Law of Banking* (9th edition) (London: Butterworths, 1982), pp. 3-7; Holden, J. M., *The Law and Practice of Banking*, Vol. 1 (3rd edition) (Pitman, 1982); and Lord Chorley, *The Law of Banking* (Sweet and Maxwell, 1974), pp. 30-35.

[4] See, for example, the judgements of Lord Finlay in *Banbury v. Bank of Montreal* (1918) A.C. 626, p. 654. In *Woods v. Martins Bank Ltd.* (1958) 3 All E.R. 155, p. 172, Salmon J. states, "In my judgement the limits of a banker's business cannot be laid down as a matter of law. The nature of such a business must in each case be a matter of fact, and accordingly, cannot be treated as if it were a matter of pure law." In the famous case of *United Dominions Trust v. Kirkwood* (1966) 2 Q.B. 431, certain particular attributes of a bank were laid down, but

accepted view that the major objective of a bank is to provide banking services to its customers and to turn profits for its shareholders. There has been a tendency, however, to confine this definition to the traditional commercial and merchant banks.[1] A distinction is often made with regard to 'development banks', the conduits through which finance is channeled towards development objectives.[2]

The conceptualization of development banking as a new phenomenon in the banking system arose from attempts to draw a salient distinction between the form, the function and the objectives of earlier organizations and the more recently evolved development banks. In the words of H.L. Anand: "The concept of development banking is clearly distinguishable from the notion of traditional banking...in that the former is the result of participation by the state in the field of banking, not as a substitute for the traditional banking, but with a view to carry out the larger social objective to expedite industrial enterprises."[3] They are expected to resuscitate ailing economies by focusing primarily on "...the assembly and financing of new enterprises and by providing technical assistance..." and thereby enabling them to "...mature into companies with public investment appeal."[4]

Development banks are also distinguishable from investment banks that deal primarily with the seasoned securities of established enterprises in that they underwrite and sell to a broad public.[5] They are envisaged as catalysts to development, particularly in those countries where development is yet to be achieved.[6]

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was left open. In the words of Denning M.R. at p. 455, "When merchants have established a course of business which is running smoothly and well with no inconvenience or injustice (sic!), it is not for the judges to put smoke in the wheel and bring it to a halt."

[1] Holden, op. cit. p. 5, To the law the function of creating profit is immaterial to the general question of whether an organization is bonafide carrying on the business of banking. (See also the judgment of Lord Diplock in the *United Dominions* case, supra. at pp. 465-466.) This clearly manifests the callousness of the law to the duality of social realtions, as illustrated by Andrew Lyall in "Contract, Freedom and Exchange" in Vol. viii, no. 3 (1975) *East African Law Review* 261 at p. 267.

[2] Perera, Phillips, *Development Finance (Institutions, Problems and Prospects)*, (New York: Praeger, 1968).

[3] Anand, H.L., *Legal Decisons Affecting Development Banks* (New Delhi: UDI, 1975), p. 72.

[4] Perera, P., *op. cit,*. p. 148

[5] Ibid.

[6] See for example, Houk, J.T. Dock, *Financing and Problems of Development Banking* (New York: Praeger, 1967); and P.F. Iya, "Commentary on the Uganda Development Bank Decree,

Historically, the emergence of development banking on an institutional basis can be retraced to the mid-nineteenth century in Europe and basically evolved from an increasing demand for long-term financing for the "bricks and mortar" of new enterprises emerging in the wake of the Industrial Revolution."[1] Nevertheless, the basic objective of these institutions was to facilitate capital accumulation; in other words, the development of capitalist enterprise. In that sense, therefore, and given the progressive nature of capitalism at the time, there is no doubt that the term "development bank" was appropriately used to describe institutions such as the *Societe Generale Pour Favouriser L'Industrie Nationale* that was established in Brussels in 1822, and has been cited as the principal promoter and supporter of Belgian industry.[2] Development banks since that period have generally been viewed as vehicles for stimulating economic development.

With regard to the present epoch, a necessity exists for a more critical appraisal for the whole phenomenon of development banking. This is particularly so with respect to countries in the underdeveloped region of the world.[3] Much praise has been levied on the role that development banks allegedly play in stimulating production in underdeveloped economies, and thereby engendering economic development. Since the late 1950s, there has been a proliferation of "indigenous" development institutions created in the belief that they would play a crucial role in emancipating developing countries from the bottlenecks that inhibit economic development.[4]

My view is that development banks merely differ from commercial banking institutions in form, but not in substance, and that their fundamental nature is essentially the same, both structually in their relationship to the larger economy, and in terms of their behavior and the logic of their decison-making process. Whereas such institutions

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1972", in *Uganda Law Focus*, Vol. 1, No. 3, p. 179.

