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Brussels, 14-20 May 2001

Country presentation

by

THE GOVERNMENT OF UGANDA

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ACTION PROGRAMME FOR THE DEVELOPMENT OF UGANDA 2001-2010

Note

This report has been prepared on the basis of the PEAP for the above Conference under the responsibility of the Ministry of Finance, Planning and Economic Development, in a highly participatory and consultative manner with members of the National Steering Committee consisting of representatives of all Sector Working Groups, key line ministries, Civil Society, NGOs and donors. The report begins with a review of the progress in the implementation of the Action Plan of the 1990s.

March 2001

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Acronyms

BFP	Budget Framework Paper
ERP	Economic Recovery Programme
ESIP	Education Strategic Investment Plan
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
GNP	Gross National Product
HIPC	Heavily Indebted Poor Countries
HSSP	Health Sector Strategic Plan
IMR	Infant Mortality Rate
LDC	Least Developed Countries
MFPED	Ministry of Finance, Planning and Economic Development
MMR	Maternal Mortality Ratio
MTEF	Medium Term Expenditure Framework
NEAP	National Environment Action Plan
NEMA	National Environment Management Authority
NRM	National Resistance Movement
NSF	National Strategic Framework for HIV/AIDS Activities
NTBs	Nontariff Barriers
ODA	Official Development Assistance
PAF	Poverty Action Fund
PEAP	Poverty Eradication Action Plan
PHC	Primary Health Care
PMA	Plan for Modernization of Agriculture
PMAU	Poverty Monitoring and Analysis Unit
PRSP	Poverty Reduction Strategy Paper
PSR	Poverty Status Report
SAPs	Structural Adjustment Programmes
STD	Sexually Transmitted Diseases
TDS	Total Debt Service
UMA	Uganda Manufacturers Association
UPE	Universal Primary Education
UPPAP	Uganda Participatory Poverty Assessment Project
URA	Uganda Revenue Authority
VAT	Value Added Tax

INTRODUCTION

The country

Uganda is a landlocked country in the East African region. The country that covers a total surface area of 241,038 km^2 is basically agrarian with over 80% of the population deriving their livelihood from the agricultural sector. The country's total midyear population for 2000 is estimated at 22.21 million, with a relatively high growth rate of 3.0 percent (1992-1998) compared to 2.6 percent for sub-Saharan Africa and 1.7 percent for low-income countries, over the same period.

Uganda is well endowed with an extensive water resource that does not only provide hydroelectric power for domestic and export consumption, but also is a basis for the fishing industry. The country is also endowed with minerals which are not yet fully exploited. Major minerals of economic importance are copper, limestone, volcanic ash, cobalt and iron ore. Petroleum exploration and development is another potential area that is gradually attracting investment. However, in the short and medium term, the country's comparative advantage lies in the development of the agricultural sector.

Economic structure and key constraints

Over the past 10 years, Uganda's economy has more than doubled growing at an average rate of 6 percent per annum. The country has achieved strong, broad-based economic growth, with low inflation and an improved balance of payments, through the implementation of a wide range of macroeconomic policies and structural reforms. As a result, the structure of the Ugandan economy changed significantly reflecting the rapid growth of manufacturing and construction, and the decline in the relative share of agriculture (see Table 1.3). The share of monetary agriculture of total GDP dropped only marginally from 24.3 percent in 1989/90 to 23.1 percent in 1998/99; the decline was largest in non-monetary subsistence agriculture, the share of GDP falling from 29.6 percent in 1989/90 to 19.7 percent in 1998/99.

The observed structural changes in the economy coupled with the impressive economic growth translated into poverty reduction across all income groups, regions and districts. Per capita income rose by 32 percent from a mere US$ 200 in 1990 to US$ 296 in 1998. Similarly, the incidence of poverty fell by 12 percentage points between 1992 and 1998. However, despite these encouraging trends, poverty remains endemic in Uganda and the level of per capita income is still very low. While strong economic growth is a major force in reducing poverty, it is not sufficient to ensure that all segments in society benefit fully. For instance, the decline in poverty has been more pronounced in urban than in rural areas where the majority of the poor live and poverty remains more severe in the northern and eastern regions. Several factors account for the current disparities in the incidence of poverty, including insecurity, climatic variations, HIV/AIDS incidence, type of agricultural activity and the degree of access to infrastructure and social services. Vulnerability to external shocks is another factor that continues to negatively impact on the economic and social gains.

Future challenges

In the forthcoming period, Uganda still faces many challenges. While important initial steps have been undertaken to implement a broad-based poverty reduction programme, within the context of the Poverty Eradication Action Plan (PEAP), indications are that the recent actions and resultant gains achieved have not consistently improved the well-being of the poorest 20 percent of the population. The role of the budget as a poverty reduction instrument needs to be strengthened through closer alignment of the central and district budget systems and improved monitoring mechanisms. There is also need to deepen structural reforms, particularly in the financial and parastatal sectors, and building up of an effective public service delivery system, particularly at the district level. The major challenge in the short to medium term therefore, will be increasing the capacity of districts in planning, budgeting and programme implementation.

The experience of undertaking the various economic and structural reforms in the 1990s provide many lessons that are extremely useful in making optimal decisions during the first decade of the 21st century. The development path that Uganda has embarked on since 1997, with the formulation and implementation of the PEAP and sector-wide approaches to planning and investment, is extremely challenging requiring undivided focus by policy makers and implementers and genuine participation by all stakeholders.

This action plan

In this action plan, we address the internal and external problems that Uganda faces, the various policy and administrative reforms, the service delivery systems, the efforts being undertaken to mobilize domestic resources, the gains that have been achieved so far in trying to reduce poverty levels, as well as the future development strategies and investment requirements. This report also serves as a position paper on the progress by Government of Uganda in implementing its commitment to various conferences and summits including the UN Programme of Action for the 1990s, the Paris Club, Copenhagen World Summit, Beijing and Cairo conferences.

It is important to state from the outset that, since 1987, the Uganda Government has implemented a number of economic reforms aimed at reversing the negative economic growth, and improving people’s standards of living. In other words, even before most of the above named conferences and many others that have not been named here, the Government of Uganda had a commitment to improve the living standards of its people. Therefore, the endorsement of the above declarations by Uganda, among other countries, was a symbol of renewed commitment to the same cause.

The information and analysis contained in this document drew extensively from existing reference materials from Government departments, developed through long consultative processes including the PEAP, Plan for Modernization of Agriculture (PMA), Medium-Term Competitive Strategy for the Private Sector and other sectoral plans. Publications from NGOs, donors, research and academic institutions were also extensively used, complemented by key informant interviews and position papers.

Report format

The document is organised in the following manner. ***Chapter 1*** provides an assessment of the country's performance in the 1990s, with specific reference to key social and economic indicators. It also highlights the key factors that explain the observed trends and presents an analysis of Uganda's competitiveness in the global setting and the extent of the country's integration in the multilateral trading system.

Chapter 2 clearly identifies the priority constraints to the country's development, providing trends within the last decade while ***Chapter 3*** provides examples of best practices in Uganda or policy initiatives that have worked in practice. ***Chapter 4*** presents the programme of action for the next decade, which gives an overview of the national aspirations and objectives, the strategic framework and arrangements for implementation, and monitoring and evaluation. Targets and performance indicators are discussed together with the investment requirements for the next decade. This chapter summarizes the Government of Uganda intentions stated in the Poverty Eradication Action Plan, which is the overarching policy framework for poverty eradication during the period 1997 to 2017.

CHAPTER 1

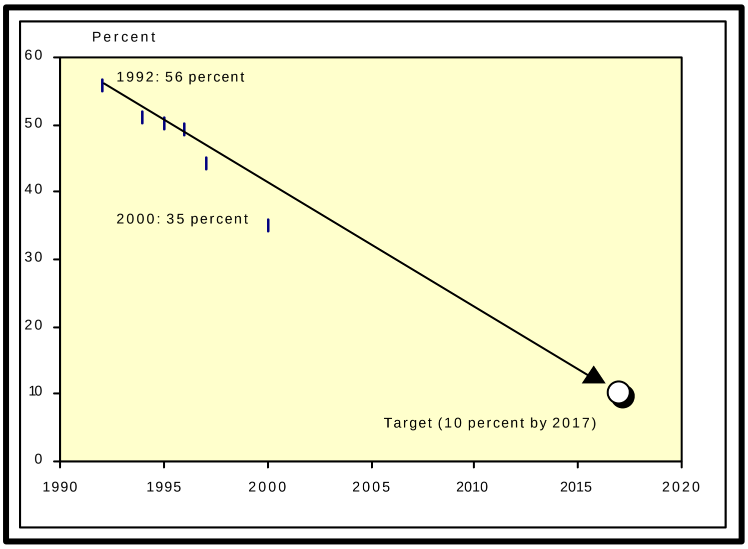
PERFORMANCE IN THE 199Os

Uganda has achieved strong economic growth and macroeconomic stability in the last decade, owing largely to the implementation since the late 1980s of an ambitious programme of macroeconomic adjustment and structural reform. This chapter reviews the trends in the poverty status and the key economic and social indicators, which have influenced the country's path of development over the past decade. Further analysis is made of the country's competitiveness and extent of integration in the multilateral trading system.

1.1 Poverty Trends

Uganda has since 1992 conducted five nationally representative household surveys measuring the living standards of the population. Recent analysis in the 2001 Uganda Poverty Status Report shows a consistent downward trend in income poverty, and suggest that Government is on track in achieving its target of eradicating poverty (Figure 1.1).

Figure 1.1 Consumption poverty headcount, 1992-2000



In 2000, 35 percent of Ugandans were not meeting their basic consumption requirements, a significant reduction from the 1997 level of 44 percent and 56 perecnt in 1992. However, inequality has risen since 1997. This is partly a result of higher urban income growth than rural, and the decline in living standards in the rural areas of the North mainly due to insecurity. Between 1997 and 2000, the consumption gains were larger for the top decile (the richest 10 percent of the population), which saw its real consumption levels increase by 20 percent. Consumption levels of the poorest decile grew by just 8 percent during the period, implying an increase in income inequality[1]. The rest of this chapter highlights the key economic and social indicators while next chapter attempts to put forward plausible

[1] The Uganda Poverty Status Report 2001 (Feb draft).

explanations for the observed trends in the poverty status and the various development indicators.

1.2 Economic Indicators

1.2.1 Overall Macroeconomic Performance

The 1990s witnessed commitment by the Government of Uganda in correcting distortions in the economy through adoption and implementation of sound and prudent macroeconomic policies plus targeting public investment to infrastructure development and the social sector. Table 1.2 illustrates the trend of economic growth in real terms over the period under review.

Table 1.2: Real GDP Growth Rate

Year	1990/91	1991/92	1992/93	1993/94	1994/95	1995/96	1996/97	1997/98	1998/99	1999/20
Real GDP (%)	5.2	3.1	8.4	5.4	10.6	7.8	4.5	5.4	7.4	5.1

Source: MFPED – Various issues of the Background to the Budget

Overall, the economy expanded at an average rate of 6.0% per annum, 1.0 percentage point lower than the set target. The average annual inflation fell from 24.6 percent in 1990/91 to –0.2 percent in 1998/99, and the gross reserves rose to cover about five months of imports. This achievement was a result of effective implementation of the Economic Recovery Program (ERP) that Government launched in 1987. The broad policy objectives of the program included macroeconomic stability, liberalization of the money and foreign exchange markets, removal of trade barriers and privatisation of public enterprises. The enhanced good governance and the strengthening of democratic institutions instilled much greater citizen and investor confidence in government.

The projected rate of real GDP growth for the medium term (2000/01 – 2003/04) is at least 7 percent per annum. The underlying assumptions are that the policies of privatisation, investment in the social sector, the reform of the public utilities and increased investment in public infrastructure will ensure that rapid and broad based growth will be sustained in future.

Trending together with the overall economic growth, other economic variables have also shown considerable improvement over the past decade. For instance, Uganda has witnessed considerable improvement in its overall investment rates. Gross domestic investment has averaged 14.3% since 1988 and 15.3% since 1990, and foreign direct investment (FDI) has risen to over 2% of GDP since 1996 compared to an average of 0.4% of GDP since 1975. The growth in FDI in recent years is largely attributed to the more favourable business environment in the country resulting in enhanced investor confidence.

The overall public deficit, excluding grants, was reduced from 15 percent of GDP in 1991/92 to 7.2 percent in 1997/98. Including grants, the changes have been from 7.6 percent of GDP to a mere 1.1 percent of GDP over the same period. The overall external balance is projected at a surplus of US$ 108 million by end June 2000, compared to almost a balanced position 12 months earlier. In real terms, the overall balance of payments was equivalent to 1.9% of GDP in 1999/2000[2]. The trends of selected macroeconomic indicators are summarized in Annex 1.

1.2.2 Sectoral Contributions to GDP

The decomposition of real GDP growth by sector (Table 1.3) reveals significant progress registered in most sectors of the economy during the past decade, with the industry and service sectors leading. Over the 1989/90 to 1998/99 period, monetary agriculture grew by almost 6 percent per year while non-monetary agriculture grew by only 2 percent. The fluctuations in the performance path was largely influenced by weather conditions, the coffee wilt disease and decline in international coffee prices.

