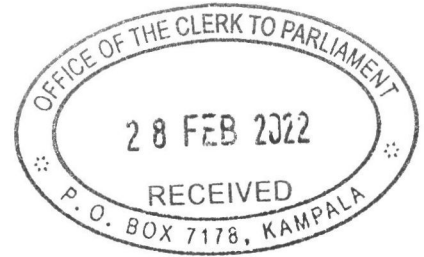




PARLIAMENT OF UGANDA



Report of the Sectoral Committee on Tourism, Trade and Industry on the alleged
mismanagement of Soroti Fruits Limited

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**Parliament Buildings
KAMPALA**

February 2022

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ED	Executive Director
CEO	Chief Executive Officer
GOU	Government of Uganda
MFPED	Ministry of Finance, Planning and Economic Development
PFMA	Public Finance Management Act, 2015
LTD	Limited
KOICA	Korea International Cooperation Agency
UNBS	Uganda National Bureau of Standards
UDC	Uganda Development Corporation
TTFCU	Teso Tropical Fruits Cooperative Union
TEJU	Teso Juice
SOFTE	Soroti Fruits Limited
MT	Metric Tons
LPO	Local Purchase Order
UIA	Uganda Investment Authority

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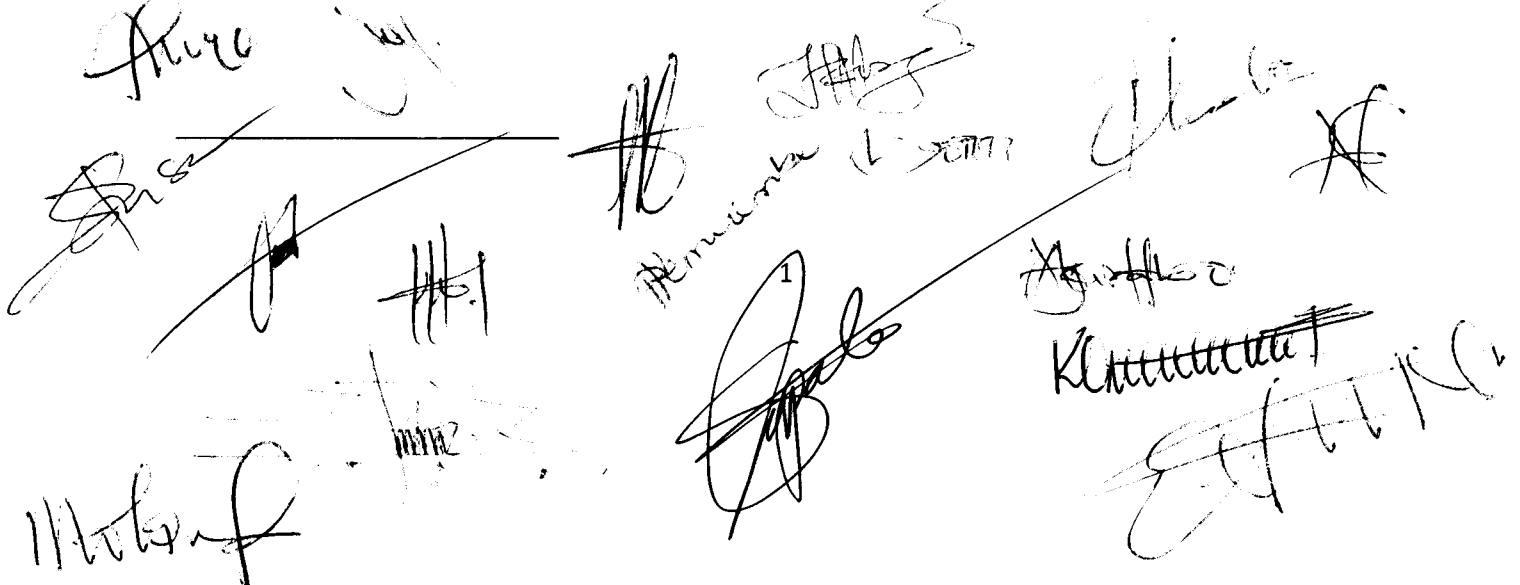
1.0 INTRODUCTION

The Committee on Tourism, Trade and Industry has the honour to present its report findings from the 16th to 17th February 2022; in the District of Soroti, specifically, Soroti Fruits Limited. This was in pursuance of the directive by the Speaker to the Tourism Trade and Industry Committee to take up the matter of fact-finding regarding the allegation of resource mismanagement and dire office abuse; as presented on the Floor of Parliament by Hon. Ebwalu Jonathan, MP for Soroti City Division West, on the 8th February 2022 and has agreed to report the following:

1.1 Background to Soroti fruit factory

According to the National Vision 2040, for Uganda to attain a middle-income status, the contribution of agriculture to Gross Domestic Product (GDP) ought to decline from the current 23.8%¹ to 10%; that of industry increase to 31%; while services stay at the current pace of 58%. This essentially means that most of the agriculture at present is required to transform into industry (agro-industrialisation) and trade through the promotion of agro-based industries. One of the Government interventions to achieve this goal was the establishment of Soroti Fruit Factory (SOFTE) located in Arapai Sub-county, Soroti District. The Factory was launched in April 2019 by H.E the President and started commercial operations in October 2019 with the issuance of UNBS certification.

Government of Uganda and Korea International Cooperation Agency (KOICA) commenced investment in Soroti Fruits Factory Limited following the



The Factory was established to add value to the fruits that were abundantly underutilized in order to address the high post-harvest losses, provide market for farmer's produce, create employment opportunities along the value chain which in effect would increase and diversify household incomes within the greater Teso Region.