1 Perera, P. , *op. cit*., p. 151.

2 Ibid.

3 This necessity arises from the fact that countries of this nature are continuously involved in the quest for strategies to effect economic development, and development banking has been cited as one mode of realizing this objective. See Harlander, H., and Mezger, D., *Development Banking in Africa* (Munich: WTV, 1971), pp. 17-19.

4 Perera, P., *op. cit*., p. 154, notes, "After World War II, particularly in the period since 1950, numerous development finance institutions have been established in the emerging world, to provide critically needed medium- and long-term funds to industrial, agricultural and infrastructural projects." See also White, John, *Regional Development Banks* (ODI, 1971, pp. 26-32).

could in fact have stimulated development during the nascent stage of their growth, this was the logical consequence of the enormous productive forces unleashed by the Industrial Revolution. Given the fact that capitalism today has entered a stage of moribundity, and that it is the principal cause of underdevelopment, its application in "third world" countries (in whatever form) can only lead to further stagnation, dependence, and underdevelopment.

Those who extoll the "virtues" of development banks fail to appreciate the exact function that they carry out. Bourgeois scholarship emphasizes the technical details of development banking but fails to analyze critically its operation within the context of the neo-colonial social relations within which Third World economices are stituated. William Diamond, for example, states that "...most development banks have been set up as catalysts for investment in the private sector, to provide injection of capital, enterprise and management, not as administrative devices to handle governments' own investments. Such institutions were designed to be means of mobilising resources and skills and of channeling them into *approved fields* under private auspices rather than into public sector." [emphasis added][1]

Unfortunately, a technical appraisal of development banking reveals little about actual operations of development banks as such institutions do not exist *in vacuo* . They function within the structural parameters defined by the relationship between the neo-colonial economy and the global economic system. Because of their lack of control over an essential ingredient in the whole process, namely capital, several questions must be asked and answered before the technical operation of the institution can be fully appreciated. From where do capital "injections" originate? On what terms and conditions are such infusions received by development banks? To whom does it belong? With what objective and of what nature are "resources" and "skills" mobilized? To whose benefit? Finally, which are those "approved" fields of investment, and to what extent can the injection of capital into them result in sustained socio-economic development in a neo-colony?

As an intermediary between the owners of capital on the one hand, and the neo-colonial state on the other, development banking in its present form cannot achieve the extrication of the economies of the underdeveloped world from the structures of dependence and exploitation. Two opposing, and necessarily contradictory forces underlie the existence of this relationship; namely captial and labor.

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[1] Diamond, Williams, *Development Banks* (Baltimore: John Hopkins Press, 1957).

Capital, in the present epoch, is owned by the financial oligarchy, and its application - regardless of geographical location - must respond to the dynamics of its internal laws, namely the creation of profit.[1] On the other hand, labor, which has traditionally been subordinated to this process, strives to achieve the termination of the exploitative conditions created by capitalist accumulation. The attainment of that objective is predicated upon the demise of capitalism as a mode of production. To imagine that development banking within present-day socio-economic conditions can in fact realize the emancipation of labor overlooks this important fact.

There is no doubt that productive investment lies at the root of the achievement of economic development. However, with regard to development banking and UDB in particular, the ultimate question is, where do the finances that enable the UDB to remain in operation and to achieve the objectives of its established charter emanate from? [2] To answer this question, it is imperative that we understand the structural relationship between development banks and the two key multilateral institutions: the International Bank for Reconstruction and Development (IBRD or the World Bank), and the International Monetary Fund (IMF). Their relationship and the socio-economic conditions within which multilateral finance operates, explain how exploitative conditions are promoted in the underdeveloped world.

The World Bank and the IMF were established in 1945 at Bretton-Woods. From their inception, the controversial nature of the operations of these two institutions have been the subject of much attention. Today, particularly with respect to their activities in underdeveloped countries, the controversy is especially manifest.[3] Essentially promulgated as an instrument for the reactivation of capital exports from the USA to Europe for "reconstruction", and more recently to neo-colonies for "development", there is little doubt that the IBRD has been the major agent in "...internationalising the centralisation of

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[1] This quest is prevalent even though a shroud may be draped over it. See the analysis of Volkov, M., *The Strategy of Neocolonialism Today*, (Moscow: ANH, 1976), pp. 34-35, where the author effaces the fallacious premises of the "Pearson Report" - one of the first attempts to propagate the theory of a New International Economic Order. (See "Partners in Development: Report of the Commission on International Development" (New York, Praeger Publishers, 1969).