Table 1.3: Percentage Contribution to Real GDP Growth by Major Sectors of the Economy

Sector	1990/91	1992/93	1994/95	1996/97	1998/99	1999/20
Agriculture	2.6	9.3	5.9	1.1	6.9	3.0
o/w Food crops	1.7	12.3	7.7	-2.0	7.4	3.4
Mining & Quarrying	83.2	10.4	9.1	50.2	5.2	5.0
Manufacturing	5.5	7.0	17.3	13.4	11.3	8.6
Electricity	15.3	5.6	11.4	10.1	6.1	11.1
Construction	8.4	10.1	25.2	7.2	7.2	8.5
Commerce	4.9	6.9	21.6	3.1	8.9	4.9
Transport & Communications	4.4	7.2	14.3	10.6	8.3	8.0
Community services	7.9	7.9	7.2	6.3	5.0	5.1
Owner occupied dwellings	2.7	3.7	6.9	8.0	8.0	8.0
Real GDP Growth Rate	5.2	8.4	10.6	4.5	7.4	5.1

Source: MFPED

The observed growth in the construction sector is mainly attributable to the rehabilitation and renovation of physical infrastructure and the increased demand for housing. Similarly, the manufacturing sector also registered high growth rates attributable mainly to operationalization of the rehabilitated industries and new entrants into the manufactured goods market. The other sectors including that of Mining and Quarrying, Electricity, Commerce, Transport and Community Services

Sector, and Housing also grew at high and positive rates. Electricity generation increased significantly in 1999/2000 due to the ongoing upgrading of the Owen Falls Dam.

[2] Background to the Budget 2000/01, MFPED.

1.3 Social Welfare Indicators

While significant leaps have been witnessed in the economic indices of the country, social provisions have continued to perform rather poorly over the past ten years. In the health sector, life expectancy in Uganda has been estimated at 42 years in 1997 having fallen from 50.9 in 1995[3], which is exceptionally low. Such low figures are attributed to the HIV/AIDS pandemic, both the direct and indirect effects of insurgency in some parts of the country and the slow improvement in the country's health delivery systems. However, Uganda's aggressive HIV/AIDS public health programme made it one of the first countries in sub-Saharan Africa where HIV prevalence is steadily declining (also refer to Box 2.1).

Although there has been some improvement in the country's mortality levels in the 1990s, they are still high compared to the neighbouring countries (Table 1.4). Under-five mortality is still high, though it fell significantly from 180 per thousand in 1980 to 162 in 1997. While the infant mortality rate has greatly improved over the past few years, falling from 116 per 1000 live births in 1980 to 99 per 1000 in 1997, it remains significantly higher than that of comparator countries like Kenya, Ghana and Zimbabwe.

Table 1.4 Mortality indicators in selected African countries 1970 - 1997

	Infant mortality rate (per 1000)			Under-five mortality (per 1000)			Life expectancy at birth (years)	
	1970	1980	1997	1970	1980	1997	1980	1997
Botswana	95	71	58	139	94	88	58	47
Cote d'Ivoire	135	108	87	240	170	140	49	47
Eritrea	…	91	62	…	…	95	44	51
Ethiopia	158	155	107	239	213	175	42	43
Ghana	112	94	66	186	157	102	53	60
Kenya	102	75	74	156	115	112	55	52
Lesotho	134	119	93	190	168	137	53	56
Malawi	193	169	133	330	265	224	44	43
Nigeria	139	99	77	201	196	122	46	54
South Africa	79	67	48	108	91	65	57	65
Tanzania	129	108	85	218	176	136	50	48
Uganda	**109**	**116**	**99**	**185**	**180**	**162**	**48**	**42**
Zambia	106	90	113	181	149	189	50	43
Zimbabwe	96	80	69	138	108	108	55	52

Source: World Development Indicators (World Bank).

Fertility rates have shown improvement from 7.1 children per woman in 1987 to 6.7 in 1996. However, this is still on the high side, comparing unfavourably with other countries in Eastern and Southern Africa. For example, the fertility rates for Kenya, Tanzania, Ghana and Nigeria

[3] World Development indicators; UNDP Global Human Development Report, 1998.

in 1995 were 5.1, 5.7, 5.5, and 6.2 respectively. The 1998 Uganda Human Development Report argues that, if the high fertility rate in Uganda remains unchecked, it would have short and long-term effects of dampening the gains made on the human development front, among other considerations.

However, one has to remember that family size is an individual choice. The population control policy therefore intends to operate through changing incentives and awareness, and ensuring access to reproductive technology. Access to family planning services is part of the minimum health care package in order to ensure that all those who want to limit their family size can do so.

Other social indicators such as access to safe water and sanitation and gross primary enrolment rates indicate progress. There has been some improvement in access to safe water in rural areas from 39 percent in 1997 to 49.8 percent in 1999/2000. The policy of free primary education for four children in every family (UPE) introduced in 1997 increased enrolment enormously. Two and a half million children entered the schooling system and the gross enrolment rate, using school-based data, rose to 128% in 1997 and 145% in 1999. However, women have a lower education status, as evidenced in the 50 percent female illiteracy compared to 26 percent for males in 1997 (World Development indicators), which has implications for poverty reduction. Lower literacy rates combined with other factors such as adherence to traditional norms, prevent women from taking full advantage of economic opportunities and available technologies to improve production, particularly in the food crop sector where they dominate.

1.4 Competitiveness and Comparative Advantage

Competitiveness has emerged as a critical element of development in every nation. A four-year study of ten important trading nations by Michael Porter[4] reveals that a nation's competitiveness depends on the capacity of its industry to innovate and upgrade. The ability to produce a high and rising standard of living for its citizens depends on the productivity with which a nation's human resources, capital and physical assets are deployed.

Uganda has been shown to have a favourable policy environment but a low overall competitiveness ranking. The Africa Competitiveness Report (1998) ranked Uganda below the average at 14th out of 23 countries surveyed in terms of its overall environment for competitiveness. Countries with a higher competiveness than Uganda included Mauritius, Tunisia, Botswana, Namibia, Morocco, Egypt, South Africa, Swaziland, Ghana, Lesotho, Cote d'Ivore, Zambia and Kenya in that order while those performing much worse off included Burkina Faso, Tanzania, Ethiopia, Mozambique, Cameroon, Zimbabwe, Malawi, Nigeria and Angola.

Several factors can explain the observed state of affairs in the country in terms of competititveness. Apart from the prevailing conducive macroeconomic policy environment,

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[4] Michael E. Porter, 1990. The Competitive Advantage of Nations. Harvard Business Review.

political stability for over ten years has minimized the investment risks and built the confidence of both indigenous and foreign investors. Uganda has also made progress in reforming its overall trade policy environment. The numerous reforms implemented over the years, including the reduction of certain bans on imports and import tariffs and elimination of licensing requirements, have all contributed positively to the country's competitiveness.

On the downward side, while reform of the trade policy environment has been significant in recent years, the practical implementation of reform has been slow and local businesses perceive continued obstacles. The limited availability of reasonably priced export credits and export insurance in the country is a major hindrance to export competitiveness. Lack of uniform standards and weak quality control supervision do affect Ugandan exports. And although the Ugandan financial sector has undergone considerable derugulation since 1993, structural problems remain and continue to affect business growth. These include the high cost of non-performing loans, high administrative costs, poor risk management and limited local investment opportunities. The increased private sector investment necessary to sustain the country's growth will depend heavily on the ability of government to strengthen financial sector reforms and develop a broader-based capital market in which the public has confidence. Infrastructure, particularly electricity, roads, transport and industrial space is a key area that needs strengthening to increase the country's competitiveness.

1.5 Extent of Economic Integration

Uganda's economy is closely linked to international trade and since the beginning of the 1990s, Government policy has focused on liberalizing the economy by undertaking a comprehensive programme of trade reforms designed to open the economy and increase the country's competitiveness. It has taken measures to expand its market, first by embracing regional integration through the East African Co-operation (EAC) and COMESA and secondly by being a founder and active member of the World Trade Organization (WTO). The treaty signed establishing the East African Community (Uganda, Kenya and Tanzania) is intended to consolidate a market where producers can have access to the 81 million people in the EAC countries. Uganda is also a signatory to the Lome Convention. The integration of the Ugandan economy in the multilateral trading system in the wake of the Economic Reform Programme contributed to the improved performance of the economy in the 1990s.

The openness of the Ugandan economy evolved systematically. It commenced with elimination of non-tariff barriers and followed by reduction of tariffs to a low level within the Eastern and the Southern African regions. Under trade regimes, Government implemented a wide range of policy measures. These included reducing tariffs and variance within the tariff structure towards a uniform tariff in the regional groupings, reducing import bans, eliminating tax exemptions and holidays, eliminating licensing and administrative allocation of import financing. These reforms, however, met at times with difficulties in implementation. Conflicts in trade policy emerged as Government pursued parallel efforts of increased openness of the economy on the one hand and promotion of domestic industries on the other. The trade policy was complicated by lack of coherent and co-ordinated approach to openness in African region.

By 1993, Uganda had moved away from import licensing to import certification. This was coupled with a list of prohibited goods, including beer, soft drinks, batteries and cigarettes. The budget speech of 1997/98 fiscal year announced Government plans to eliminate import bans by April 1998 and to move to a common external tariff within COMESA by April 1999. The export tax, particularly that on coffee, was eliminated by 1992; although coffee stabilisation tax was temporarily re-imposed during the coffee boom in 1994/95 fiscal year. The reform of the tariff structure stimulated a more efficient allocation of productive resources and also reduced the burden of tax administration. The high variance in tax rates and tax exemptions tempted traders into classifying imports under lower tariff brackets or into categories of exempted goods. It also facilitated rampant inward smuggling of goods and services.

By 1999, Uganda was accorded a rating of 2 down from 9 labelled in 1985 on the IMFs Index of Trade Restrictiveness; a scale that indicates a country's degree of openness on the basis of 10 point index, whereby countries with a rating of 1 - 4 are "open", 5 - 6 are "moderate" and "7 - 10" are restrictive. Although Uganda has opened up its economy, there is still much more to be done to integrate the economy in the multilateral trading system. While a lot has been accomplished at policy level, there is need for Government to remove the anti-export bias of the tax regime to enhance efficiency through greater competition in order to boost exports. The current effort of Government moving to low uniform taxes within COMESA will address this issue. However, it will require some degree of co-ordination with other countries for smooth implementation. Continued trade liberalisation and harmonisation of tariff structures will reduce smuggling and under-reporting of imports; hence improving further the environment for business growth and integration of the economy in the multilateral trading system.

However, most Ugandans especially the private sector have not yet understood and conceptualised the implications of the WTO agreements to the economy, and although the country has witnessed remarkable growth in the past 10 years, it still faces numerous impediments that constrain its domestic supply response to opportunities created by the Multilateral Trade System (MTS). The strategic objective of Government therefore, is to maximise the potential and opportunities arising from the MTS.

To achieve this objective, the Government of Uganda adopted the Integrated Framework for Trade-related Technical Assistance Programme (IFTTAP), its main purpose being to enable Uganda maximise benefits accruing from the TA support it receives from its development partners. The programme is based on Uganda's Trade-related Needs Assessment on integrated initiatives endorsed at the High-level meeting (HLM) held in Geneva in October 1997. Uganda has also, since the past two and a half years, been implementing the Joint Integrated Technical Assistance Programme (JITAP), a pilot regional programme embracing 8 African countries namely Benin,

Burkina Faso, Tanzania, Uganda, Cote d'Ivoire, Ghana, Kenya and Tunisia. Executed jointly by WTO, UNCTAD and the International Trade Centre (ITC), the main objective of JITAP is to facilitate Uganda's integration in MTS based upon WTO agreements.

While some successes have been registered in the area of human capacity building under these programmes in Uganda, there are still many institutional bottlenecks that limit the country's ability to fully benefit from the opportunities offered by the MTS. Chief among the key impediments to improved supply response are poor infrastructure, unreliable public utilities, low levels of education and skills, poor technological base, weak export institutional framework, market access problems, limited access to trade and finance and cumbersome customs procedure. Government is committed to providing a stable macro-economic environment and is in the process of addressing many of these constraints.

There is need to build capacity in the various ministries dealing with trade policy to enable them manage trade arrangements effectively and to implement the necessary reforms. Improved coordination channels within and between these ministries are a necessity if the intended goals are to be achieved. The poor donor response in terms of pledges towards IFTTAP is a major constraint and the long and expensive bureaucratic procedures associated with these programmes need to be cut down.

Government will need additional support in order to fully integrate Uganda's economy in regional economic arrangements and the MTS. The two broad areas that need support include capacity building and compliance with WTO and Regional Trade arrangements and overcoming supply constraints. Strengthening institutional linkages between ministries and other institutions dealing with trade remains a major challenge that the Government of Uganda is committed to work on in order to increase the effectiveness of ongoing and future programmes that are trade-related. However, too little is known about the links between economic integration and poverty, an area that calls for much more intensive study.

CHAPTER 2

ASSESSMENT OF FACTORS THAT HAVE FACILITATED OR CONSTRAINED UGANDA'S DEVELOPMENT

Despite the impressive macroeconomic performance of the Ugandan economy in the 1990s, as illustrated in the previous chapter, poverty in the country remains pervasive. This chapter identifies the factors that have contributed to improvements in the social and economic situation of the country and those that have had a negative impact. The analysis conveniently discusses the factors under two main groupings: domestic opportunities and constraints and external factors.

2.1 Domestic opportunities and constraints

To contextualize the discussion in this section, we begin by looking at the various policy reforms that have been implemented over the past two decades with consequence to the current poverty status and development process and then move to more specific areas that highlight the opportunities and constraints that Uganda continues to face as we move into the new decade.

2.1.1 Policy reforms

The nature of policy reforms in Uganda and the resultant impact can only be understood by going back into the past. The history of economic and political mismanagement and the lack of coherent policies in Uganda during the 1970s and early 1980s, as well as the existence of strategic policy making and implementation by the Government of Uganda thereafter with positive impacts, is well documented[5]. A snapshot of the various stages of policy reforms that have determined the path of growth and development is hereby presented.