1.1.1 Board composition of Soroti Fruits Limited (factory)

1.1.2 Investment in Soroti Fruits Limited

Initial investment in Soroti Fruit Factory amounted to \$ 8 million (Shs.29.6 billion) from Korea International Cooperation Agency (KOICA). This was used

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mainly for plant construction, equipment purchase, and associated costs including importation, transportation and staff training. From FY 2010/11 to date, government has spent Ugx.41.13 billion on the factory, hence the total capitalization is Ugx 70.73 billion.

1.1.3 Model for Supply and Procurement of Fruits

Originally, fruits to the factory were collected, aggregated and supplied by Teso Tropical Fruits Cooperative Union Limited (TEFCU), however for equity and capacity considerations, organized farmer groups were also allowed to supply the factory directly through a PPDA accredited process.

2.0 RATIONALE

The Sectoral Committee on Tourism, Trade and Industry derives its mandate from Article 90 of the Constitution of the Republic of Uganda, and accordingly, Rules 125, 156, 159, 187 and 189 of the Rules of Procedure of Parliament. These provisions enjoin the Committee with the authority and power to, among others, research, investigate and carry out oversight functions with respect to the Ministries, Departments and Agencies (MDAs) under its purview. However, this particular task arises from a directive issued by the Speaker to the TT&I committee as a response to a matter of national importance presented on the Floor of Parliament.

Upon visiting Soroti District, and specifically Soroti Fruits Ltd and Gweri Sub County, the Committee noted with grave concern that farmers' fruits were surely rotting as the demand by the factory which was to provide market for the fruits had limited ability to consume all the fruits harvested. And also, out of utmost frustration, many farmers had truly cut down trees on their farms. The Chairperson LC V, a one Simon Etoru had too cut down all the fruit trees, save for one acre. Despite the fact that Government established UDC by a statutory Act and entrusted it with the mandate to invest on behalf of,

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Government, the Soroti Fruits Ltd project still has a lot to put in place in order to achieve the set objectives. The Farmers' fruits are still rotting due to lack of market, and the juice is still bottled manually; which may leave a lot wanting, though the production manager says they were managing the hygiene by ensuring that they embrace good practices of food handling.

Soroti Fruit Factory Ltd; to the Committee, it appeared questionable whether the joint venture between KOICA and the Government of Uganda would soon benefit the people of Teso region and Uganda as a whole soon, and also whether the Government of Uganda would receive positive returns from its investment.

In a bid to ascertain the causes of the limited ability for the factory to consume most of the fruits as produced by the people of Teso and the neighbouring districts, and perhaps nip them in the bud, the Committee diligently embraced the Speakers directive, coupled by its mandate under the Rules of Procedure of Parliament, to investigate the goings-on at the factory by looking at Local Purchase Orders for delivery of fruits at the factory, and how much individual farmers sell to the factory, leaving alone those that sale through the cooperative unions. The Committee envisaged that it would make recommendations for the House to adopt, in order to alleviate the frustration, the Teso region community has been plunged into; due to unfulfilled expectations that have resulted into social-economic crisis; according to the local leaders, the hunger that the communities suffer resulted from the local populace selling their animals in order to start farming, where results have been direly negative; unfulfilled. The lessons learnt could also go a long way to benefit other communities and Government projects that have a similar agenda; a case in question is the Parish Model System.

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3.0 OBJECTIVES

- (i) To ascertain the alleged mismanagement of resources and abuse of office at Soroti Fruits Limited presented on the Floor of Parliament as a matter of national importance
- (ii) To examine the contribution of UDC as a Government Enterprise in propelling the Government agenda of doing business on behalf of Government and yet helping the public access services required for social economic development.
- (iii) To scrutinize the utilization of funds provided by the Government of Uganda to UDC Enterprise; the accountability for the revenue that accrues from the project and business at Soroti Fruits Ltd
- (iv) To propose recommendations to enable efficiency and effectiveness in the resource and office management of Soroti Fruits Limited (SOFTE) in a bid to support it in the achievement of its objectives, and also ensure the creation of a positive impact on the people of Teso and Uganda as a whole.

4.0 SCOPE

This report concerns itself with the whole of Teso region in eastern Uganda. The Committee visited Soroti District where the factory is located and also sampled Gweri Sub County whose land has been predominantly used to grow citrus fruits to verify the allegation by the stakeholders that the factory lacks capacity to absorb the fruits produced in the region. Additionally, the Committee interacted with the affected farmers, Union leadership, area MPs and a few local leaders.

The report takes a close look at the affairs of UDC; a State Enterprise that was established by the Uganda Corporation Act, 2016, and is aligned to the Trade Ministry by subvention.

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5.0 METHODOLOGY

The committee employed the following methods of work;

5.1 Field visit

The Committee visited Soroti Fruits Factory found in Soroti City and sampled farmers in Gweri Sub County located in Gweri County, Soroti District.

5.2 Meetings with Key Stakeholders

The committee held meetings and heard from a number of key witnesses, several of whom presented verbal briefs. The witnesses included the leadership of Soroti District, Cooperators, TEFCU leadership (Union), SOFTE management and workers, some of the board members and the local populace (farmers from Gweri Sub County).

5.3 Memoranda

Apart from memoranda received from the above stakeholders, the Committee also received written presentations from the following;

- Hon. Ebwalu Jonathan (petitioner)
- Uganda Investment Authority
- Uganda National Bureau of Standards
- Uganda Development Corporation
- The area Members of Parliament

5.4 Desk Research

The Committee carried out desk research.