[2] The UDB was established under the provisions of Decree #23 of 1972.

[3] See, for example, Payer Cheryl, *The Debt Trap: The IMF and the Third World* (London: Penguin, 1974); and *The World Bank: A Critical Appraisal*, (New York, Monthly Review Press, 1982).

capital for the global aims of the financial oligarchy in the U.S. and other imperial states."[1] This is illustrated by the involvement of the bank in programs and projects designed to achieve economic development in virtually all the countries of the underdeveloped world. It should also be noted, though it can hardly escape our attention, that IBRD involvement has not stemmed the deterioration of economic conditions there.[2]

The IBRD has played an active role in encouraging the establishment of development banks, ostensibly, to facilitate the realization of "...the great potential value in channeling World Bank money into private industrial sector."[3] Despite its seemingly philanthropic veneer, the Bank is a major factor in the perpetuation of conditions of underdevelopment in the Third World through the extraction of profits from them. Indeed, in the observation of Dock Houk, the Bank is an extremely rich institution.[4] Understandably so. So too are the people who control it.

In contrast to theWorld Bank, the IMF was developed in order to establish "...a currency and monetary policy which would make multilateral trade and finance possible." [5] It thus established the condition *sine qua non* for the penetration of multilateral imperialism under the aegis of the IBRD and its affiliated organizations, and in the interest of the U.S. government. All too often, the IMF is painted by Third World nations as the culprit, and the Bank as their redeemer, failing to realize that the latter would be immoblized but for the operations of the former. Given the relationship between development banks and these multilateral institutions, their continued presence in the third world can only result in further economic stagnation and growing disparities in wealth.

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[1] Nabudere, *Political Economy*, p. 172.

[2] This fact is given lucid illustration by the Bank's own reports about conditions in these countries. See, for example, IBRD, *Toward Sustained Economic Development in Sub-Saharan Africa-- A Joint Program of Action* (Washington, D.C.: I.B.R.D., 1984).

[3] Perera P., op. cit., p. 161. Several publications by the World Bank Group clearly illustrate the significant impact of the Bank in the field of development financing. See for example, *The World Bank: Questions and Answers* (March, 1976), and also Reid Escott, *The Future of the World Bank: An Essay* (September 1965).

[4] Houk, D., *op. cit.*, p. 1.

[5] Nabudere, *Political Economy*, p. 148. See further the address of the then Prime Minister of Jamaica, Micheal Manley, to the North/South Conference on the New International Economic Order, in *Development Dialogue* (1980, vol. 2), p. 6.

II. The Uganda Development Bank as a Financial Intermediary

The Origins of the UDB

The UDB was established by Presidential decree in September 1972, in furtherance of the Third Five Year Development Plan.[1] The Bank was the first "indigenous" bank not intended for promoting development in a specific sector of the economy, as for example, the Uganda Cooperative Development Bank; nor as an incentive for regional development, as was the case with the East African Development Bank.[2] The UDB was intended to encompass all sectors, and was consequently perceived to be far-reaching in application. From its inception, the UDB was charged with "...the promotion and provision of short-, medium- and long-term development finance and to render managerial, technical and administrative advice and services to projects in the agricultural (crop and livestock), commercial and industrial sectors of the economy."[3]

The primary objectives of the UDB were to facilitate an expansion in the volume of credit; to formulate a suitable approach to development financing and to induce a project-technical appraisal and supervisory capability that was wholly adequate to development needs.[4] All these functions were derived from the inadequacies and lacunas prevailing in the economy and pointed out in theThird Five year Plan.[5] Another function of the Bank arose from the "changes" initiated by the government in 1972 (i.e., the explusion of both citizens and non-citizens of Asian extraction). This had led to the emergence of a new and inexperienced group of "businessmen" and "entrepreneurs" who were unable to obtain their finances from traditional sources which considered them too risky and therefore "unbankable".[6] The UDB was allotted the responsibility of providing finance to these new entrepreneurs in order to avoid and/or minimize the disruption of the

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[1] See Footnotes 1 and 2, supra.