1981 - 1984 policy reforms

The period preceding the late 1980s was characterised by a tremendous decline in production with most industries operating at very low levels of capacity utilization, poor export performance, a very weak financial sector, an overvalued exchange rate, high inflation and large government deficits.

To restart growth, the Government of Uganda placed high priority on re-establishing macroeconomic stability and securing operational and long-term finances from external sources. An agreement was made with IMF in 1981 to meet these strategies and programme. An extensive analysis by Torgny *et al* in 1999 shows that the programme

[5] Torgny Holmgren et al, 1999; Tumusiime-Mutebile, 1995; MFPED publications; Uganda Government's policy Framework Paper, 2000;

collapsed in 1984 due to a number of problems and oversights on part of government. For example, little progress was made towards improving the tax structure and administration and the stabilization programme was not accompanied by commitment on the part of government to institute reform measures to curb inflation, improve service delivery and allocation of productive resources. As a result economic performance deteriorated with real GDP declining by 10 percent between 1984 and 1985, inflation bouncing back from double to triple levels by 1985 and both exports and imports declining in volume.

1986 policies

The new and current government in 1986 faced major challenges in almost all facets of the economy. In order to reverse the gloomy situation, the government together with its development partners, developed a comprehensive macroeconomic framework aimed at re-starting economic growth. There was, however, lack of consensus on some key areas of macroeconomic management, in particular the choice between a closed and open economy. The Government chose a closed model and opted for a revaluation which turned out to be a mistake as this fueled more macro-economic stability and worsened external viability. The government also commenced on a programme built on price controls, which resulted into the intensification of macroeconomic imbalances. The reform programme of 1986 was inconsistent to the extent that by 1987, it had become evident that a new programme was needed.

1987 - 1991 policy reforms

The Government in May 1987, supported by IMF and the World Bank, introduced an Economic Recovery Programme (ERP) aimed at achieving a positive economic growth of at least 5% per annum, restoration of price stability, halting and reversing the deterioration of balance of payments and strengthening the institutional framework. The rehabilitation of the economy relied to a large extent on donor support thus worsening the debt situation. The major results following the adoption of the ERP between 1987 and 1991 included the lowering of inflation from an average of 190 percent to about 28 percent per annum by 1991; GDP growth rate revived to an average of 6.3 percent per annum; and a slow recovery was made in exports, private and public sector investment.

1992 - current policies

The Government of Uganda in 1991/92 implemented wide-ranging policies intended to eliminate the structural and financial bottlenecks that constrained economic stabilization. The key policy measures that have been undertaken in the past decade are shown in Box 2.1. The macroeconomic policy reforms, aimed at prudent fiscal and monetary management, improved incentives to private sector, reforming the regulatory framework

Box 2.1: Key Government Policy Reforms

- Fiscal and Monetary Policies
- Exchange Rate Liberalisation
- Trade Liberalization
- Financial Sector Reforms
- External Debt Policy
- Decentralization
- Privatization
- Public Sector Management Reforms

and developing human capital, have registered enormous success. However, in order to consolidate these gains and significantly contribute to poverty eradication, Government intends to continue focusing on increased investment in expansion of the infrastructure and human capacity and strengthening institutional capacity both in the public and private sector. In this respect, reforms in the civil service, decentralisation and the financial sector will be central to institutional strengthening.

2.1.2 Peace and social stability

In Uganda, consultations with the poor have shown that insecurity is among their most pressing problems. Armed conflict has been a decisive factor in the impoverishment of the North, and some parts of the East and West. Uganda has hosted and continues to host refugees from a number of neighbouring countries. By September 1999, the internally displaced population of Uganda was estimated at 529,215 rising to 736,004 by May 2000, with spill over effects to many people who are actually not displaced. Regional conflicts, troop movement, and resulting refugee movements are likely to exacerbate the HIV/AIDS pandemic in Uganda and the region.

Cattle rustling, which is common in the north eastern part of the country, has exacerbated the poverty situation through loss of cattle, property and lives. In many instances, civil and political conflict has led to increased responsibility for vulnerable groups. The elderly, women and even children have been forced to take care of entire families, shouldering heavy household responsibilities, many times with no reliable source of income.

Paul Collier[6] discusses four key factors that may explain why Uganda is prone to conflict in some areas. First, poverty seems to be a cause of conflict particularly in the poorer districts of Uganda. Secondly, given that Uganda is bordered by several politically problematic states, namely Sudan and Congo, the border regions are prone to rebellion with rebels using the neighbouring states both as safe havens and for logistical support. Thirdly, those regions with the largest stock of former soldiers are potentially the easiest recruiting grounds for rebel organisations and finally, those regions that are least represented in the government are least able to achieve their objectives through political means. On all these criteria, the northern region has turned out to be the most prone to rebellion over the past decade.

These arguments are, to a large extent verified by the findings from the participatory assessment involving 36 communities in Uganda. People observed that insecurity partly reflects low incomes, and in some communities, poor young men were reported to join the rebel groups for offers of 200,000 shillings (equivalent to less than US$ 200). Cattle rustling reflects particular cultural and economic factors in Karamoja, which is one of the least developed regions, as well as districts in neighbouring countries. Persuading people to abandon the practice of cattle-rustling will require improvements in the economic opportunities in the region, and probably regional cooperation with culturally similar regions in neighbouring countries.

[6] Paul Collier, 1999. The Challenge of Ugandan Reconstruction. The World Bank.

As the 2001 Uganda Poverty Status Report notes, Government has been grappling with the problems of insecurity throughout the 1990s. Both military and political solutions are being jointly pursued to address the peace and security issue. Some of the major actions that have been taken in the last year and a half to improve the security situation contain the problem include:

- Military operations in Congo designed to eliminate rebel activities
- Participation in the Lusaka accord of mid-2000
- Agreement with Sudan in December 1999, reiterated in September 2000, to stop Sudan's support for the LRA and Uganda's support for the SPLA.
- The Amnesty Act of January 2000, which encouraged rebels to return and reintegrate in Ugandan society
- The programme for disarmament of Karamoja which is was launched in February 2001. As noted in the PEAP, the success of this approach will depend on ensuring that the Karamojong themselves are protected against attack from pastoralists in bordering areas of neighbouring countries. For this reason, the Kenyan and Ugandan Governments are cooperating in synchronising the disarmament.

2.1.3 Private sector development

Many public actions in Uganda, as else where in the world, have failed because the state is no better in service provision than the private sector. Recognising this, the Government of Uganda has decided to withdraw from direct provision of services, except in areas where the markets do not achieve the objectives of society, mainly due to market failure and inequality. But the private sector which is expected to spearhead development is still in its infancy, with very low capacity for investment, although this situation is gradually improving.

Poor infrastructure is the single most important constraint to private sector development in Uganda. Frequent power cuts and the poor road network and telecommunications pose serious constraints to private sector growth. Private investors are also impeded by the weakness of the financial system and the commercial justice sector, high taxes, the difficulty of enforcing contracts and corruption. Many firms, particularly the small ones, find it difficult to service and expand their operations in a very competitive environment. Poor infrastructure services create a high risk in terms of delays and extra costs for production, imports and exports. For example, it takes 70 days on average for imported inputs to arrive from their original destination to the firm and firms loose about 90 operating days in a year on average due to power cuts[7].

The Government of Uganda recognises the need to link the macro and micro economy through state interventions, especially to the private sector to promote expansion and competitiveness. The PEAP clearly entrenches priority strategies that are intended to remove the constraints to private sector development in order to promote economic transformation.

[7] World Bank Private Investment Survey 1998.

These are also clearly articulated in the Private Sector Medium-Term Competitiveness Strategy that sets up the institutional framework necessary for private sector development.

As discussed in the 2001 PSR, Government has undertaken measures to promote, support and provide rural electrification programmes through public and private sector participation in order to achieve equitable regional distribution access to electricity. The basic approach will be 'smart subsidies' of private providers for grid extensions and other infrastructure for electrification. The existing grid has been extended to rural areas and parts of Northern Uganda are being prepared for establishment of a mini-grid. In the year 2000, total installed electricity generation capacity increased from 180 MW to 260 MW with the installation of two new generating units, capacity sufficient to meet the current demand during off-peak hours. Government is also privatizing the Uganda Electricity Board to increase coverage and efficiency in service provision.

The tel-communications sector has also has also experienced a spate of growth, particularly in the late 1990s with the entry into the market of cellular phone companies. However, telecommunications coverage is still low at 2.8 lines per 1,000 people compared to neighbouring Kenya with a coverage of 7.1 lines per 1,000. New measures are being put in place to improve competition and coverage particularly in the rural areas.

The provision of an efficient road network is at the core of the poverty eradication strategy, and the enhancement of rural incomes. Rural feeder roads are particularly critical for agribusiness and for the modernisatrion of agriculture. The road transport system in Uganda comprises of about 9600km of classified main roads of which 2400km are paved and 7200 km are gravel or earth, about 22,300km of district feeder roads, 2,800km of urban roads and approximately 30,000km of community access roads. Since 1986, 9600km of the National Road Network have been rehabilitated and is in a fair to good condition, maintained on a sustainable basis; 4000km of gravel roads have also been rehabilitated; 350km of gravel roads have been upgraded to bitumen standards and 1000km of feeder roads have been upgraded to national roads.

The Government's medium term transport sector policy aims at promoting efficient and effective transport services as a means of providing effective support to increased agricultural and industrial production, trade, tourism, social and administrative services. Under the10-Year Road Sector Development Program (RSDP) developed in 1996, operation and maintenance of local infrastructure facilities is being carried out through the direct involvement of beneficiaries, district authorities and communities, rather than through central Government agencies. Government is currently preparing a strategy for improvement and management of feeder roads.

2.1.4 Domestic resource mobilization

Mobilisation of domestic resources in Uganda, for most of the 1990s, has been below both the desired and predicted levels. The tax revenue to GDP ratio is still lower than 12 percent as opposed to above 15 percent that is the average for Sub Saharan Africa. In 1990/91, the tax revenue to GDP ratio was almost 5 percent and had increased to 11.3 percent in 1995/96 and 1998/99. The performance of non tax revenue has, in particular, continued to lag behind at under 1 percent of GDP compared to about 3.5 percent in other countries in the region.

This low domestic tax revenue has mainly been attributed to a small tax base and inefficient revenue collection systems. The big component of non monetary GDP, at over 30 percent in 1990/91, 25.4 percent in 1995/96 and 23.2 percent in 1998/99, also makes revenue collection an uphill task. There were also too many tax exemptions and which, due to a number of weaknesses in the system, acted as a conduit for several other non exempt commodities. Non tax revenue, which is not collected by the URA, continues to perform poorly. This is mainly because of inadequate accountability procedures and lack of financial discipline in various government departments, coupled with severe budgetary constraints.

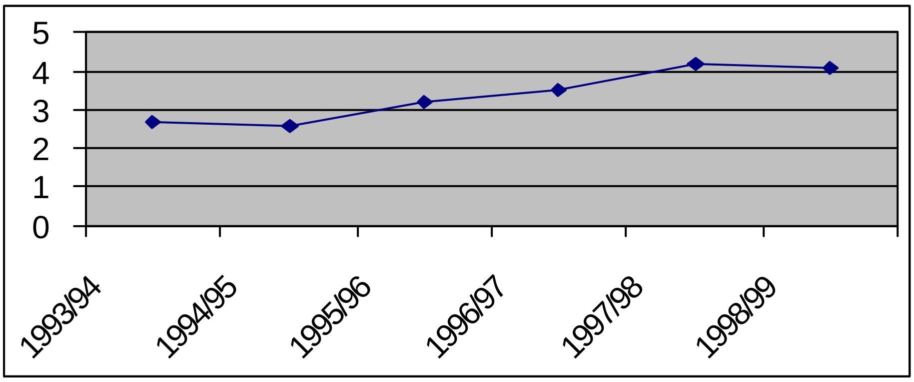
In order to increase tax revenue the government had earlier set out to identify a series of tax reform measures that would rationalise and simplify the tax regime and yet remain administratively feasible. As a result, the Uganda Revenue Authority (URA) was established as a semi-autonomous body to implement tax policy. Recent tax reforms such as the introduction of value added tax (VAT) in 1996 and the enactment of a new Income Tax Act in 1997 are important contributions to the improvement of revenue performance. For instance income tax collections recorded a surplus of Ushs 6.5 billion or 4 percent above the target in 1998/99. This was an impressive 37 percent compared with 1997/98.

In spite of all this, fiscal management in 1999/2000 was dominated by large revenue shortfalls, which could only be accommodated by cuts in government expenditure. This trend, partly as a result of internal and external shocks such as drought and shortfalls in import support grants, can be expected to continue for the next decade unless measures are taken to address it.

Domestic savings have not been helped by the problems in the banking sector and the high interest rates. For instance, because of the relatively poor performance in savings deposit mobilisation in 1998/99, quasi-money's contribution to broad money was limited to only 3 percent compared to an average of 7 percent per annum in the previous years. The financial savings to GDP ratio was 2.7 percent in 1993/94, 3.2 percent in 1995/96 and, provisionally 4.1 percent in 1998/99[8], as illustrated in Figure 2.1. The banking sector has not fully recovered from the closure of four local banks in 1999.

[8] Background to the Budget 1999/2000.

Figure 2.1: Trend in Financial Savings to GDP ratio



Conversion of savings into investment continues to face severe limitations. These include high lending rates, averaging at 21 percent during the last decade, and the high business risks and default rates. Commercial bank lending over the years has concentrated in short term trade related activities. Lending to the agricultural sector remains very small at about 2.4 percent of total lending. The financial system has also lacked an organized market for channeling savings into investments.