6.0 COMMITTEE OBSERVATIONS AND ANALYSIS

6.1 ALLEGED GROSS ABUSE OF OFFICE AND RESOURCES

An allegation of gross abuse of office by SOFTE management was brought to the attention of Parliament by Hon. Ebwalu Jonathan, MP for Soroti City Division West. In his submission, he informed Parliament that there was evidence that the perimeter wall of SOFTE was estimated to have cost **Ugx 2.5 billion** and 1 kilometer of a road was estimated to have been constructed at a cost of **Ugx 5.5 billion**. The committee reviewed procurement documents for both the Construction of the Road and perimeter wall and the following are its findings;

a) Procurement for the construction of a Perimeter wall:

It is the finding of the Committee that the “contract for the procurement of construction of a perimeter wall at the proposed Soroti Fruits Limited Factory in Arapai Sub- County, Soroti District” was undertaken between Uganda Development Corporation and Wills International Engineers and Contractors Limited at a total contract price of seven Hundred thirty-four million, four hundred ninety-three thousand, six hundred and fifty-nine shillings only (**UGX 734,493,659**) on 14th May 2014. According to the special conditions of the contract, the intended completion date for the whole of the works was four months. Accordingly, the works started on 21st May 2014 and were expected to be completed by 20th September 2014. Further still, the special conditions of the contract provided that the contract was not subject to price adjustments.

On 12th August 2015, the project manager, a senior Engineer at UDC, requested for an extension of time sighting a challenge with the supplier of razor wire, delayed payment from UDC and a lot of rainfall which interrupted the works and recommended an extension for 14 calendar days. In his loose minute to the Executive Director UDC, the project manager claimed that the

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contract was due to expire on 17th August 2015 and that the works were at almost 93% completion.

The Committee was informed that on 18th June 2015, Uganda Development Corporation entered into another “contract for the completion of the Perimeter wall fence and construction of the plot access roads for the proposed Soroti fruit factory in Arapai Sub-county, Soroti District” with Willis International Engineers and Construction Limited for a contract price of three hundred sixty-nine million, six hundred twenty-four thousand, six hundred and thirty-eight shillings only **(369,624,638)**. The duration of this contract was a period of two months from 18th June to 17th August 2015.

The committee was further informed that in a report of a sub-committee jointly constituted with a view of conducting a physical verification of the works, entitled “construction of perimeter wall fence at the proposed Soroti Fruit Factory” and addressed to no one in particular, the second contract between UDC and M/S Willis International for UGX 369,624,638 was justified as follows;

- That a ground breaking ceremony to be officiated by H.E the President of Uganda was urgently organized necessitating the immediate/ urgent construction of the access roads as first class marrum to be upgraded by the investor to tarmac at a later stage;
- That during the excavation of the perimeter wall foundation, a section was found to be water logged and therefore its depth was increased from 1200mm to 1500mm in order to increase its strength and that the site investigation report did not capture this information.
- Other additional works that could not allow the contractor to complete the first contract on time and within the contract sum such as;

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- Supplying and fixing conduits at some intervals along the perimeter wall fence. The conduits would be used as infrastructure for security lights.
- That the contractor, M/S Willis International was contracted under direct procurement method because procuring another contractor would delay the road construction process.

The Committee was informed that the complete infrastructure of the boundary walls and the two first class marrum access roads including all variations associated with the works cost UDC a total sum of one Billion, one hundred and four million, one hundred and eighteen thousand, two hundred ninety-seven (**UGX 1,104,118,297**) (see attachment)

Observations

The Committee makes the following observations

1. There is no evidence of the alleged reasons for extension of time and variation of the contract sum originating from the contractor, Willis International Engineers and Construction Limited.
2. The undertaking of a fresh contract under direct procurement method for completion of the wall fence with the same contractor at a different contract price was irregular and unjustifiable and not in line with the PPDA and the same should have been queried by the Office of the Solicitor General.
3. Whereas the contractor did not request for extension of time even after failing to complete the first contract of the construction of the wall, UDC project manager on the 12th August 2015 in a loose minute addressed to the Executive Director of UDC was rather the one who requested for a 14 calendar day **no cost extension**.
4. The original contract did not provide for price variation. Therefore, the contractor Willis International Engineers and Construction Limited after

5. The committee during the oversight visit at the factory observed that even after the additional contract sums, the contract did shoddy work which has left the wall with cracks, sinking foundations and plaster on the walls peeling off (**see Figure 1 below**).

7. There is a clear indication that UDC flouted the procurement process when they undertook a second contract for the completion of construction of a perimeter wall and construction of roads in total disregard of a previous contract for the construction of a perimeter wall which was at 93% completion.

The implication is that the 7% remaining works for completion could not have cost **Ugx 369,624,638** which is about 50.3% of the first contract sum.

8. There is need for further investigation into this matter pertaining clearance of the contracts by the different officers in the solicitor general's office based on the facts below;

- The contractor neither officially requested for more money nor time. However, the office of the Solicitor General cleared the contract for signing without querying.
- All the three contracts were cleared by three different officers from the office of the Solicitor General.
- The new contract sum does not indicate how much was going to the completion of the construction of the perimeter wall and how much was going to the works in the new contract.
- Given all the documents provided, the contract sum could not be justified

b) Procurement of works of construction of roads in Soroti Industrial and Business Park

Basis of the Contract

The Contract in caption was established on the basis of PPDA: General Conditions for the Procurement of Works, June 2005. Pursuant to Clause 11.1 (b), design of Permanent works is an employer's risk. The Employer is responsible for the design and supply of design documents (drawings, bill of quantities, specifications etc), the accuracy of the design documents and the design liability. The Contractor's responsibility was to execute the works using the employer's supplied design and further instructions from the Project Manager.