[2] See, for example, Okumu-Wengi, R.O., "Supernational Effort in East Africa: The Case of a Bank", *Uganda Law Focus* (1975), Vol. 3, Nos 1 and 2, pp. 106-109.

[3] Speech given on the 29th of October, 1980, by the Managing Director of the UDB to the Executive Committee and members of the Kampala Chamber of Commerce.

[4] Ibid., p. 2.

[5] Third Plan, *op. cit.*, pp. 255-256.

[6] MD's speech, *op. cit.*, p. 2.

economy. The legal basis for these operations was provided by Section 7 of the decree, which established a Credit Guarantee Fund to assist "the marginal borrower".[1]

The UDB was established with a total authorized capital of 100 million Uganda shillings, divided into 20,000 shares each.[2] 9,400 of these shares were, at inception, purchased by the government and the Bank of Uganda. The government further supplemented this sum by a 7 million shilling loan. At commencement, therefore, the UDB had a total operating capital of 54 million shillings, and its ownership was shared by the government and the Central Bank.[3] Consequently, there was no *direct* foreign participation in the organizational structure and membership of the Bank. It was therefore perceived as a wholly indigenous institution, unlike, for example, the East African Development Bank which had foreign international banking organizations owning a portion of its equity, and consequently, directly determining the direction of its policy.[4]

Under section 5.8 of the Decree, the Bank was authorized to borrow sums of money from *any* source in or outside of Uganda, "provided the funds so obtained were not in excess of ...such sum as the minister may determine, having regard [sic] to the total paid up capital and reserve of the Bank." [5] By this provision, the legal conditions to correspond to existing socio-economic circumstances were established. The infusion of external loan finances was made possible, provided that the accompanying conditions were "acceptable" to the Board of the Bank. This implied that there existed an equality in economic and bargaining power between the UDB and the financiers with whom negotiations for such loan extensions would be carried out. However, similar to the situation facing other Third World countries, such a supposed equality at the negotiating table was more mythical than real, especially in light of the direction of government policy as laid down in the Third Five Year Plan, and the stringent terms and conditions upon which the loans were to be extended. It was nevertheless essential to provide the UDB with a veneer of automony, and indeed legitimacy, given the fact that its primary objective was to foster *indigenous* economic development.

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[1] Section 7, Decree 23/1972.

[2] Uganda Development Bank, *Annual Report*, 1972/73, p. 15.

[3] Ibid., p. 15.

[4] Okumu-Wengi, *op. cit.*, p. 107.

[5] See Sections 8(i), (2) and (3) of Decree 23/1972.

In the years immediately following the UDB's inception, ability to carry out its stated mandate was, admittedly, severely impair by the prevailing conditions of the period. Nevertheless, the instituti attempted to execute its assigned objectives as diligently as possible a contended that it did so "successfully". The annual reports of the Ba throughout this period reflect extensive operations and an optimism th each successive year of operation would produce ever more impressi results.

Financial Operations of the UDB

The promulgation of the UDB and the exercise that came to dubbed the *"Mafuta Mingi Operation"* (i.e., the "indigenization" of t economy) occurred almost simultaneously. Consequently, the UDE initial operations centered to a large extent, around the provision of t financial assistance deemed necessary to sustain these infa businessmen in operation. In pursuance of this objective, and flagrant disregard of traditional rules of banking practice, the UD proceeded to extend a total sum of over 13.5 million Uganda shillings individuals who had acquired business premises in all parts of t country as a consequence of the Asian exodus. To the UD management, the exercise was perceived as a quest to incorpora Ugandans "...in the process of economic development so as to gi them access to development resources."[1]

The *Mafuta Mingi Operation* was carried out under the aegis four loan committees which simultaneouly transmitted the facilities the bank to the four regions of the country.[2] The operation exclud Kampala and Jinja where allocatees or businesses were considered to within the vicinity of the Bank and other credit facilities in a norm manner. The affected concerns included virtually all busine enterprises that were not under the direct or indirect control management of the government and/or the Uganda Developme Corporation (UDC) and its subsidiaries. The majority of the business were predominantly trading and commercial (a sector in which the Asi expellees had been heavily engaged), as well as a trifling of industri concerns - basically of the import-substitution, consumer-produce a crop-processing type. In total, the UDB disbursed a sum 25,194,325 Uganda shillings to this sector of the economy,

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[1] Managing Director's speech, *op. cit.*, p. 2.