The government strategy to increase savings includes ensuring stable macroeconomic variables, positive real interest rates and streamlining the banking sector. A number of reforms have been undertaken during the last decade to enhance the financial sector including strengthening the Central Bank, liberalizing the interest rates, introducing Treasury Bills and increasing the capital requirements for commercial banks. The Central Bank is continuing to strengthen the prudential supervision and regulation of the banking industry to ensure safety of deposits that may be jeopardised by mismanagement and fraud. Efforts to develop the financial markets and more specifically to strengthen the treasury bill market are to continue.

With the majority of the Ugandan population engaged in the agricultural sector, one of the direct methods of increasing savings is to increase household incomes because the propensity to save depends on the level of income. This can be achieved by transforming the current subsistence agriculture to a market based commercial activity which is the thrust of the Plan for Modernization of Agriculture. It is essential that macro-economic stability should be maintained.

2.1.5 Capital Markets development

It is evident from the foregoing discussion that raising savings and investment levels remains a major challenge for the Government. Capital markets provide a competitive method through which private sector firms can raise capital for investment purposes. They also play a crucial role in the economy of mobilizing savings, especially local savings, allocating capital to areas of greatest value in the economy and providing alternative long term financing for business ventures. In 1996 the Government of Uganda inaugurated the Capital Markets Authority (CMA), which was charged with the responsibility of promoting and facilitating the development of an orderly, fair and efficient capital markets industry in the country. In 1998, the CMA licensed the Uganda Securities Exchange (USE), a private sector initiative, to operate as a stock exchange in Uganda.

Trading at the USE now includes the East African Development Bank (EADB) bond, the Preferential Trade Area Bank bond and the Uganda Clays Limited shares. The number of new listings is expected to increase to three or four per year as more public enterprises get privatised. This is expected to enhance the savings and investment culture.

Uganda's capital market is still in its infancy, and its growth will be influenced by the rate at which new products can be introduced on the stock exchange and the ability of market players to attract investors to trade in these products[9]. The process of privatization has provided impetus for the development of a capital market in Uganda. More than 90 enterprises out of 120 companies had been privatized by December 1999.

2.1.6 Governance

Worldwide, good governance is increasingly being recognised as a prerequisite to economic growth and development. But a hot debate continues to range on as to what the concept of *'good governance'* actually entails. Emerging consensus indicates that good governance encompasses dimensions such as participation, democratization and decentralization, the respect for law and human rights, accountability and transparency, and efficient public and private sector management.

In Uganda, good governance and security have been put at the forefront of every development initiative as it has been increasingly recognised that they are central to creating an enabling environment for economic growth. In 1997, a National Programme and Action Plan on democratic governance in the context of the PEAP[10] was prepared and is currently under revision. The revised version identifies nine core areas of good governance that are in consance with those agreed upon globally. These and other elements of good governance are discussed in this section.

Democracy and decentralization

The democratisation of Uganda has been pursued in the context of decentralization. Since the late 1980s, regular and contested elections have been introduced at all levels of Government and many responsibilities have been progressively decentralized from Central Government to Local Governments (LGs). The decentralization process is based on the Local Councils which have political and administrative powers over their areas of jurisdiction. The district is responsible for the recurrent budget, but a substantial proportion of this budget consists of

[9] Capital Markets: The Journal for the Capital Markets Industry in Uganda. April/June 2000.
[10] National Programme and Action Plan on Democratic Governance in the context of the Poverty Eradication Action Plan, Working Group on Strengthening Instruments of Governance, October 1997.

conditional grants from the centre. The institution of conditional grants will continue to play an important role over the next few years but as the capacity in the districts strengthens and they are able to prioritize services, it will be possible to move to a less controlled structure.

On the whole, the decentralization process has been successful in Uganda and a number of achievements have been registered although several challenges are yet to be surmounted. As examples of this success, sub-counties have been established as nodal points for development and retain 65% of the revenues they collect, part of which is redistributed to lower level councils; new methods of service delivery have been introduced by Local Governments including the privatization of feeder road maintenance and contracting out certain aspects of market administration and management; with assistance from the Centre, some districts have produced integrated development plans which are currently under implementation and local people are able to effectively participate in managing their areas.

Uganda's experience provides us with useful lessons that we need to carefully take into account when analysing the country's success in this area. Factors that have greatly influenced Uganda's democratization and decentralisation process include[11]:

- **Political commitment** to the process by the Government
- **The legal framework**: Since its inception, the decentralisation process has been backed by enabling legislations aimed at transfering political, administrative, financial and planning authority to Local Governments, making the LGs more responsible for service delivery and promoting popular participation and empowerment of the local people to make decisions. Most prominent is the Local Government Act of 1997 which is undergoing revision to improve the clarity of mandates at all levels.
- **Transferring the necessary resources**: As the Central Government increasingly transfers functions and responsibilities to LGs, it must transfer the necessary resources to enable the delivery of services. Measures are being undertaken by the centre to ensure that the proportion of resources being transferred to Local Governments progressively increases overtime.
- **Capacity building of Local Governments:** A number of central Government agencies are involved in strengthening district planning and budgeting complemented by efforts from NGOs and the private sector.

There are a number of key challenges that need to be addressed to improve implementation of the decentralization process:

i) Decentralisation has radically changed the functions of central ministries, removing most of their responsibilities for service delivery. This inevitably implies that districts need to be quickly equipped to enable them focus policy formulation, implementation, coordination and monitoring in a manner that ensures that they all contribute to the national goal of poverty reduction.

ii) District decisions are greatly influenced by the funding provided by central Government in the form of unconditional, conditional and equalisation grants. The

[11] Wagaba, F.X., 2000. Sector Reforms and Decentralisation in Uganda.

revenues presently assigned to Local Governments are yet to match the expenditure on transferred services, particularly as districts have a narrow tax base.

iii) There is need to stress and support horizontal and vertical co-operation within the district and between districts in terms of information sharing, resource flow,programme implementation and other capacity building activities.

iv) Government should continually revise and lay down operational principles, rules and regulations to guide the implementation process. A greater understanding of decentralisation and associated legislation is crucial for effective implementation of these policy processes.

Public sector management

The size, effectiveness and efficiency of the public sector has been and continues to be a subject of debate both in the developed and developing countries. The underlying concerns revolve around the effectiveness of the public sector in public management and delivery of services and the relationship between the public and private sector, and between Central Governments and Local Governments. In Uganda, several reforms have been undertaken over the years to improve the role of the public sector vis vis that of the private sector. During the 1970s and 1980s, the public service had become inefficient and unresponsive to national needs mainly as a result of poor corporate governance, over-establishment, extreme laxity, bureaucracy, corruption and nepotism. These problems were partly attributed to the low pay.

In light of this situation, several public service reforms were undertaken, most important being the establishment of a Public Service Review and Re-organisation Commission (PSRC) in 1989. Through wide-ranging consultations with a cross-section of people, the Commission was able to identify the key reasons behind the poor performance of the public sector and subsequently made recommendations, most of which are already being implemented. For instance, in order to deliver the necessary improvements in service delivery, Government is in the process of implementing the Resulted Oriented Management System, and the salary and remuneration of civil servants is gradually being revised upwards. At the same time, the public service is being right sized through removal of ghost employees, voluntary retirements and retrenchment. The number of civil servants was reduced from 320,000 in 1990 to 159,000 in 1996 though it rose again to 176,580 by November 1999.

There are several challenges to public sector reform, which government and its development partners are addressing in a progressive manner. These include the AIDS scourge which has profound implications for human resource management; lower salaries in public sector compared to the private sector for similar jobs; the difficulty of recruiting high quality staff to work in remote areas; and poor accountability and overall coordination of human resources at the various levels and between Government and its development partners. The public sector pay reform is a holistic process which is intended to avoid ad hoc awards to selected groups of workers. Within this holistic approach, it will be important to create incentives that promote the objective of equalising the quality of service delivery accross the country. Where there are substantial geographical inequalities in service delivery caused by recruitment problems, further consideration will be given to methods of redressing these inequalities without compromising the holistic approach.

Private sector responsibility

The traditional arguments for public ownership and management of utilities have been shown to be unconvincing and as a result, Governments world-wide have moved to implement the privatisation policies. Uganda's selected path of development in this area has not been any different. Government has, since 1990, continued to divest itself of functions to the private sector where the latter is percieved to have a comparative advantage. As a result, Government Ministries have registered a substantial reduction from 40 in 1990 to about 21 presently as various responsibilities, in terms of goods and service provision, are gradually being transferred to the private sector.

The private sector in Uganda is very large in size and diverse in composition. It includes millions of small holder farmers, fishermen, large scale agricultural estates, manufacturing industries, small scale enterprises and a myraid of traders. The potential and success of private sector involvement in practice has already been demostrated by the upsurge of cellular phones, led by two private companies, to the extent that the number of mobile lines has already overtaken the number of fixed lines provided by the publicly owned telecommunications corporation. A similar trend is also exemplified in the public transport, agro-processing and marketing sectors. However, there are still several structural and institutional bottlenecks that continue to hamper private sector growth.

Many firms, especially the small ones, find it difficult to service and expand their operations in a very competitive environment. This is due to the fact that competition pressurizes firms to cut costs, yet most of the costs such as utility prices, interest rates and transport costs are not in the firms' control. Several surveys carried out in Uganda indicate that access to basic infrastructure such as telecommunications, efficient transport and power remains a severe constraint to private investment and the overall development objective of the country. A weak legal and regulatory framework, limited access to micro-finance and corruption also constrain private sector growth. The private sector is still ill-equipped in terms of both technical capacity and policy formulation.

In recognition of the challenge ahead, Government has embarked on the third phase of its economic reform programme, with focus on improving service delivery and administration of Government in order to remove barriers to private sector development. The strategy for improving efficiency in utilities provision is to introduce competition which requires putting in place the enabling environment to make private investment viable. In order to attract private participation, Government is in the process of putting in place the necessary legal and regulatory framework that ensures fair competition and transparency among service providers. It is also presently discussing a draft law that will enable micro-finance institutions to intermediate

Significant progress has also been made in reforming Uganda's overall trade policy environment. The reforms implemented in recent years include the reduction of import bans and tariffs, elimination of licensing requirements and export taxes, abolition of the requirement for exporters to relinquish their foreign exchange earnings to Government, and a gradual removal of the anti-export bias by reducing the level of protection of domestic industries to enhance efficiency through greater competition. Other policy and institutional reforms which have been implemented to promote private sector development include the restructuring and strengthening of the financial and commercial justice sectors, implementation of a new Investment Code in 1991 and strengthening the Public-Private Sector partnership.

Given the importance of entrepreneurship, institutional technical skills training, as well as apprenticeship training in building a viable private sector, it is imperative that Government addresses the constraints in this area. Government, with the assistance of the donor community, has reviewed the needs of this sub-sector. Based on the findings of these reviews, Government shall implement key reforms to ensure technical skills development to support private sector growth.

Human rights

Human rights in Uganda have been broadly defined in the Human Rights Commission Act of 1997 as embodying the provision of public information, the investigation of complaints and of the conditions in prisons, and the promotion of public awareness about human rights. Uganda has to some extent gone a long way in trying to observe human rights and the examples of the successes so far achieved and areas that require urgent attention[12] are presented in Figure 2.1.

[12] Data from the Uganda Human Rights Report, 1997 by the Human Rights Commission.

Figure 2.1: Achievements and challenges in Human Rights in Uganda

Features of success in Human Rights observance

* Constitution making process and a new constitution
* Free, fair and regular elections
* Independent media
* Active civil society
* Good military-civilian relations
* The active role of Parliament
* The presence of the UHRC and citizens' interest in human rights

Areas requiring urgent attention in Human Rights observance

** Armed conflicts and instability and domestic violence
** Lack of facilities and funds for detention of wrong-doers
** Delays in administering justice
** Delays in legal reforms
** Street children
** Corruption and abuse of office
** Ignorance and illiteracy
** Restrictions on political party activities and the right of peaceful demonstration

The legislation that has been passed in Uganda in recent years has strengthened people's rights in many areas. There is now need to ensure that these laws are implemented and respected. Other areas of concern include discrimination and negative attitudes towards property rights, child abuse, gender imbalances in property ownership.

2.1.7 Environment

Natural ecosystems constitute an immense value and contribute directly to the economy and the livelihoods of all Ugandans. The production of bricks, fuelwood, charcoal, clay pots and baskets in addition to free ranging livestock, fisheries and tourism are all natural resource based economic activities worth hundreds of millions of US$ a year, and mostly generated by the poor. While such activities do indeed contribute positively to economic growth and poverty reduction on one hand, they may on the other hand, if not well managed, lead to depletion of natural resources ultimately resulting into environmental unsustainability and poverty. This is more likely to happen in a situation where the pace of population growth out-marchs the rate of environmental conservation.

The scenario painted above is threatening to become a reality in Uganda unless quickly checked. With a population growth of nearly three percent per year, the country will have between 35 and 40 million people by the end of the next decade. These people will need more and more space which will be provided, to a large extent, by converting natural ecosystems into man made environment. The process of conversion is already happening. Many of Uganda's natural ecosystems are undergoing conversion, degradation and decline in a totally unplanned and uncontrolled manner.

The Government of Uganda recognises the importance of natural resource management as a key element in poverty reduction and economic growth and has, since the early 1990s, attempted to address the problem of environmental degradation. Environmental policy and legislation has undergone a number of reforms in the last decade to cope with changes in technological development and population dynamics. The National Environment Action Plan (NEAP) made fundamental recommendations in 1994, aimed at having an integrated national policy framework and legislation for sustainable management of natural resources. Since then, public actions taken to address environmental issues have included the provision of environmental education and awareness through various means such as public media and demostration projects at the local level; and stimulation of communal initiatives for the conservation and management of common property resources. These have proved to be effective to some extent although much remains to be done.