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Scope of Works

The scope of works was fully described in the pertinent contract documents, but essentially this entails Construction of Roads in Soroti Industrial & Business Park – Lot 1. As clearly depicted, the works largely constituted the construction of the three Project Access Roads (Temele Industrial Road (1,699.56m); Pineapple Close (221.12m) and Palm Tree Close (144.79m) and drainage works as the major activities, with commencement and completion of all the remaining activities dependent on the commencement and completion of the construction of the three Project Access Roads and drainage works.

Delay by the Project Manager to issue instructions for permanent works pursuant to Clause 28.1 and 44.2 of the Conditions of Contract

There was a delay by the Project Manager to issue instructions for permanent works, this indicates that probably the Project Manager, did not have the design for the Permanent works.

Effect/impact of the above events on the progress of works

Pursuant to Clause 32 of the Conditions of contract, the delay by the Project Manager to issue appropriate instructions for the permanent works, which would adversely disrupt progress of works while pending the design review and until the 9th January 2014, 6months later from the commencement of works on 27th May 2013, when the instructions with: Drawings, setting out data and culvert schedule for Temele Industrial Road and Pineapple Road were issued to the Contractor. This clearly indicated that the Contract was awarded without appropriate design as it should be.

The Designs that had been issued were defective as vastly exhibited by the following features on the same drawings:

- Whereas Temele Road is in a flood plain, with almost 600m through a permanent swamp, no provision had been made for Rock fill.

- The culverts schedule issued were limited in scope. Whereas there are 8 stream crossings, only 3 lines of culverts were included on the schedule.
- In addition, the Contractor would not achieve the minimum cover on all culverts crossings.

The Drawings, setting out data and culvert schedule for Temele Industrial Road and Pineapple Road, which were issued on the 9th January 2014, were substantially different from that, which formed part of the contract. This meant that from onset of awarding the contract there were wrong designs.

Delay by the Project Manager to issue instructions for permanent works pursuant to Clause 28.1 of the Conditions of Contract

Pursuant to Clause 28.1 and 44.2 of the Conditions of Contract, the contractor was awarded extension of time equivalent to 138 days setting the time for completion and with time prolongation costs amounting to UGX 342,747,186/= (Three Hundred Forty-Two Million Seven Hundred Forty-Seven Thousand One Hundred Eighty-Six Only). This clearly resulted in extra project cost due to lack of appropriate contractual design from the start of the project.

Observations

The Committee makes the following observations

1. The lack of appropriate designs at the time of awarding of the contract, resulted in delayed completion of the project and increased total cost of the Project.
2. According to clause 3.1 of the memorandum of understanding between UDC and UIA, one of the conditions was to set a multi-disciplinary project implementation team to manage the project and it was to be composed of representatives from UDC, UIA, MoFPED and MoW. However, the committee was not set up which raises doubt on the technical compliance of the works.

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3. A contract worth 121,810,000 between UIA and M/S AIM engineering Uganda Limited was signed to carry out for the provision of detailed engineering designs and documentations for 6.4Km of road at Soroti Industrial and Business Park. The committee was therefore **shocked** that the design contractor failed to take into account the swampy nature of the road that needed rock fill unless the design was done without physically going on ground to take in to account the above unforeseen challenges which later cost Government another variation of Ugx 269,786,475 to do the rock fill and in spite of that MG Engineers and constructors Ltd which was supposed to execute the road works sued UIA for delays which attracted another cost of Ugx 342,747,186 as outstanding contract balance for the construction of Soroti Industrial and Business Park access road Lot 1 and 20,000,000 in damages.

6.2 GOVERNANCE AND MANAGEMENT OF SOROTI FRUITS LIMITED

6.2.1 Ownership of government interest in Soroti fruits limited

The petitioner, Hon. Ebwalu Jonathan, while appearing before the Committee, alleged that Uganda Development Corporation did not have shareholding in Soroti Fruits limited since Uganda Development Corporation was established in 2016 while Soroti Fruits limited was incorporated in 2012.

He pointed out that according to the second schedule of the Uganda Development Corporation Act, 2016 Soroti Fruits Limited, is not among the entities that are listed in which the Corporation acquires the interest of the Government.

The Committee has examined this allegation and finds as follows;

Originally, Uganda Development Corporation Limited was established under the Uganda Development Corporation Act, Cap.326 of 1952 to be the Government body responsible for investment. However, due to change in Government and subsequent change in Policy, Government repealed the Uganda Development Corporation Act, Cap. 326 under the Public Enterprises Reform and Divestiture Act, of 1993 and all the corporations that Uganda Development Corporation Limited used to manage were listed for divestiture or transferred to other Ministries for management. In 2003, Government incorporated Uganda Development Company Limited (UDCL), under the then Companies' Act, Cap .110. In January 2008, Cabinet resolved to revive the Uganda Development Corporation as the "development arm of Government" and in 2016, Government enacted the Uganda Development Corporation Act, 2016 wherein it reinstated the Uganda Development Corporation as a statutory body to manage Uganda's undertakings that were listed in the second schedule of the Act.

The Committee observes that whereas it is true that Soroti Fruits Limited is not among the entities listed in the second schedule to the Act, the Company

was incorporated under the Companies Act, 2012 with two shareholders to wit Uganda Development Corporation taking 80% and TEFCU taking 20%.

The Committee is of the considered opinion therefore, that the non-inclusion of Soroti Fruits Limited among the listed entities under the second schedule does not preclude the Company from being owned by Uganda Development Corporation since the Uganda Development Corporation is a shareholder in the Company according to the Memorandum and Articles of Association of Soroti Fruits Limited.

Section 33 (2) of the Uganda Development Corporation Act, 2016 requires the Minister responsible for industrial development to list other property, rights, assets, liabilities and obligations of Government to be included in Schedule 2, by statutory instrument.