[2] UDB Annual Report, *op. cit.*, p. 10.

pursuance of the execution of the "immediate objective" of maintaining the supply and distribution of goods and servcies in the country. In its final assessment of that year, the UDB stated that "...the policy and activities of the Bank rendered substantial benefits to a number of institutions and to the economy generally."[1] We shall comment on this contention subsequently.

UDB's pattern of investment during its early years in the remaining sectors of the economy (i.e. those not part of the *Mafuta Mingi Operation*) concretizes the salient aspects of the hypothesis of this paper. Following the dictates of the Third Five Year Development Plan, during its first year of operation the UDB extended loans totaling a sum of 4,340,236 Uganda shillings to the agricultural sector. Included therein were enterprises such as livestock ranching, dairy, poultry and arable farming. However, it was noted that there was a general lack of applications for viable projects - attention having been mainly focused on commercial enterprises.[2] Funds under the same sector were also disbursed for the purchase of inputs, which included, *inter alia*, tractors, fertilizers and weed killers.[3] In the agricultural-industrial sector, the UDB helped in the establishment of three jaggery mills which were to be operated on machinery imported from Kenya, as well as one bakery, noted to be "capital intensive".[4]

Investments in the "industrial" sector over the same period were substantially higher and covered a wider scope, reflecting, once again, the government's emphasis on the necessity to facilitate the development of industrial enterprise. The range covered hereunder extended from food processing to building and construction, the former receiving the largest proportion of loan funds, with the wood industry receiving the least.[5]

By December 31, 1979, the UDB had lent a total of 310 million Uganda shillings, with industrial enterprises receiving approximately 50 percent of this amount. The remainder was divided between the Commercial/Transport and the Agricultural sectors. In the assessment of the UDB management, the impact of the investment of these funds is manifest evidence of the role that the Bank has played in bolstering the nation's economic progress, and as an indicator of this impact, cites the

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[1] Ibid., p. 10.

[2] Annual Report, *op. cit.*, p. 8.

[3] Ibid., p. 8.

[4] Ibid., p. 9.

[5] Ibid., p. 22.

fact that: "...vehicles bearing the Bank's name are by now a familiar sight to you all, lending vivid testimony that the revitalization of the key [sic!] transport sector is a task to which UDB has fully addressed itself." [1] In a nutshell, therefore, the operations of the UDB extended to virtually every sector of the economy through the provision of financial/developmental assistance in order to promulgate the overall objective of economic development in accordance with the stipulations of Section 5.3 of the Decree.

From its inception, the UDB has had close links with several international financial and development agencies. The mode of procurement of these finances is usually through the Ministries of Finance and Planning on behalf of the government. The UDB enters the picture as administrator of the finances in accordance with general government policy and specific directives relating to the manner of utilization of the finances, as directed by the Board of the UDB. (Negotiating teams normally include a UDB representative if the UDB is to play a role in the administration of the finances). The paramount consideration in each case, however, is the conditions attached to the utilization of the loan by the agency extending the financial assistance. These conditions are usually embodied in an agreement between the government and the particular agency in question. Such conditions attached to the loan are normally manifested through its actual utilization.

A clear illustration of this fact is provided by the case of the International Coffee Organization (ICO) funds, intended for crop diversification. During the financial year 1974/75, the ICO transferred a sum of 33,968,467 shillings through the government of Uganda to the UDB.[2] During the 1960s, the ICO (which is the parent organization of world coffee producers and consumers) established a special fund - The Coffee Diversification Fund - with the primary objective of encouraging coffee-producing countries to invest in the growing of cocoa in an attempt to minimize over-dependence on the production of a single cash crop - an endemic characteristic of Third World economies. The conditions under which the ICO funds were extended included their implementation in a program of diversification by the year 1976. Before the government had effectively embarked on such a program, however, the fund was wound up and as a consequence the funds were recapitalized as part of the UDB finances and utilized in accordance with

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1 Managing Director's speech, *op. cit.*, p. 2.

2 Annual Report, *op. cit.*, p. 8.

the directives of the Board of the Bank.[1] For the purposes of our hypothesis, the fact that these funds were never utilized for the objective for which they were intended is not of particular relevance. What is of crucial importance is the role designated for their utilization in a field previously approved (and designated) by the extending agency, and into a sector considered crucial by bourgeois development strategists for the attainment of the goal of economic development. Our comment on this argument is more fully developed below.