The PEAP highlights environment as a cross-cutting issue that should be considered in all programmes geared towards poverty eradication, and as such specific needs for public expenditure have also been identified. If all programmes are to consider the sustainability of the natural resource base, this will imply among other things:

- Environmental Impact Assessments for all major investments and public sector policies and plans;
- the inclusion of soil management and other environmental considerations in the work of agricultural advisory services;
- the design of appropriate systems of land rights and policies or byelaws for land utilisation;
- linking environmental aspects with preventive health; and
- promoting environmental education in the school curriculum and raising public awareness of the links between environment, poverty and development.

Ensuring that environmental concerns become a cornerstone of every programme that aims to contribute to poverty reduction in the short, medium and long-term, is by no means a simple task. This calls for improvement in the sectoral capacity in all development oriented policies, planning and activities at national, district and local levels, with participation of the people. Strengthening the national policy and legislative capacity and community institutional capacity as well as programme implementation and monitoring mechanisms will be central in ensuring that biodiversity resources are utilised to meet national poverty eradication and sustainable development goals.

Another dimension that requires serious consideration is the need to strengthen intersectoral linkages, coordination and harmonisation of programmes and policies at the various levels of implementation. The National Environment Management Authority (NEMA) has prepared an

Environment Sector Programme using a project approach, but this needs further development into a sector-wide approach that includes the activities of all the relevant stakeholders with strategic decisions about the requirements for public service delivery and public expenditure.

2.1.8 Human resource constraints

Various studies the world over have established the strong relationship between the level of education for a particular country and economic development. It is also widely acknowledged that a healthy population is more productive economically. It is on this premise that the Government of Uganda has developed the Education Sector Investment Plan (ESIP) 1997-2003 and the Health Sector Strategic Plan (HSSP). Here we briefly review the trend in development in the education and health sectors.

Education Sector

Primary education: A dramatic change was realised in the country's education system with the introduction of Universal Primary Education (UPE) in 1997, with the most remarkable feature being the massive increase in enrolments following the removal of school fees. The UPE-induced surge in net primary enrolments came from all sections of the Ugandan population, but especially the poor, and particularly the girls within poor households. By 1999, gender differences in enrollment rates had all but disappeared, and increases across income groups had narrowed considerably. Box 3.3 in Chapter 3 further discusses the resultant impact of the UPE policy while the targets and performance indicators for the sector are further discussed in Chapter 4.

Secondary education: The importance of secondary schooling for sustainable poverty reduction is highly appreciated in Uganda. Although secondary enrollment rates among the poor are not high, they are likely to rise sharply as current primary level students from poorer households graduate to the secondary level. A strategic plan for the secondary education sector has been drawn up, and some initial activities aimed at increasing access and improving quality have begun. These include:

- 4 sites, one in each region, have been identified for the first pilot secondary schools.
- 73 secondary schools have been given capital development grants towards their construction and rehabilitation works.
- 16 secondary schools have been identified for expansion and rehabilitation to serve as centers for Comprehensive Secondary Education.
- Guidelines and incentives for communities and private sector to make appropriate additional provision of secondary education opportunities have been developed. Already, 90 schools have been identified for grant aiding.

Health Sector

There is a strong link between health and poverty. The Participatory Poverty Assessment identified illhealth as the most frequently cited cause and consequence of poverty. So improving health outcomes is essential to reducing poverty. The Government of Uganda has made significant progress in improving some of the health indicators such as the reduction in child and infant mortality, the continueing decline in the prevalence of HIV/AIDS, and the successful efforts to eradicate polio. However, much effort is still needed in addressing reproductive health, namely the high rate of fertility, the high rates of malnutrition, the continuing decline in routine immuzation, and the control of malaria (also refer to sections 1.2 and 2.1.12).

In recent years, the Government has consistently increased funding for the health sector. Government expenditure on health increased by approximately 165 percent between 1995/96 and 1998/99. As a percentage share of the total government budget, this represents an increase of between 6.4 percent to 6.7 percent during the same period. On the other hand, spending by districts, NGO hospitals and on Primary Health Care in the same period increased by 227 percent, an increase from 2.2 percent to 3.1 percent[13].

A number of major policies and guidelines have been developed for implementing the new health sector activities in the country. Notably, is the National Health Policy, the Health Sector Strategic Plan (HSSP), the Health Sector Investment Plan, and the Health Infrastructure Development Plan. Details of the key features of these plans are further discussed in Chapter 4. Progress is also noted in the restructuring of the Ministry of Health to maximize efficiency, and in the development of common working arrangements between government and development partners. It is hoped that these policy reforms will help build capacity and strengthen institutions that will protect the health of the people of Uganda.

The minimum health package, which forms the core of the sector plans, is already under implementation including the prevention and control of communicable diseases; integrated management of childhood illnesses; proper management of sexual and reproductive health and other public interventions such as immunisation and environmental health and sanitation. A significant number of health facilities have been constructed in recent years and the challenge now is to ensure significant improvements in the quality of medical care.

Among the unresolved issues on the delivery side influencing quality of service are: inequitable distribution of staff, lack of an appropriate supervision system, leakage of drugs, inefficient pay roll management and inadequate pay and the resultant dual employment. Inadequate accountability in the health sector has also severely hampered delivery of quality services. Government needs to seriously look for ways of allevaiting some of these problems particularly for the benefit of the poor. For example, communities and local leaders need to be sensitized on what they should expect from health services, including minimal ethics and values of health workers.

[13] Donors Statement on the Health Sector, Consultative Group Meeting March 2000, Kampala.

2.1.9 Land availability and use

As a major asset of rural households, land is seen as a significant strategic tool for poverty reduction. Research on land has been conducted by various institutions in Uganda and the findings are considerably controversial. Nevertheless, the following patterns emerge:

- There is considerable inequality in access to land, both across localities and within them, and between men and women with women being unable to own land in many parts of the country and sometimes totally disinherited if their husbands die.
- The effect of the land market has been to produce a large number of small holders rather than to concentrate ownership in order to encourage commercialisation.
- Although the proportion is not known, many people have access to land that they borrow or rent.
- There is some dispute over whether people feel insecure about the existing land tenure systems and whether it retards development. But on the whole, it has been noted that people, especially in towns and suburbs, tend to invest less in land as a result of land insecurity.
- The poor have limited access to land courts in case of disputes and in many cases end up losing land to the better off.
- In relation to population, some districts in Uganda exhibit high fertility rates and population densities with adverse impact on development. The population pressure has manifested itself, among others, in land over-use and mis-use, land fragmentation and deterioration in soil fertility.
- Despite the above scenario, land is under utilised in some parts of the country as a result of several factors like existence of land disputes, absentee landlords, inequitable tenure systems, and inability to develop or farm on the land as a result of lack of capital and lack of social infrastructure.

The Land Act of 1998 is designed to strengthen the land rights of the poor. Among its most important provisions is the requirement for written consent if the head of household sells land on which their spouse and children depend. A substantial network of land committees down to parish level is proposed under the Act to make land services accessible to the poor. A Land Fund is to be established to assist occupants to acquire tenancy and to help the landless to acquire land.

While it is believed that the implementation of the Land Act will impact positively on poverty, the Act has not been implemented yet due to a mismatch between the resources available and the administrative structures envisaged in the Land Act. A cost-effective structure for land administration and use needs to be established. A realistic and affordable plan for the medium and long-term implementation of the Land Act will need to be agreed upon by all stakeholders if it is to be implemented efficiently, economically and in a sustainable manner. The asymmetrical gender dimension in access, ownership and control of land needs to be addressed in the existing social and cultural systems. It remains a key priority for addressing poverty reduction, gender equality and more effective land utilisation.

2.1.10 Agriculture and the rural sector

Although the contribution of agriculture to total GDP has been declining over the years, the sector has continued to dominate the Ugandan economy. It contributed about 43% of total GDP and over 90% of total exports in 1999. The sector is a major source of livelihood for 85% of Uganda's population who live in the rural areas and provides raw materials to many industries. Coffee remains the principle export commodity accounting for about 60% of domestic exports, followed by fish and fish products, tea, cotton and tobacco.

From the positive growth in the 1960s, the agricultural sector witnessed negative growth rates averaging minus 2% per annum in the 1970s due to several factors, many of which are explained in this paper. The reforms of the second half of the 1980s and early 1990s reversed the trends to the extent that the sector has experienced an average annual growth rate of about 5.7% per annum for the period 1992 - 1999.

However, whereas the population of Uganda has grown from 9.78m in 1970 to 20.4m in 1997 (a 109% increase), food production has only grown by 17% from 14.1m metric tonnes in 1970 to 16.5m metric tonnes in 1997. This represents a reduction of 44% food per capita. Studies conducted between 1996 and 1999 have reported that, at any one time, 40% of Uganda's population is food insecure and 25% are characterised as hard core poor with inadequate resources to meet 3000 calories intake of food per day[14].

The Uganda Human Development Report 1998 argues that the successes so far registered in agriculture have largely been market driven, with limited concerted efforts at the national level to develop production capacity, particularly in the rural sector. Consequently, the country's agriculture has remained rudimentary in technology use, with heavy reliance on the hand hoe (used by 93% of households), and minimal use of improved seeds, fertilizers and pesticides. Animal traction is available to only 8% of the households and fertilizer use is estimated at 1 Kg per hectare. The extension service system is almost non-existent and extremely inefficient. Subsequently, farm level yields are at about 30% of research station yields, soil fertility and crop yields are declining and for most households, farming is not a profitable enterprise.

Given the importance of agriculture in national development, there are concerted efforts by Government to implement the Poverty Eradication Action Plan, with its strong focus on rural agriculture and infrastructure, and the Plan for Modernization of Agriculture (PMA). The PMA, which will benefit all the agricultural subsectors, is about policy reform, institutional change, profound technology uptake and enhanced knowledge and information systems - all contributing to poverty eradication. Its mission is "eradicating poverty by transforming subsistence agriculture to commercial agriculture". What makes the PMA different from the traditional approaches is that it does not focus solely on increased agricultural output, but rather on improved livelihoods - increased incomes and well being, greater food security, reduced vulnerability and more sustainable use of the natural resource base. A National Agricultural Advisory Service (NAADS) will be put in place advocating for an agricultural

[14] Bahiigwa, 1999; UPPAP, 1999.

advisory service that is owned by stakeholders, effective, efficient, sustainable to deliver and market targeted.

Implementation of the PMA faces formidable challenges that need careful planning and monitoring in the early stages of implementing the programme. At present, the performance of the private sector, which is expected to be the lead partner in the implementation process, is highly constrained by poor infrastructure, inadequate farming and business skills, and lack of markets for farmers' produce. An enabling environment needs to be created by Government for private sector to perform as expected and capacity building issues also need to be addressed. The Government of Uganda is already taking bold steps in this area (refer to section 2.1.5). Implementing the PMA will also fundamentally depend on the empowerment of rural people and Local Governments to enhance their ability to plan and implement programmes in a strategic way that encourages agriculture to prosper.

The priority interventions to be undertaken to modernise agriculture are largely based in other sectors like those dealing with roads, markets and land, which implies that the success of the PMA will only be realised if all the other sectors play their roles. The coordination of the PMA's implementation thereafore remains a challenge. During the recent CG Meeting for Uganda[15], the country's development partners proposed the formation of a supra sectoral co-ordination mechanism to ensure that the broad range of line ministries act in a supportaive and coherent manner to deliver the desired PMA result. Such a mechanism must also provide the forum in which policies that affect poor people's opportunities to improve their livelihoods are adjusted. These are important suggestions that the Government of Uganda should consider seriously. Access to land and security of land tenure are fundamental to processes of rural transformation; implementation of the 1998 Land Act has the potential to contribute to the elimination of rural poverty (refer to Section 2.1.9 regarding the status of implementation of the Land Act).

2.1.11 Industralization

Most manufacturing in Uganda is based on the processing of agricultural commodities, including cotton, coffee, sugar and food crops. Large-scale industries include textiles, tobacco, beverages, wood and paper products, construction materials and chemicals. Small-scale manufacturing is dominated by the clothing industry, sugar and maize mills, furniture making and other forms of artisan activities.

The industrial sector has shown buoyant growth particularly in the sub-sectors of sugar, beer, soft drinks, cement and food processing. In particular, the contribution of the manufacturing sector to GDP, in 1991 prices, had increased from 5.4 percent in 1989/90 to 9.6 percent in 1998/99. Salient revelations in the analysis of industrial investments from 1991 confirm the dominance of the manufacturing (including agro-processing) sector in numbers, value of investments and job creation. The operational investments have converted up to 60 percent of the planned investment of US$1.36 billion while employing 75,000 people.

[15] Consultative Group Meeting for Uganda, Kampala 21st March 2000.

However, there is still need for increased facilitation to reduce the lead-time required for an investment project to become operational. Between 1997 and 1999, investment levels declined mainly on the account of a reduction in the investor interest to take risks in emerging markets. In the case of Uganda, this was partly attributed to military conflicts in the region and the Asian financial crisis.

In 1991 government formed the Uganda Investment Authority (UIA) as a one-stop centre for investors. By 1998, a total of 2,021 projects had been licensed of which 1,005 (49.7 percent) were operational. Between 1995 and 1995, the number of projects licensed increased steadily at an annual average rate of 33 percent, having increased by 60 percent, 26 percent, and 13 percent in the years prior to 1995. Thereafter, there was a downward trend in the number of projects licensed per year at an average of 28 percent.

The earlier upward trend was partly attributed to the image building campaign, relative political and economic stability, a liberalised economy and a rush by speculative "fly by night" investors whose main motive was to reap from the tax holiday regime. The subsequent decline was, however, attributed to economic reforms by regional states which created competition for investors, cases of unrest in the region and reduced investor enthusiasm. One other significant limitation has been the failure of the 'one-stop-centre' concept to materialise. This was partly due to inadequacies in the legal framework, bureaucracy in some line agencies and delays in enacting the new investment bill. The country also had insufficient utilities including power, water supply and telecommunications.