The findings notwithstanding, the Committee is of the considered opinion that listing all the entities and undertakings in which Government has interest under the second schedule of the Uganda Development Corporations Act, 2016, would resolve issues of misconception and would safe guard Government interests in those undertakings and entities from being taken over by unscrupulous individuals.

6.2.2 Contradiction in the LPOs submitted by the factory management as opposed to those submitted by TEFCU.

According to the Local Purchase Orders (LPOs) submitted to the Committee by the Management of the factory, TEFCU has never satisfied an LPO as the Union supplies less than half of the LPOs issued by the factory. This leaves the Committee in a state of confusion as to how the farmers can lack fruit to supply the factory and yet the Committee visited orchards and found fruit falling off the trees and rotting. Further still, the factory claims to lack capacity, therefore how can one justify unfulfilled LPOs? This brings the management of the factory into question since it appears that they do not know the capacity of the factory!!!

In fact, while appearing before the Committee, the CEO could not answer questions as to the daily capacity of the factory. The fact that the factory claims to lack capacity but issues LOPs that have never been supplied in full since 2019 by the Union brings the management into question.

Observations of the Committee.

- The failure of the Unions to meet the LPOs given by the factory since 2019 to date by even 50% while fruits of individual farmers are rotting in the garden is a clear indication that the Union are blocking farmers from supplying their fruits in collaboration with the management of SOFTE.

6.2.3 Unfulfilled financial obligations of Teso Farmers' Cooperative Union (TEFCU)

The Petitioner, while appearing before the Committee alleged that TEFCU has no shares in Soroti Fruits limited since the Cooperative Association which subscribed to the Articles and Memorandum of Association is different from the Cooperative Union.

Findings of the Committee

The Committee finds that the Memorandum and Articles of Association of Soroti Fruits Limited are subscribed to by Uganda Development Corporation and Teso Tropical Fruit Growers' Co-operative Society. At incorporation, the share capital of Soroti Fruits Limited was 10,000,000 Uganda shillings (Ten million) divided into one hundred (100) ordinary shares of Uganda shillings one hundred thousand only (UGX100,000) each, with power to increase or reduce the capital. Article 6 of the shareholder's agreement requires the parties to contribute to the initial funding requirement of the Company and provide letters of comfort confirming that they shall take up the offered shares equivalent to 80% and 20% respectively of the share capital. Teso Tropical Fruit Growers' Co-operative Society owns 20% shareholding while UDC owns 80%.

Observations

1. According to the Report of the Auditor General on the Financial Statements of Soroti Fruits Limited for the year ended 30th June 2019, as at 30th June 2019, the Company had been capitalized to the tune of UGX 50,290,338,000; of this, UDC had invested UGX 20,588,019,000.
2. However, there is no evidence to show that TEFCU has made any payment although the Union alleges to have paid 2,000,000(two million Uganda shillings), as their initial contribution towards the share capital of the Company.

UDC informed the Committee that whereas the Memorandum and Articles of Association are subscribed to by a Society, the Society has since evolved into a Union.

3. TEFCU is not contributing their fair share in the financial requirements of managing Soroti Fruits Factory. The Committee was not availed with evidence to show that Uganda Development Corporation has ever called upon Teso Farmers' Cooperative Union to make their fair contribution towards the management of the fruit factory.
4. Whereas the role of UDC is to hold Government interest and as the largest shareholder in the Company, the Corporation has failed in protecting Government's interests when it failed to call upon TEFCU to make their fair contribution towards capitalization of the Factory.

According to the Report of the Auditor General on the Financial Statements of Soroti Fruits Limited for the year ended 30th June 2019, the statement of comprehensive income indicated a deficit of UGX 2,632,653,000. The Auditor general noted that this has the effect of reducing the net worth of the Company and may erode the initial capital injection.

5. Whereas section 71 of the Companies Act, 2012 provides for the power of a company limited by shares to alter its share capital, increasing

its share capital by new shares of such amount as it thinks expedient, Soroti Fruits Limited has not increased her share Capital despite enormous investment by the Government through Uganda Development Corporation into the fruit factory.

6. Section 14 of the Companies Act, 2012 urges a private company to, at the time of registration of its articles or subsequently, adopt and incorporate into its articles the provisions of the code of corporate governance contained in Table F of the Act and where adopted, annex a copy of that table to its articles of association and annually file a statement of compliance with the registrar and the Capital Markets Authority.
7. According to article 11 of the Shareholder' Agreement between Uganda Development Corporation and Teso Tropical Fruit Growers' Co-operative Society, the Company shall conform to the established principles of corporate governance as published by the Institute of Corporate Governance of Uganda.
8. Soroti Fruits Limited has not adopted the principles of Corporate Governance.

UDC on behalf of Soroti Fruits Factory Limited and Teso Tropical Fruit Co-operative Union undertook a contract for the supply of fresh orange and mango fruit for the Soroti Fruits Factory at Ugx 600 for a kilo of oranges and UGX 700 for a kilo of Mangoes.

9. This contract disadvantages farmers Cooperatives which are not members of TEFCU since TEFCU is a shareholder in the Company.
10. The Committee was astonished to discover that a shareholder (UDC) contracted another shareholder (TEFCU) to supply fruits to Soroti Fruits Limited Company, in which they both hold interest (**see Figure 2 below**).

Figure 2: picture of the committee interacting with the locals in Gweri sub county trading center



11. During an interaction with farmers in Gweri sub-County, the Committee was informed by the Community at both the plantations and in a meeting held in the trading center with the local Community and local leaders, that, a double sack of oranges weighing about 120kgs is bought from the farmers by TEFCU at a meagre price between Ugx 15,000-20,000 without weighing. TEFCU later sells the same bag of oranges to the Fruits Factory at UGX 72,000.