From UDB records, indications are that several negotiations were carried out with Middle Eastern Financiers for a variety of projects during the middle and late seventies.[2] None of the finances thereunder were disbursed, probably because of the removal of the Amin regime from power in 1979. With the return of Obote in 1980, negotiations with these organizations were re-instituted, which resulted in the opening of several Letters of Credit and the commissioning of studies to review some of them. In line with the postulations contained in the government policy of reconstruction and rehabilitation, particularly under the Recovery Programme of 1982, the UDB has been designated as a key institution in the execution of these objectives.[3]

Investment Patterns of the UDB

The "approved fields" for the injection of development finance into the neo-colonial economy are explicitly laid out. The small-scale projects provided with the European Economic Commission (EEC) assistance included bakeries, dry-cleaning plants, tailoring workshops and stationery manufacturers. In each case industrial machinery for the establishment of these plants was imported from an EEC member country and installed and commissioned at the factory of the recipient of the loan. Under the ADB 1 line of credit, finances were extended to sawmills, cement factories, quarries, a tire plant and a paper manufacturing industry. Once again, the machinery for each project was imported from a variety of industrial countries, reflecting the socio-economic position which the ADB occupies in the global economic

[1] Ibid., p. 7.

[2] Information provided by the UDB Management.

[3] The information reproduced on this page and the following pages was derived from two Status Reports on External Finances Administered by the Uganda Development Bank, respectively dated the 30th of March and th 13th of October, 1983, as well as from interviews conducted with the Acting Head, Department of Supervision and Recovery, and the Legal Officer of the UDB, on November 5, 1984.

system.

ADB 2 involved the purchase of a total of 16,560 heads of cattle from Kenya and Tanzania, accompanied by drugs and veterinary products, farm equipment, machinery and vehicles. Under EEC II, a direct loan was committed to the Uganda Hoes Ltd., although by October, 1983 disbursement had not been effected due to the fact that the company's technical management needed "strengthening". The EEC provided the finances to ensure that this objective was attained, before disbursement was made. The IBRD credit was directed to twenty-five previously elected and approved industrial enterprises, and by October 1983, only a sum of 5.6 million U.S. dollars had been committed to a cement factory, a steel mill and a third unspecified industrial plant. The European Investment Bank (EIB) credit of ECU 7.5 million was directed towards industrial rehabilitation and development and by Ocotber 1983, five beneficiaries had received letters of credit totaling 5.59 million U.S. dollars. In addition, a further sum of ECU 2.5 million has been extended for capitalization in the equity of the UDB through the government.

The details of this credit have not been disclosed. The OPEC Fund line of credit was also intended for the rehabilitation of industrial enterprises, although no disbursement had been made by October 1983 since an appraisal had been initiated only shortly before. The IBRD credit covers the supply of bicycles from Pakistan, and a balance of approximately 6,000 bicycles still remained to be received by October 1983, the UDB having already made two of the repayment installments due thereunder. The specific details of the 2 million dollar credit from the IBRD were unavailable. Under it, however, the Bank has provided two "experts" who occupy the positions of Assistant General Management of the Operations Department and the Finance and Administration Department of the UDB. Their contracts of employment with the IBRD cover a period of two years and include basic salary, benefits and other expenses. Against this background, we can now proceed with a critical appraisal of the Uganda Development Bank and its impact on economic development.

Overall Assessment of the UDB

The UDB was a product of the Third Five Year Plan. When the fact of the IBRD involvement in the genesis of that plan is taken into account, it becomes fairly obvious who the ultimate beneficiary of "economic development" in Uganda was actually intended to be. The colonial system of production in Uganda had been development with the specific objective of maintaining Uganda as a reservoir of raw materials and as a dumping ground for finished manufactured products imported from the metropolis. Any development which took place (in the infrastructure, for example) was a necessary consequence of a facilitating the achievement of this objective.

Industrial development was confined to mineral extraction and, in the dying years of colonial rule, to agro-processing and consumer goods manufacture. Once more, this was very minimal, the base for the production of goods of this nature being in neighboring Kenya, where several multinational corporate groups had set-up their headquarters and dominated the East African market.[1] Colonial economic policy was averse to the establishment of manufacturing industry in Uganda on grounds that industrialization would be "inimical" to the predominantly agricultural population.[2] The fallacy of this argument is clearly manifested in the apparent *volte face* in colonial policy with the establishment of the Uganda Development Corporation. It becomes quite clear that the principal motive underlying the colonial policy had been the desire to protect the interests of British monopolies operating in the area and to ensure that their domination of the market remained intact. The changed attitude to industrialization that led to the establishment of the UDC is only one facet of the manner in which the protection of the interests of monopolies was ensured even after the departure of colonial overrule, and also against the onslaught of American "open-doorism".