The domestic market is small and some consumer industries may not be viable unless they can reach the wider East African market. As a landlocked country, Uganda suffers from higher costs than its neighbours, and some goods can be more cheaply supplied through imports. The Uganda government is slowly establishing structures for industrial and technological development. Given the magnitude of both the internal and external bottlenecks, the pace of industrialisation is expected to continue being slow. The main priorities for development lie in building links between manufacturing and the agricultural and mining sectors, and the promotion of import substitutes, where this can be made cost effective.

2.1.12 HIV/AIDS control

The HIV/AIDS epidemic continues to be one of the major complex emergencies in sub-Saharan Africa and Uganda in particular, even after more than two decades of intensive struggle. The case study in Chapter 3 (Box 3.4) describes the impact HIV/AIDS has had on Uganda and the remedial measures that are continuing to bear positive results.

In recognition of the philosophy that for sustainable development, health and economic growth must be mutually sustainable, Government has, since this 2000, included the control of HIV/AIDS among the priority areas to benefit from the Poverty Action Fund (PAF). The PAF is an important initiative by Government that ensures that policy priorities, as stated in the PEAP and sector plans, are translated into programmes that directly impact the poor. It has also been proposed that some funds within each sector should be earmarked for AIDS activities although this is still under debate.

Although Uganda has achieved a lot in her struggle against the epidemic, a lot more needs to be done to reduce further HIV infection and address the socio-economic impact on society. A number of actions to further strengthen the national response to HIV/AIDS have been proposed by various development partners. At the Uganda CG Meeting in Kampala during March 2000, the UN Theme Group on HIV/AIDS floated a number of recommendations that, to a large extent, are already part of the on-going work in the Uganda AIDS Commission that is charged with coordinating the multisectoral efforts against the epidemic.

Key among these is the need for Government of Uganda and Cooperating partners to openly and visibly declare that HIV/AIDS remains a security and development crisis that requires serious measures for mitigation; mainstreaming HIV/AIDS Orphans into all the development instruments; maintaining the momentum and high clout and profile already generated by keeping HIV/AIDS high on the political, technical, administrative and development agenda; strengthening strategic planning and resource mobilization for the HIV/AIDS activities and reducing the Mother-to Child transmission.

2.1.13 Women and Gender

Gender is a concept that has gained prominence in the development field over the past few decades. Recognition by development practitioners that gender permeates all activities has led to a lot of efforts towards understanding its dimensions and incorporating it as part of overall development planning and implementation. In Uganda, 'gender issues' as they are popularly referred to have been on the agenda of government and many organisations for over a decade.

In terms of the five levels of the Gender Equality and Empowerment Framework[16], at the welfare level, women in Uganda are still disadvantaged compared to men in terms of their health and relative well-being. Heavy workload, a heavy biological reproductive burden and the resultant ill health compromise their well-being. At the access level, women still lack access to many significant resources and opportunities compared to men. Important aspects of access include access to employment, services such as health and credit, recreation, information and technology. For instance in 1995, only 7.4% of women in Uganda were using modern contraceptive methods. In terms of employment, only 5.4% women were employees while 65.7% were unpaid family workers, compared to 18.4% men as employees and 22.6% unpaid family workers[17]. By 1997, only 18.5% women were in decision-making positions nationally.

Although there are still a number of people with negative attitudes towards women and their capabilities, a lot of awareness has been generated and conscious effort is often made to

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[16] This is a gender analysis and planning tool developed by a gender expert called Sara Hlupekile Longwe.

[17] Women and Men in Uganda. Facts and Figures: 1998

address gender issues. The participation of women in community and development activities in general has increased. More women are involved in micro-projects and have obtained credit from government or NGO programmes. Participation in decision making at the political level is taking place mainly as a result of affirmative action but also increasingly through direct competition. Women's level of control over their own lives and resources is also on the increase. A lot is a result of these income-generating activities, that give them financial independence, but also awareness of their rights and solidarity and support from their groups and other institutions. Most importantly, the policy and regulatory environment has improved in favour of women empowerment.

The 1995 constitution of the Republic of Uganda has many provisions that address the status of women and other disadvantaged groups. The constitution provides for affirmative action to be undertaken in cases where there have been historical and geographical disadvantages adversely affecting the ability of any category of Ugandans from enjoying equal rights and opportunities. The constitution also provides for universal primary education that has subsequently been implemented by government, beginning 1997. It has helped to level the ground through more or less equal access to primary education for boys and girls and special categories, such as persons with disabilities, leading to the reduction of gender inequality in opportunities.

The Ministry of Gender, Labour and Social Development (MGLSD provided policy guidance on gender and technical support to partners and other stakeholders in gender mainstreaming. It has put into place various policies that provide the regulatory environment for issues to do with children, youth, persons with disabilities, employment and labour, civic, economic rights and freedoms and social security.

The local council system has provisions for ensuring that women participate in the system. At each tier of the local government system, there are secretaries for women and of even more significance is the opportunity for the participation of women, the local government act having stated that the women should comprise at least one third of all local councils. This has had a positive impact. Recent data from the report of the Ministry of Gender, Labour and Social Development together with the Uganda Bureau of Statistics for the year 2000[18] indicates that they are over 17,000 persons in strategic decision making positions in Uganda, 39% of whom are women which is a marked improvement compared to the situation in the early 1980s (the 1988 national Manpower survey showed that women consitituted only 6 percent of the decision makers – legislators, managers and other decision makers).

Separate legislation for the youth was made in the form of the **Youth Council's Statute**, which provides the same opportunities for incorporating the needs of the youth. The national Youth Policy was passed at the end of January 2001. The **children's statute** has been widely disseminated and districts were involved alongside line ministries through the Government Of Uganda UNICEF Country Programme, in developing district plans of action for children (DPACS). A lot of emphasis on equal treatment of all children gives

[18] Ministry of Gender, Labour and Social Development & Uganda Bureau of Statistics (2000). Women and Men in Uganda – Facts and Figures. Sectoral Series: decision Making.

opportunities to address gender issues, such as in education, inheritance, childcare and maintenance. The statute also provides for the setting up of institutions to provide regulatory services and protection for children. Other legislation that have contributed positively to improving the status of women in Uganda include the National Gender Policy and the National Action Plan for Women arising out of the Fourth World Conference on Women in Beijing.

Despite the gains made in gender mainstreaming and improving the status of women in Uganda, there are still many challenges that need to be addressed. For example, dialogues on gender tend to involve peoples' emotions, making it very hard for them to be rational and objective. Although there is a National Gender Policy and other sector policies, guidelines on gender mainstreaming have not been disseminated widely. Co-ordination of activities and collaboration/networking has also been weak. Decentralisation made it more different for the ministry headquarters to supervise the districts and make specific plans and earmark resources for activities at the district level. It is hard to monitor gender mainstreaming partly because it is a cross cutting issue, understood differently by different people. The institutional framework needs to be strengthened and more resources directed into gender mainstreaming.

2.2 External opportunities and constraints

2.2.1 Official development assistance (ODA)

Uganda, like many other developing countries in sub-Saharan Africa, depends heavily on external donor assistance to finance development programmes. Total donor disbursements (i.e. total external grants and loans) to Uganda have averaged about US$ 650 million per year for the period 1990/91 – 1998/99, with multilateral financial institutions accounting for over 35% of total flows. In real terms, total donor disbursements have been on a declining trend from 21.7% of GDP in 1990/91 to 12.0% in 1998/99 (refer to Table 2.1). Disbursements as a percentage of GDP where highest between 1990/91 – 1992/93 averaging over 22.0% of GDP, mainly due to the enthusiasm of donors to support Uganda's Economic Recovery Programme that started in 1987.

Table 2.1: External Aid Intensity for Uganda, 1990-1999

Period	Donor Commitments (US$m)	Donor Disbursements (US$m)	Unrealised donor commitments (US$m)	Disbursements as % of GDP.	As % of Government Expenditure	As % of Domestic Revenue
1990/91	683.3	476.1	207.2	21.7%	140.4%	271.6%
1991/92	965.2	517.3	447.9	22.6%	104.2%	311.2%
1992/93	803.9	661.5	142.4	22.6%	114.4%	281.9%
1993/94	717.6	570.0	147.6	15.8%	75.8%	162.9%
1994/95	889.8	674.2	215.6	12.9%	70.1%	119.4%
1995/96	492.8	732.5	-239.7	13.4%	70.7%	120.1%
1996/97	616.5	659.5	-43.0	11.6%	63.6%	93.7%
1997/98	871.6	865.5	6.1	14.0%	81.7%	124.5%
1998/99	838.6	700.6	138.0	12.0%	63.7%	100.3%
Total	6,879.3	5,857.2	1,022.1			

Source: Ministry of Finance, Planning and Economic Development.

The significance of external donor assistance to the country's development programmes becomes more explicit when donor disbursements are compared with public expenditure and domestic revenue. In 1990/91, donor disbursements as a percentage of total Government expenditure was about 140%. However, this has steadily dropped to 63.7% in 1998/99 (see figure 2.2) mainly for two reasons. First, the Government's commitment to reduce the budget deficit by holding real Government expenditure constant (and in same years actually reducing) consistent with keeping inflation low. Second, the relentless efforts by Government to mobilise domestic revenue while at the same time developing a tax structure that is supportive of private investment.

With the exception of fiscal year 1998/99, donor disbursements as a percentage of domestic revenue have been over 100% each year for the period 1990/91-1998/99. However, there has been a great improvement over the period, with the ratio of total donor disbursements to domestic revenue dropping from 272% in 1990 to 100% in 1998/99. As mentioned earlier, this drop has been due to increased domestic revenue mobilisation. On average, external donor inflows have financed 81.4% of the country's development expenditure for the 9 years since 1990. The proportion of externally funded expenditure in total development expenditure rose from 61.2% in 1990/91 to 90.9% in 1992/93, before falling to 77.2% in 1998/99. The sectoral distribution of donor funds is such that the health sector accounted for 16%, education 11%, agriculture 6%, other social infrastructure 7% and public administration 4.1%. Of all disbursements, technical assistance averaged 11.2% for the period 1992/93 – 1998/99.

Official development assistance played a key role in the stabilisation efforts of the country in the 1st half of the 1990s. The foreign exchange official inflows has contributed significantly to the availability of foreign exchange to the country which has helped stabilise the exchange rate and for the country to rebuild its foreign exchange reserves, which currently are equivalent to about 5.0 months of imports. Additionally, ODA has played a central role in financing the budget deficit. The availability of ODA has helped the Government of Uganda not to resort to inflationary means of financing the budget deficit, and therefore has made a significant contribution to keeping inflation low. The availability of foreign exchange through ODA has also helped the private sector to grow by supporting importation of investment inputs.

The significance of ODA in Uganda's balance of payments is clearly reflected in the wide variation between the trade balance, the current account and the capital accounts. In the past decade, the current account deficit has been much narrower than the trade balance, mainly due to two factors: the large external grants, and in the second half of the 1990s, the large private transfers from abroad. It is also interesting to note that despite the persistent large trade and current account deficits in the past decade since 1990, the capital account has been in surplus in the whole of the 1990s. The single factor that has been responsible for these surpluses has been the huge external aid disbursements which have far outweighed loan repayments.

The effectiveness of aid to Uganda should be seen in context. Uganda is a country that has suffered from a chaotic past, whose structures of good governance and accountability had collapsed. With this background, and given the fact that the size of the economy doubled in less than 10 years, and absolute poverty dropped from 56% in 1992 to 44% in 1997, as well as some improvement, albeit small, of the key social indicators, its only fair to say that external aid to Uganda has been effective. Of course the situation would have been much better if the country had not been adversely affected by the long period of political turmoil in the 1970s and 1980s. Another problem that has in the past, limited the effectiveness of aid has been lack of a sector-wide approach to ODA. Previously, aid was tied to specific projects which often led to a less optimal use of resources. This will be overcome by shifting to a sector-wide approach to budgeting and the gradual acceptance of donors to provide general budget support rather than tied project aid.

Over the past decade, unrealised disbursements have amounted to over US$ 1.0 billion, with worst cases in the early 190s. The often wide variation between the donor commitments and disbursements is attributed to three factors. First, the low absorptive capacity of some projects which meant that resources could not be utilised as programmed. Second, because project-specific tied aid leaves no room flexibility, the extent to which donor funds could be transferred to good performing projects was also severed limited. Lastly, some donor disbursements conditionalities/benchmarks which were difficult to meet especially those where the timing was inconsistent with the consensus building process in the implementation of structural reforms.

2.2.2 External debt burden

The debt crisis and its impact in the late 1980s

The debt crisis is a global phenomenon cutting across both the developing and developed countries. During the late 1980s, the Government of Uganda borrowed heavily, often on unsustainable or commercial terms, to finance the reconstruction programme. Total debt outstanding increased by 82 percent to US$2.6 billion at the end of 1990 from US$1.4 billion at the end of 1986. The actual burden on the economy of the increase in resources consumed by debt service, relative to the resources generated by exports, was much greater than the absolute debt-service figures suggest: the debt service ratio (debt service ratio/exports of goods and services) rose from 43 percent in 1986 to more than 60 percent in 1989[19]. By the end of the decade, it was with great difficulty that the most essential debt-service payments could be maintained.

It is reported that the debt service paid to the IMF alone in 1989 was equivalent to almost 30 percent of export earnings, implying a serious squeeze on essential imports, upon which continued economic growth depended. At the same time that the debt-service obligations rose, the international prices of coffee began to fall and the production levels also fall sharply.