12. The Committee observes that buying fruits from farmers without weighing them is exploitation of the highest order and could be the reason as to why some farmers have resorted to cutting down their orchards while **others have neglected the fruits to fall and rot in the orchards**. The farmers no longer appreciate value in the fruits.

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14. Whereas Government which has invested 44.17 Billion as of the financial year ended June 2021 holds 80% shares in Soroti Fruits limited, it is shocking that TEFCU, which has invested two million UGX, owns 20% shares of the Company. Moreover, there is no evidence to date to confirm the payment of the meager UGX 2,000,000(two million Uganda shillings) contribution of initial capital.

15. There is no clear criteria through which TEFCU was selected as the most appropriate Farmers' Cooperative to represent all farmers in Teso Sub-region in the Fruits Factory. This phenomenon has disadvantaged farmers that do not subscribe to the TEFCU in various ways for instance, the farmers cannot supply fruit as individuals to the factory and TEFCU supplies the lion share in the factory. The Committee was informed that out of the 109 Fruit Farmers' Cooperatives in Teso Sub-Region, only 59 subscribe to TEFCU.

6.2.4 Financial status of Teso Fruits Limited

The committee was concerned that Government has so far invested in Teso Fruits Limited a total of Ugx 44.1 billion, in addition to the KOICA grant of USD.8 million, however, this has not yet yielded any profits and this projects towards the fact that the factory may take a longer period to sustain itself.

The committee was informed that Teso Juice Factory is a startup; yet capital intensive, it was certified by UNBS in October 2019 and went into the market in January, 2020. Hence, it is now 2 years old in the market. SOFTE like any other business, is expected to go through phases of a business life cycle, therefore, profitability may not be realized immediately in the 1st or 2nd year of operation; before a break-even is reached.

The committee also reviewed Audited financial statements for the FY2019/20 and FY2020/21 and observed the following;

- a) Sales revenue increased from Ugx.166 million by June 2020 to Shs.818 million collected by June 2021;

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- b) Cost of sales increased from UGX.1.35Bn by June 2020 to Ugx.2.285Bn by June 2021;
- c) Finance and Administration, Sales and Distribution and other operating costs reduced from Ugx.5.381Bn incurred by June'2020 to Ugx.5.3Bn incurred by June, 2021

Table 1: Percentage Change in sales revenue compared to cost of operations

Item	June'2020 (Bn)	June'2021 (Bn)	% age change
Sales Revenue	0.166	0.818	393%
Cost of sales	(1.35)	(2.285)	69%
Operational Costs	(5.381)	(5.36)	-0.40%
Total cost	(6.731)	(7.645)	
Profit	(6.565)	(6.827)	

Source: Audited Financial Statements and PBO computations

From the above table 1, the committee observed that sales revenue has increased exponentially at 393% compared to 69% change in the cost of operation.

The committee observed that SOFTE was established to improve the social economic welfare of the people of Teso sub region. While the company has made losses in its first and second year of operation, the profit motivation should not override the social aspect as part of the objective at the core of this investment.

6.3 TEJU JUICE QUALITY CONCERNS

6.3.1 Manual Packaging at final stage of production

UNBS first certified SOFTE on December 6th 2019 granting it permission to sell its juice. However, during the Committee visit to SOFTE, it was observed that some of the operation procedures such as juice packaging were manual and there was human physical contact at the final stage of packaging.

[Handwritten signatures and notes are present below the text, including "June 22", "COSTA PERMANENT", and various signatures.]

The committee observed that while SOFTE in the last two years used a manual method to package its products, this system of processing is not sustainable and slows down production including other related risks.

6.3.2 Inconsistency in tastes

The committee noted that during the manufacturing of Teju mango fruit juice, different types of mangoes with different tastes, different perishability and different scents are mixed together without rationing.

The committee observed that there is no formula by which this is being done by SOFTE thereby causing inconsistencies in tastes of the Teju juice which could affect the market of the produced juice.

6.4 ANALYSIS OF GOU'S INVESTMENT TO SUPPORT SOROTI FRUIT FACTORY

6.4.1 Provision of fruit varieties through NAADS

The committee received allegations from members of Parliament and leaders from Teso that SOFTE was rejecting some of the fruit varieties that were being brought by the farmers to the factory.

The committee noted that the factory utilizes Orange varieties that were largely promoted by NAADS in 2001 and generally available in the Teso Sub-region. These Varieties include; Valencia, Hamlin and Washington Navel. On the other hand, the committee was informed that the factory utilizes improved mangoes varieties which are available in the Eastern and Northern Regions of the country. These varieties include; Dodo, Kakule, Boribo, Zillet, Keith, Kent, Apple mango, Bire, Tommy Atkinson among others.

The committee was informed that Government through NAADS and Operation Wealth Creation interventions has distributed total of 30,908,094 Million citrus seedlings to farmers across the country in the last 5 years; from FY 2016/17 to

Observations

1. The only mango varieties not taken by the factory are the traditional mangoes which are said to have a lot of fiber which requires several systems to clean.
2. Mangoes are mainly sourced from outside Teso sub-region because the available mango varieties in Teso contain fiber that cannot easily be processed by the current mango line.
3. Whereas oranges are predominantly grown fruits in Teso sub-region, the factory found it economically viable to invest in a mango line as opposed to an orange line because the mango juice is a fast moving product that can sustain the market thus this could be one of the reasons orange growing farmers are frustrated.

True

Corporation and N2M Company Limited, the point of delivery was Soroti Fruits Limited Factory Premises.