The main thrust of neo-colonial industrial strategy was directed towards the pursuit of a policy of industrialization for import substitution. Consequently, the basic structure of independent Uganda remained substantially the same as it had been under the colonial epoch: an economy assailed by the vagaries of world market prices and the dictates of monpoly-controlled prices for manufactured goods. Government policy, as reflected in the development plans, conceived of development along the same lines. This is the economic structure within which the UDB was established to operate and carry out its objectives with the underlying goal of achieving economic development.

In the writing of this paper, the fact that the UDB was operating in an economy that was severely ravaged and mismanaged was duly taken into consideration. Furthermore, account was taken of the

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[1] Swainson, Nicola, *The Development of Corporate Capitalism in Kenya* (1918-1977), (HEB, 1980) p. 226.

[2] Nabudere, D., *Imperialism and Revolution in Uganda*, pp. 99-100.

argument that the coercive nature of the existing state apparatus mi[ght] have compelled the UDB to engage in certain activities, such as t[he] *Mafuta Mingi* exercise, that it would not have done otherwise. So[me] may go so far as to argue that the very character of the Amin regi[me] inhibited economic development and that regardless of the speci[fic] activities the UDB may have engaged in, its effectiveness in stimulati[ng] economic development was greatly limited. These arguments obsc[ure] the fact that the operation of the UDB, irrespective of the inhibitio[ns] prevailing at the time, could not assist in the attainment of sustain[ed] economic development since its efforts were ultimately directed tow[ards] the maintenance and growth of the neo-colonial economy. The Am[in] regime inherited a lopsided economy whose foundation was based [on] the exploitative relations of finance captial. Consequently, it maintain[ed] as its basic motivating factor the continued exploitation of the resour[ces] of that economy as a necessary component of the international capital[ist] system of production. Indigenous economic development was therefo[re] impossible, provided the ruling class in this neo-colony remained t[he] international bourgeoisie. Despite the Asian explusion and t[he] deterioration of diplomatic relations between the Amin regime and t[he] British and American governments, there is little doubt that forei[gn] exploitation continued and that it was facilitated by the integrat[ed] structure of the economy. In spite of the disruption engendered throu[gh] the "Economic War", there is no doubt that exploitation by finan[ce] capital was not thereby brought to an end. Rather, as several write[rs] have pointed out, it continued to operate within the anarchic system [of] the period.[1]

The information we have related concerning UDB's operatio[ns] and investment pattern during the Amin regime clearly substantiates o[ur] point. In the agricultural sector, finances were channeled into are[as] emphasizing the policy of diversification, both within and away fro[m] the production of cash crops. The fallacy of the argument underlyi[ng] crop diversification becomes clear when we take into account the fa[ct] that world price fluctuations affect *all* agricultural produce. T[his] philosophy is still based on the underlying subordination of Thi[rd] World countries to the status of cash-crop producing economies, a[nd] consequently cannot result in economic development. With regard [to] finances provided to the UDB for the purchase of foreign manufactur[ed] agricultural inputs, it is obvious who the ultimate beneficiary is. Wh[...]

[1] See the concrete exposition on "Aminomics" made by Nabudere, supra, pp. 292-317, as w[ell] as Mamdani, Mahmood, *Imperialism and Fascism in Uganda*, (Trenton, New Jersey: Africa World Press, 1984).

directed to the export sector, concretely this implies further subordination to the existing global system of production.

With regard to the transport sector, which the UDB management points out as having received much attention, the necessity for investment in this sector is essential to provide and sustain the infrastructural conditions of an export economy. Needless to say, UDB's investment in transportation infrastructure has been directed primarily towards satisfying the commercial interests of the urban petty bourgeoisie. As for UDB industrial investment policy, not a cent was directed towards industrial manufacturing. We have already noted why UDB's investment pattern must be so and why its ultimate effect on economic development reflects the manner in which neo-colonial economies such as Uganda's are victims of the dictates of finance capital.