[19] Uganda's External Debt (1999) by the Austrian Development Cooperation

With the decline in export earnings, foreign exchange reserves began to dwindle and by 1990, the crisis could no longer be contained as it was seriously hurting the economy. Uganda was on the verge of bankruptcy and the situation was not helped by weak domestic policy implementation at that time. This prompted the development of Uganda's first integrated debt management strategy in 1991.

The debt burden in the 1990s

The first debt strategy 1991-1995 focused on overcoming the immediate debt-payments crisis and ensuring that the debt is lowered to sustainable levels. The key indicators of the external debt situation of Uganda in the 1990s is portrayed in Annex 2. By 1995, the ratio of debt stock/exports had fallen to around 500% from about 1600% in 1992/93. At the same time, the share of multilateral debt in the debt stock rose to around 75%. Given that this kind of debt could not be rescheduled, and in order to find some way to reduce the burden of debt service further, in 1995 the Government of Uganda introduced the Enhanced Debt Strategy aimed directly at addressing multilateral debt. The Uganda Multilateral Debt Fund (UMDF), a fund designed to specifically channel debt relief resources to payment of maturities falling due the IMF, IDA and the ADB Group. This fund was very successful in terms of mobilisation of resources; it provided considerable flow relief on multilateral debt service with about US$ 80 million being mobilised annually.

HIPC Debt Relief Initiative

At the conception of the Heavily Indebted Poor Countries (HIPC) Debt Relief Initiative in 1996, Uganda's ratio of Net Present Value (NPV) to exports was assessed at 202%. Owing to its consistency in pursuing sound policies and commitment to structural reforms, Uganda became the first country to receive assistance under the initiative. The relief worth US$ 347 million in NPV terms was availed to Uganda in 1998. This amounted to a total saving of US$650 million over a thirty year period. The first relief was received in 1998/99 fiscal year to the tune of US$45 million. By end of June 1999, Uganda's NPV of external debt to exports ratio had risen to 240% due to unfavourable weather conditions, and changes in global interest rates.

At the advent of HIPC, Government established a Poverty Action Fund (PAF), through which savings made through debt relief are channeled to finance poverty reduction in accordance with PEAP priorities. Resources so mobilised are spent on PEAP priority programmes such as primary education, primary health care, agricultural extension, rural road programmes, rural water supply and sanitation, and enhanced accountability.

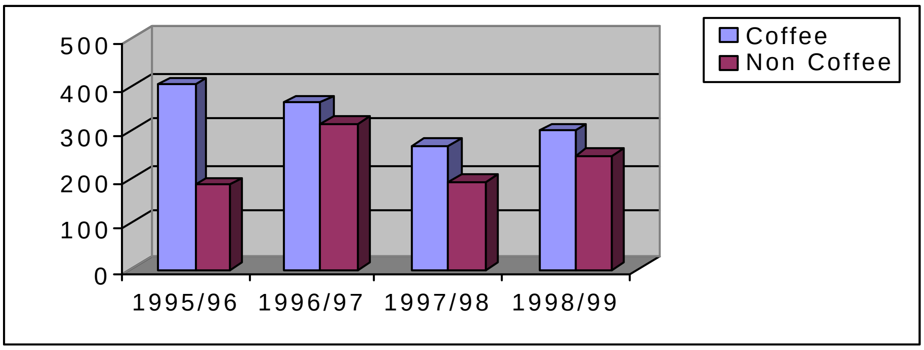
Under the Enhanced HIPC Debt Relief Initiative, five countries - Bolivia, Mauritania, Mozambique, Tanzania, and Uganda - had reached their decision points under the enhanced framework by April 2000, and Uganda became the first to reach its completion point. Uganda is thus expected to be the first country to benefit from this Initiative. It will receive approximately US$ 656 million in debt relief in NPV terms, bringing the debt to export ratio down to 150%. The total annual debt relief will be approximately US$ 55 million under the Enhanced HIPC and about US$ 40 million under the original HIPC. These resources will continue to be channeled through the PAF to poverty reduction programmes. However, the success of this initiative has been identified to be dependent on the full participation of multilateral as well as bilateral creditors, and adequate financing to meet the multilateral institutions' debt relief costs.

The Government is committed to implementation of its debt management strategy. Investment in debt-management capacity has enabled the Government to rationalise its strategic management of external debt to sustainable levels. It will continue to seek grants first in external sourcing of funds, and opt to supplement this with highly concessional loans comparable to IDA terms.

2.2.3 The export sector

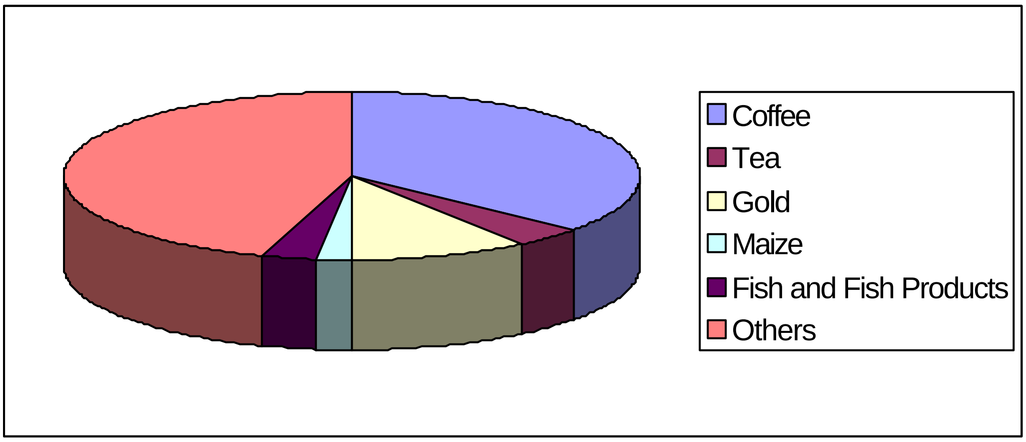
The performance of the export sector, though impressive as illustrated in Box 3.2, still falls short of the desired level. The export base continues to be dominated by traditional exports with high concentration in coffee (Figure 2.2), accounting for 55.36% of total exports, whose price is very volatile on the world market. The export earnings have, therefore remained volatile and unpredicatable. Of recent, the country experienced declines in both volume and value of coffee exports. The decline in volume was largely attributed to the coffee wilt disease while reductions in value were mainly due to the downward trend in the international price. In 1998/99, the drop in the price was, however, more than offset by a large increase in export volume of 25.8 percent, estimated at 3.6 million 60 kg bags. Nevertheless, these volumes were below the 1995/96 level (3.9 million bags) and 1996/97 (4.4 million bags). Earlier, the country had experienced high revenue values in 1994/95 following a significant increase in the international price. This was due to destruction of the coffee crop in the major world producing areas of Brazil.

Figure 2.2: Coffee and Non Coffee Exports in Million US Dollars



The process of export diversification has had a slow but steady progress. Non coffee exports including; electricity, horticulture, cotton, tea, tobacco and fish have been on the increase. Figure 2.3 illustrates the extent of diversification by 1997. The ratio of the value of non-coffee exports to total exports of goods was 45 percent in 1998/99 while the ratio of non coffee receipts to coffee receipts was estimated at 81 percent over the same period. In particular, fish exports had shown significant growth until the European Union imposed a ban in 1998 due to the low quality standards within the industry. Together with the ban by the EU, domestic consumption was also suspended due to health concerns arising out of fish poisoning. These developments have therefore affected the country's ability to penetrate international markets.

Figure 2.3: Principle Exports for 1997.



Additional limitations to growth of the export sector are in the areas of the infrastructure for handling exports both during processing and at the terminals such as airports. The country still has significant power shortage problems, high utility costs and high interest rates. Apart from the poor infrastructure, the economy is still characterised by inadequate, and in several case inappropriate technologies, weak managerial expertise and poor entrepreneurial skills.

Initiation of an export development program would require the following strategies among others;

- Improvements in the export infrastructure and financing, increasing export incentives and attractive export promotion schemes such as export processing zones (EPZ).
- Putting in place a Strategic Export development and Diversification Policy focusing on development of high-value competitive exports.
- Improvements in the provision of market information, particularly on the international scene so as to enable manufactures to diversify products and markets.
- Increased access to export finance and credit and risk management tools by genuine exporters who may not necessarily have sufficient collateral.
- Aggressively pursuing a well designed foreign trade policy. In some cases it may take government initiative or any other trade body to establish links with emerging markets and to carefully review, from time to time, the position of leading competitors.
- Transforming the country from being a primary agricultural exporter to an industrial economy.

2.2.4 Foreign Direct Investment

The strong growth of foreign direct investment (FDI) inflows constituted one of the major factors that contributed to the improved performance of the Ugandan economy in the 1990s. Table 2.2 shows the trend of FDI inflows during this period.

Table 2.2: FDI Inflows in the 1990s

Year	FDI (Millions of U$)
1992	-
1993	54.57
1994	88.15
1995	121.21
1996	121.04
1997	175.00
1998	210.00
1999	222.06
Average	141.72

Source: Bank of Uganda

There is evidence that Uganda has gradually become a strong magnet for attracting FDIs. Over the period 1997 to 1999, it attracted FDI at an average rate of US$202.35 million per annum. These inflows have largely been associated with the Government privatisation program. The Government divestiture, privatisation and the increased preference by non-residence Ugandans to remit earnings back home in general increased FDI inflows. These developments measure the confidence investors have developed in the economy.

The pull factor that has also helped credibility is the effort in reducing the large debt burden. A contribution of conservative borrowing policies, the limits on non concessional loans, recovery of exports and debt relief programs financed by donors have all helped to reduce the debt service rates from a peak of 128% in 1991/92 fiscal year to 7% by end of 1996/97 fiscal year. The debt arrears have also declined from over US$ 300 million in 1992/93 fiscal year to under US$ 250 million in June 1996. The country's debt picture further improved in 1998 on reaching the completion point under HIPC Debt Relief initiative and qualified for the enhanced HIPC initiative.

The other pull factors included, inter alia, the establishment of Uganda Investment Authority (UIA) in 1991 with a series of incentive packages enshrined in the Investment Code of 1991; investment promotions conducted within and outside the country, especially in agro-farming,, fishing, forestry, minerals, tourism and power generation. The other factor has been the Asian repatriation and return of the properties to the Asian owners.

In the contrary, some push factors have tended to undermine FDI inflows into Uganda, namely the size of the domestic market of about 21 million people now, the landlocked position of Uganda, poor infrastructure, limited accessibility to long term investment resources.

The developments in FDI inflows amongst other factors have largely influenced the movements in the capital account of Balance of Payments. Uganda still has the potential to benefit more. There is therefore a need to demonstrate renewed commitments to reforms, particularly institutional, and to ensure consistency of policies in order to reassure investors about the safety and viability of long-term investments in Uganda.

Future strategies for FDI and investment promotion

In a nutshell, the overall growth prospects, the transferability of funds, the overall political climate and business environment, and the low cost of labour, are perceived as Uganda's best assets. The poor quality of infrastructure, the lack of a skilled labour force, the level of corruption, and the weak financial system are perceived as major liabilities[20]. Although most investors would be happy to take advantage of whatever benefits they can secure, investment incentives are rarely a major factor in the decision to go ahead with initiatives in a country. The Government of Uganda should therefore continue to resist the temptation of aggressive promotional policies based on the concession of generous incentives, that would have only a modest impact on overall investment flows, while entailing substantial costs for the country.

The 1999 Survey of Investors report identifies three core areas that would enhance the business environment in Uganda:

- **Further improvement in the institutional support**: the quality of institutional support offered to foreign investors had tremendously improved by the close of the decade but this still needs to be further enhanced. Improvements in the regulatory environment as well as the investment of some resources to further strengthen the Uganda Investment Authority could bring significant and lasting results.
- **Improving Risk Coverage Schemes**: The existing investment insurance schemes, both bilateral and multilateral, are perceived as distant and unfriendly. Foreign investors appear to be increasingly interested in getting some sort of protection against non-commercial risks.
- **Maintaining political stability and commitment to reform**: The good results achieved during the 1990s in terms of political stability and establishment of a liberal economic system

This chapter has identified and analysed in-depth the factors that have constrained Uganda's development during the past decade. The degree to which each of these constraints has been tackled by Government and its development partners varies from one problem to other, but it is clear that most of them are yet to be fully solved. Therefore, remaining constraints and those that may come up in future, should constitute the major focus of future development efforts. In the next chapter, we highlight some of the successes that Uganda has registered, despite the overwhelming problems that are still existing.

[20] Uganda: Survey of Foreign Investors, November 1999 by CIC-Consorzio Italiano Consulenti

CHAPTER 3

EXAMPLES OF SUCCESSES OR BEST PRACTICES

3.1 Introduction

Uganda has set precedence in sub-Saharan Africa in being a step ahead in formulating and implementing prudent policy initiatives aimed at reducing poverty. Many of these initiatives have yielded positive results that now form a springboard for future development and faster growth of the country. Three examples of some of the best practices in Uganda are presented in the next sub-section.

3.2 Case studies of best practices

3.2.1 Macroeconomic policy management

Box 3.1: Consistency in Policy Reform Management: The Case of Uganda

Before the late 1980s, Uganda's economy was literally bleeding as a result of many years of political strife and neglect. In 1985/86, real GDP growth had declined to 0.4% and growth in Real GDP per capita had dropped to -1.8%. In the 1986/87 financial year, the inflation rate stood at 216.5% as a result of the high levels of monetary growth. There were highly negative real interest rates on deposits and lending rates were similarly negative, which led to a contraction of deposits in the banking system.