The Committee confirmed that according to a Soroti Fruits Limited Gate pass of 20th September 2018, 240 motorized spray pumps were taken out of the Factory Premises by the leadership of the second shareholder known as TEFCU and this makes it clear that the pumps were delivered to the factory premises as required in the contract.

The Committee established that TEFCU undertook an irregular process in which the Union devised a distribution plan which involved charging farmers 200,000 (two hundred thousand Uganda shillings) per pump payable to the Board of Teso Farmers' Cooperative Union. TEFCU also identified host farmers to which Primary Cooperatives were to pay 5000 Uganda shillings and the host farmer was required to surrender an uncertain percentage to the leadership of the primary Union.

Furthermore Teso Farmers' Cooperative Union justified the charge as necessary for the Union to carry out its day to day activities and specifically to provide transportation of pumps from the factory premises to the Union office and transportation costs for the distribution of pumps to the 59 primary cooperatives in Bukedea, Kumi, Ngora, Serere, Kaberamaido, Amuria, Katakwi and Soroti, training of beneficiaries in the operation and maintenance of the pumps and creation of a sense of ownership and the union sustainability especially office, rent and security.

Observations

1. The decision of TEFCU to charge/sell farmers a fee amounting to 200,000(two hundred thousand Uganda shillings) per pump was unjustifiable and irregular and that the pumps, which were procured by the Government of Uganda should have been received by the farmers at no charge.

2. The total cost of the 240 motorized spray pumps was Ugx 528 million. This means that each spray pump was valued at Ugx 2.2 million which is way higher than the average market price of these knapsack spray pumps which is approximately **Ugx 700,000** as established by the committee during an open market survey in three different shops in container village on 22/02/2022 (**attached are quotations**)



3. Whereas these pumps were supposed to benefit all the farmers, only the farmers that were registered under the union benefited therefore disqualifying those that are not registered by the union from benefiting from the Government facility.
4. The pumps were delivered at the factory premises without distribution and beneficiary guidelines. The pumps were officially handed over by the Ministry of trade.
5. The pumps were found to be defective and of poor quality. It was reported that several pumps had broken down in the first month of use.
6. The pumps were too few to benefit the farmers in the region. In some districts, it was reported that only four (4) pumps were given.

6.5 Impact of Soroti fruit factory on Teso sub region and the country

6.5.1 Importation of concentrates and fruits

During the interaction with SOFTE, there were allegations that the factory was involved in the importation of concentrates and fruits from neighboring countries.

- URA informed that since January 2020 to date, SOFTE imported majorly sugars for industrial use with total volumes of 60,080Kgs recorded. 40,080Kgs were imported in 2021 and only 20,000kgs for the year 2020. There were other small importations by the company from 2020 to date which comprised various spare parts for machinery and equipment. URA also further stated that during the period under review, they did not record any exports by SOFTE whether regionally or beyond. In conclusion, URA confirmed that SOFTE did not make any importation of fruit concentrates or fresh fruits and subsequently did not produce enough surplus to supply the domestic market and also export their product.

Observation

The information provided by URA that SOFTE is not involved in the importation of concentrates and fruits in the country.

7.0 RECOMMENDATIONS

The Committee makes the following recommendations

1. Teso Farmers' Cooperative Union refunds, to all the farmers, the money amounting to 200,000 that was charged per pump or be prosecuted for extortion, obtaining money by false pretense, corruption, theft among others.
2. The supply of fruits be opened up to other organized farmer groups and individuals to eliminate the monopoly of TEFCU
3. The committee recommends that a fully constituted board of 5 members be appointed with immediate effect as opposed to the current interim

board consisting of 3 members who have served over 2 years on interim basis.

4. The IGG should investigate the CEO (Ndawula Douglas) and the entire management of SOFTE for possible inflation of the cost of operations and other related expenditures in FY 2020/21. For instance, the public relations and advertisement costs incurred Ugx 722 million to generate annual sales of Ugx 818 million. This implies he spends about Ugx 60 million every month to generate Ugx 68 million.
5. Government should immediately avail the factory with funds to purchase a weighbridge which has cost the farmers enormous losses as the current system takes two (2) hours to offload a ten (10) ton truck, two (2) extra hours to do the sorting and manually weigh using ten (10) staff therefore farmers whose produce go bad as a result of this delay are forced to dispose their produce at their own cost.
6. Government should provide the factory with funds to procure an orange fruit processing line for the processing of oranges which are predominantly grown by farmers in the Teso sub-region
7. UDC should terminate the contract between UDC and TEFCU where a shareholder gifted another shareholder with a contract to monopolize and supply fruits.
8. The enforcement of separation of power so that there is a clear distinction between the management of UDC and TEFCU in order to foster good corporate governance as stated in the shareholder agreement.
9. A forensic audit into the management and execution of the contracts for provision of perimeter wall and road works, services and supplies to SOFTE.
10. The 20% shares in SOFTE allegedly owned by TEFCU be opened up to other farmer cooperatives and unions in Teso sub-region for subscription and acquisition of interest in the company

11. Ministry of Agriculture should provide genuine pesticides to citrus fruit farmers, provide advisory services and research focusing on disease and pest control and more improved varieties
12. All the staff starting with the CEO should have their contracts reviewed and given performance contracts so as to attain the strategic objectives of the establishment.
13. The project manager (Masiko Jude Benda) in charge of the contract for completion of a perimeter wall and construction of marrum road be investigated with a view of prosecution on allegation of causing financial loss.
14. NAADs should carry out a census in regards to the seedlings they have distributed throughout the country with the view of ascertaining the impact of NAADs contribution to the agricultural sector.
15. The Auditor General should carry out a value for money audit into the management of Soroti Fruits Factory and report back to Parliament.
16. The second schedule of the Uganda Development Corporation Act, 2016 is amended to list all entities and undertakings in which the Government interest is held by Uganda Development Corporation.
17. The nomenclature of the shareholders in Soroti Fruits limited should be clarified to avoid any ambiguity in prescribing for liabilities and assets of the Company as well as understanding the actual subscribers to the Articles and Memorandum of Association of the Company.
18. In order to grow the Company and ensure that Soroti Fruits factory meets the demand of the farmers; all the shareholders should make their fair contribution towards the capitalization and administration costs of the Company.
19. UDC, being the majority shareholder in Soroti Fruits Limited should incorporate corporate Governance in the management of the Company so as to ensure that Government Commercial interests in the Company are secured.