It is important to consider two major points; first, that the UDB is merely a conduit for the injection of capital by foreign banking agencies, and second, that the function of external finances is part and parcel of the social relations of the neo-colony. This indicates a net outflow of resources, even if we confine our analysis to the production process itself. Absent are the substantially higher outflow payments made with respect to the procurement of spare parts for the purposes of maintaining the imported machinery, royalties and commissions paid for the use of patented processes, as well as payments made for the provision of technical assistance in the implementation and supervision of the various projects. Most important to our hypothesis, however, is the fact that in none of the specified areas of investment can the application of foreign capital result in sustained development. Furthermore, given the nature of the UDB lending policies, it is obvious that the local beneficiaries of these loans do not constitute the majority of Ugandans who face the brunt of imperialist exploitation: the peasantry.[1] Of further significance is the fact that virtually all of the industrial enterprises covered by the credits are in the field of import substitution or consumer goods production, the characteristics of which with respect to the extraction of profit by the financial oligarchy has already been noted.

Before concluding, we cannot overlook the role of the lines of credit from the EIB and the IBRD, although the full details concerning

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[1] UDB Lending Policies prescribe *inter alia*, that loan recipients must be incorporated companies with a share capital of at least Shs. 7,000,000/=. Security for the loans is given in the form of personal gurantees, mortgages and debentures. Obviously, conditions of this nature can only be met by a minute proportion of the populace.

these institutions are not discussed in this paper. The ECU 2.5 milli extended to the government for the purpose of capitalization in UDI equity illustrates that the "indigenous character" of the UDB is more o facade than of a reality. By providing to the government financ expressly designated for the purpose of subscribing to the equity of t UDB, the manner in which multilateral institutions influence t operations of "indigenous" banking organizations is clearly illustrate It thus becomes irrelevant whether or not foreign banking organizatio actually subscribe to the equity of these local institutions so long as t neo-colonial government can provide the necessary inlet. As far as t IBRD credit of 2 million dollars is concerned, this clearly illustrates t extent to which this institution actually controls the manner in which t UDB operates. Under the guise of providing "technical assistance" the Bank, the IBRD has taken over two of the most crucial departmer in its adminstrative structure, thereby dictating the manner in which operates, the control of its finances, and by extenstion ensuri complete harmony with IBRD policy.

The post-"liberation" credits received and presently administer by the UDB also reflect the attitude of subsequent governmen concerning the question of economic development and the continu subjugation of the neo-colonial economy to the dictates of finan capital. The proclaimed policy of the Obote regime to seek the aid external investors must be viewed as the logical outcome of efforts restore order and stability in the interests of finance capital. It therefore quite clear that no structural transformation of the econon was envisioned by Obote. What was sought instead was t resurrection of erstwhile structures for the smoother process exploitation by finance capital. It is also clear that given the soci economic environment that the UDB operates within, an attempt reforming the institution in order to gear it towards development objectives is bound to fail. As Magdoff explains:

> "Tinkering with and reforming backward capitalism will have little effect on basic social inequities, internal or external. For even honest provision of foreign aid, technical assistance, education for the elites and peace corps devices can, in the absence of a breakaway from the imperialist network, at best only help make the imperialist system more efficient and perhaps extend its life somewhat."[1]

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[1] Magdoff, Harry, in "A Forward" to Jalee Pieree, *Imperialism in the Seventies*, New York:

The plague of imperialism has spawned a myriad of debilitating problems for underdeveloped countries such as Uganda. However, the solution to these problems does not lie in further integration into the process of imperialist exploitation. That is the path that has thus far been pursued by the UDB and such other organizations. Today, the NRM Government in Uganda has thus far not manifested a fundamental departure from the strategy of development pursued by previous regimes, albeit a heightened degree of concern has clearly been elicited. The question thus remains: What is to be done? Given the disastrous consequences of integration thus far, there can only be one answer: delinkage from the capitalist system.

Conclusion

Tinkering with the form and the substance of the UDB can have only a minimal effect on the struggle to confront the causes of underdevelopment in Uganda. In its socio-economic origins as well as in its present-day operations, the UDB has aided and abetted the further penetration of international capital, and has therefore functioned in the interests of imperialism. Built within a structure that is inherently lopsided, the most that it can achieve is the attenuation of exploitation at the point of production. The problem that confronts the Third World, however, is the total elimination of the scourge of underdevelopment. The first stage in this process is the resolution of the national question and a revolutionary break from the neo-colonial yoke in which it finds itself at present.

Third World Press, 1972.