20. SOFTE should be given funds to procure a fully mechanized packaging line to improve efficiency and effectiveness of production.

21. The various officers; Ms Nanziri F, Ms Namagembe E and Ms Nantongo H, from the office of the Solicitor General who cleared the contracts in contention that are believed to have caused financial loss, be investigated with a view of prosecution.

7.0 Conclusion;


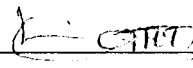
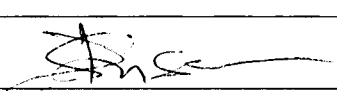
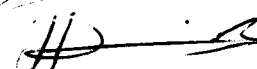
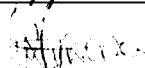
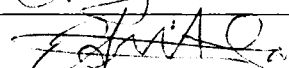
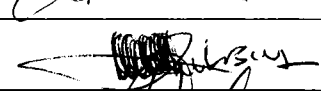
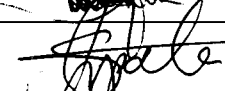

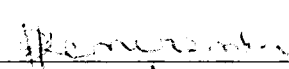
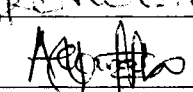
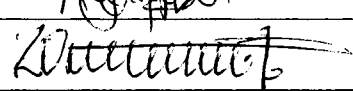
Soroti Fruits Limited was incorporated to add value to fruits that were abundantly underutilised; to address the high post-harvest losses, provide market for the farmers produce, and create employment opportunities along the value chain, thus increased and diversified household incomes within the greater Teso Sub-region. This objective is yet to be achieved and the establishment should therefore, be supported by all concerned stakeholders; to ensure that the objectives of its establishment are achieved in their entirety.

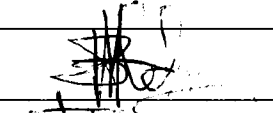
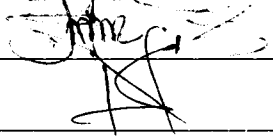
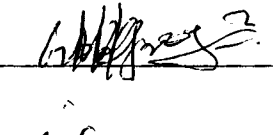
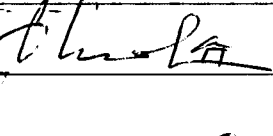
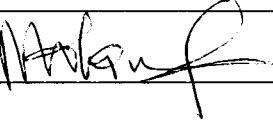
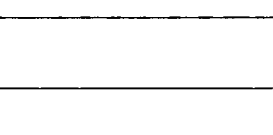
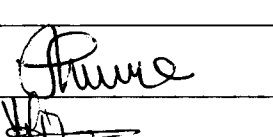
I beg to submit

ENDORSEMENT OF THE REPORT

Report of the Committee on Tourism, Trade and Industry on the Mismanagement of Soroti Fruits Limited (Factory)

February 2022

No.	Name	Party	Signature
1.	Hon. Mwine Mpaka Rwamirama	NRM	
2.	Hon. Catherine Lamwaka	NRM	
3.	Hon. Afidra, Ronald Olema	NRM	
4.	Hon. Aleper, Margaret Achilla	NRM	
5.	Hon. Amero, Susan	INDEP	
6.	Hon. Amooti, Bright Tom	NRM	
7.	Hon. Atukwasa, Rita	INDEP	
8.	Hon. Awor, Betty Engola	NRM	
9.	Hon. Businge, Harriet Mugenyi	NRM	
10.	Hon. Edakasi, Alfred Elalu-Olale	NRM	
11.	Hon. Gafabusa Richard Muhumuza	NRM	
12.	Hon. Isabirye, David Aga	FDC	
13.	Hon. Kalwanga, David Lukyamuzi	NUP	
14.	Hon. Kayemba, Geoffrey Ssolo	NUP	
15.	Hon. Kemirembe, Pauline Kyaka	NRM	
16.	Hon. Kirabo, Agnes	NRM	
17.	Hon. Koluo, Joseph Andrew	INDEP	
18.	Hon. Koyekyenga, Oliver	NRM	

19.	Hon. Mbwarekamwa, Gaffa	NRM	
20.	Hon. Mugole David Stephen Mauku	NRM	
21.	Hon. Mushemeza, Elijah Dickens	INDEP	
22.	Hon. Nayebele, Sylvia	NRM	
23.	Hon. Odero, Godfrey Were	INDEP	
24.	Hon. Ogwal, Cecilia Atim	FDC	
25.	Hon. Okello, Geoffrey Charles	DP	
26.	Hon. Osoru, Mourine	NRM	
27.	Hon. Ssentayi, Muhamad	NRM	
28.	Hon. Ssimbwa, Fred	NUP	
29.	Hon. Timuzigu, Michael Kamugisha	NRM	
30.	Hon. Wanyama, Michael	NRM	
31.	Hon. Mwijukye Francis	FDC	
32.	Hon. Katoto Muhamad	NRM	