By consistently and successfully implementing robust economic reform programmes since 1987, the Government of Uganda, strongly supported by multilateral and bilateral donors, has made impressive progress in achieving macroeconomic stability, reviving the economy and sustaining rapid economic growth. This success is largely traceable to the stance taken by Government in formulating and managing policy reform in a consistent manner. For example, from the fiscal year 1989/90 to 1992/93, inflation was reduced to two digits and thereafter maintained at an average rate of 5.7%; tax rates have been reduced to reasonable and sustainable levels and Government has consistently implemented budget reforms aimed at shifting resources towards poverty reduction.

The consistency in implementing and managing policy reforms in Uganda has had tremendous positive impacts in almost all sectors of the economy. Real GDP growth averaged 6.3% per annum between 1985/86 and 1998/99.

Variable	1986/87	1998/99
Per capita GDP Growth	1.0%	5.1%
Private Investment (% of GDP)	5.4%	13.0%
Infant Mortality Rate (per 1000 livebirths)	118	88

The good institutional framework, political commitment, human capacity, wide consultation and opening up to allow all stakeholders to buy into the agenda, have proven to be very effective ingredients in formulating and managing policy reforms in a consistent manner. Although the Government has been dependent on aid, it has been able to impose its own pace of reform to a considerable extent, and to persuade the donors to accept it.

3.2.2 Export growth

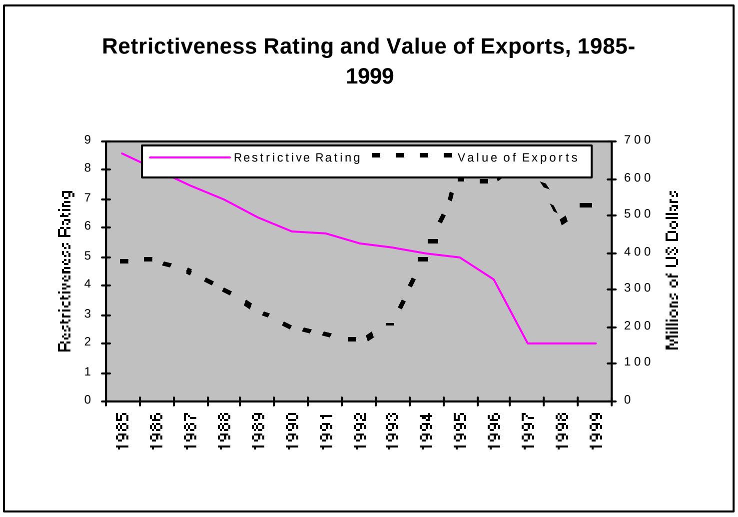
Trade liberalization has been a key development strategy in many countries. After implementing substantial trade reforms during the 1990s, Uganda is one of the LDCs that have been able to sustain very high rates of export growth and provides a particularly good example illustrated in Box 3.2.

Box 3.2: Uganda: Export Growth in the Context of Trade and Complementary Structural Reform[21]

In 1985, Uganda had a highly restrictive trade regime characterized by high tariffs and pervasive nontariff barriers (NTBs), that was rated a 9 on the Fund's index of trade restrictiveness. Its foreign exchange regime was distorted, while structural impediments to growth were widespread throughout the economy. Uganda initiated trade reform in the context of a comprehensive adjustment programme. In the area of trade, efforts were initially directed to eliminating NTBs, and thereafter to lowering tariffs. As a result, Uganda's restrictiveness rating has declined steadily to a rating of 2 by the late 1990s.

The lowering of tariffs was facilitated by key reforms in the fiscal area, including the establishment of Uganda Revenue Authority and the introduction of VAT, both with significant assistance from donors. In the financial sector, monetary and banking sector reform, and the adoption of a flexible exchange rate system were central to Uganda achieving a viable external position. In addition, Uganda removed price restrictions in the agricultural sector, eliminated restrictive marketing boards in the coffee, cotton and tea industries, undertook civil service reform, and upgraded its infrastructure.

As a result of these measures, during 1992-99, Uganda's exports grew annually by 23 percent in value, and by 16 percent in volume. There was substantial export diversification as the volume of noncoffee exports grew by 24 percent. Nontraditional exports (including fish, horticulture and maize) grew by 32 percent during this period. These developments were key to Uganda maintaining an annual average growth rate of about 7 percent over the period. Owing to the strong economic growth, between 1993 and 1997, the incidence of poverty declined from 56 percent to 44 percent.



Source: IMF Statistics

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[21] Issues Paper by World Bank and IMF on Trade, Development and Poverty Reduction, March 2000.

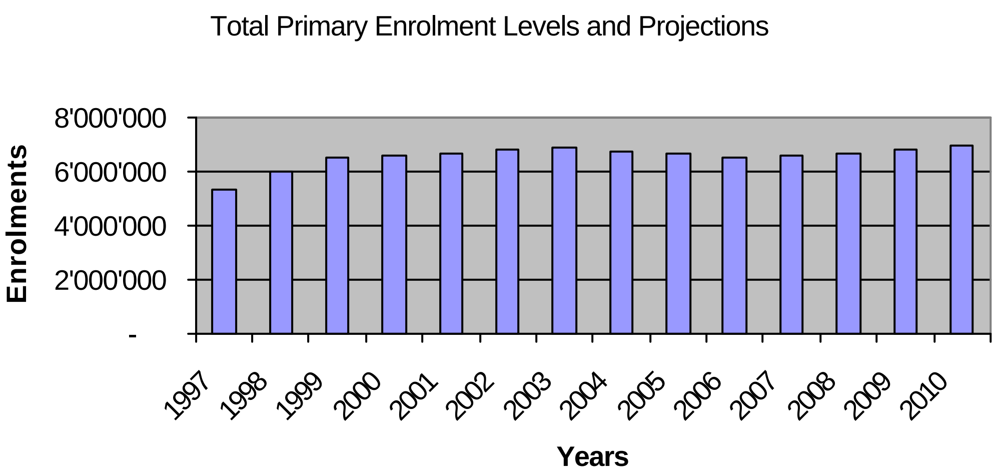
3.2.3 Primary Education

In 1992 the Ministry of Education and Sports developed the Education Sector White Paper. This later became the corner stone of later policies, including the now famous policy of Universal Primary Education (UPE). Here, we present a synopsis of the successes and challenges of this policy initiative (Box 3.3).

Box 3.3: Universal Primary Education in Uganda

Uganda did not experience the post-Independence educational expansion that has characterised most sub-Saharan African due to several contributory factors. Up to the late 1980s, education had arguably been a low and declining priority for government. The gross primary school enrollment ratio in 1980 was 50 percent, effectively the same as in 1960[22]. In the past few years, Government has re-oriented its policies and budgetary allocations to target the eradication of poverty. Primary education has been given emphasis in these new strategies due to its direct and indirect impact on poverty.

A dramatic change was realised in the country's education system with the introduction of UPE in 1997. This policy established free primary education for four children per family, the provision of textbooks for all classes, and extensive in-service teacher training. Parents are expected to provide their children with uniforms, stationary and meals. The most remarkable feature of the UPE initiative to date is the massive increase in enrolments following the removal of school fees. The response was tremendous with a near doubling of the enrolment from 2.5 m in Dec 1996 to 5.3 m pupils in Jan 1997. Although there may be some room to doubt the exact levels of enrolment, the March 1999 Headcount suggested that as many as 6.5 m children are enroled in Uganda's schools.



The unexpected rise in enrolment has resulted in chronic shortages of textbooks, classrooms and teachers, and will soon lead to increased demand for secondary education. While the problem of access to education seems to have been solved, the problems of quality of education are clearly just beginning. To face up to these challenges, the Government of Uganda in 1998 introduced a five year Education Sector Investment Plan that aims, among others, at improving the quality of primary education, attain 100% net enrolment, and increasing equality for special needs groups including girls and disabled children. Implementation of the ESIP has, so far, yielded positive results particularly as it has involved wide participation and consultation of districts and the grassroots. The strength of the strategy has ensured solid and coordinated donor support which is essential for sustainability.

Strategies to further strengthen the UPE and ESIP initiatives include establishment of an Education Management Information system to improve information flows between government and districts; district capacity building programmes and empowerment of schools in decision making in order to ensure

[22] Simon Appleton (1999): Education in Uganda: What to Expect from Universal Primary Education?

sustainability. The ESIP envisages the transition rate to secondary education increasing to 65% by 2003, hence plans are underway to meet this new challenge.

3.2.4 HIV/AIDS

Box 3.4: Decline in HIV/AIDS prevalence in Uganda

The decline in HIV/AIDS prevalence in Uganda, observed during the past few years, presents an interesting case study for future control mechanisms. It is reported that an estimated 9.5% of adult Ugandans - 1.9 million people - are already infected and many continue to be infected every day. The HIV/AIDS has led to the death of many parents thus creating a generation of orphans. It is estimated that 1.1 million orphans below the age of 15 years have lost a mother or both parents most of whom, due to HIV/AIDS[23]. This secondary crisis is creating a cohort of disadvantaged persons who are less likely to get fed, go to school or to receive health care, all factors that characterise poverty. In many urban areas of Uganda, HIV infection appears to have peaked, although it is still on a rising trends in some rural areas.

The good news is that the AIDS prevalence rates have started to fall in the country, unlike most severely AIDS - afflicted countries. There is a reported general decline in the HIV prevalence from around 18% in the early 1990s to 8.3% by 2000. The positive trends could be attributed in part to the following:

- High level political commitment spearheaded by the President of Uganda;
- Multi-sectoral approach and the involvement of various partners including civil society, NGOs, media, religious leaders, youth groups, traditional leaders and People Living with HIV/AIDS;
- Openness in the society in discussing matters of sexuality and reproductive health;
- Psychosocial life skills learning by adolescents especially the girls both in and out of school.
- Strong institutional framework

But it would be dangerous to think that the struggle is over, for three key reasons. First, there are still many people living with the HIV virus in Uganda who are a source of infection and need treatment. Secondly, the legacy of orphans will be with Uganda for many years to come and thirdly, and most importantly, AIDS could explode again if the county ceased to be vigilant against it. The large number of displaced people in Uganda represent a major concern; only continued and vigorous anti-AIDS measures will protect them against a renewal of the epidemic, since all communicable diseases are associated with population movement.

The Government of Uganda recognises HIV/AIDS epidemic as a serious threat to progress in poverty reduction as over 80% of the reported cases are among people aged 15-45, the age group that constitutes the largest part of the potential productive labour force. Responses to HIV/AIDS have been factored into planning processes of all sectors of the economy. All the AIDS activities are mainstreamed in the Poverty Eradication Action Plan as a cross-cutting principle that should be given serious consideration in all programmes and projects. The National Strategic Framework 2000/1 - 2005/6 for HIV/AIDS activities in Uganda recognizes that HIV/AIDS should be integrated into all aspects of development work, service provision, planning and implementation by line ministries, local governments, religious and cultural institutions, the private sector and NGOs/CBOs.

The priority areas for HIV/AIDS control for the period 2001 - 2006 include: the reduction of HIV prevalence by 25% by the year 2005/6; to mitigate the health and socio-economic effects of HIV/AIDS at individual, household and community level; and to strengthen the national capacity to respond to the HIV/AIDS epidemic.

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[23] UNAIDS; Statement on HIV/AIDS at Uganda CG Meeting by Chairperson UN Theme Group on HIV/AIDS; Uganda AIDS Commission Secretariat.

CHAPTER 4

PROGRAMME OF ACTION FOR 2001-2010

4.1 Introduction

Uganda's programme of action is clearly articulated in the Poverty Eradication Action Plan (PEAP) that provides the framework within which the government's planning effort is conducted. It establishes the policy framework for the eradication of poverty within the next two decades (1997-2017), drawing heavily on the lessons learned from policy implementation during the past two decades and recognising the challenges that need to be addressed. It also provides the basis for Uganda's Comprehensive Development Framework (CDF) process. Since its inception in 1997, the Poverty Eradication Action Plan has proved extremely useful in guiding the formulation of government policy, sectoral allocation of expenditures and the design of sectoral strategies. It has been revised, through a long consultative process, to incorporate new developments since that time in order to remain valid and relevant to the ongoing policy processes. For the same reason, the PEAP will be updated every 3 years.

Besides the PEAP, there have been a number of initiatives to strengthen the planning process in recent years. These include major consultative exercises concerning Uganda's long term goals and objectives, such as *Vision 2025* describing the national aspirations, consultations with communities on the nature and causes of poverty by the Uganda Participatory Poverty Assessment Project (UPPAP), and the Medium-Term Competitive Strategy for the Private Sector (1999-2005) which clearly sets out the actions and principles that form the basis for Government and donor intervention in the private sector. In addition, the Poverty Status Report (PSR), which was first published in 1999 and will be produced bi-annually, assesses the progress and challenges in the implementation of the PEAP.

This chapter presents the programme of action for the next 10 years as discussed in various government documents that have been developed through extensive consultative processes. It is divided into five parts. The first part provides the national vision, mission and overall objectives. The second part provides an insight into Uganda's planning framework through which policies are made and implemented. The third part describes the strategies being undertaken to meet the stated goals while the fourth part discusses the arrangements for implementation, monitoring and evaluation. The fifth part gives the macroeconomic framework and the medium to long term public expenditure implications of the strategy. Detailed information on particular sectors and programmes and their costings will be articulated in subsequent drafts.

4.2 National vision, mission and overall objectives

4.2.1 National vision

The revised PEAP, which has consulted and involved a wide cross-section of stakeholders through participatory processes, aims at transforming Uganda into a modern economy in which anyone, regardless of age, sex and sector (in which he or she participates), can be judged and rewarded on his or her accomplishment. This implies a society that is technologically advanced, competitive, and enjoying a high quality life.

In this long-term vision, poor people must be able to participate in economic growth, both by expanding smallholder agriculture and increasing employment in industry and services; increased access to education and health services for all, as well as effective, participatory and democratic governance are envisaged in addition to the development of competitive industries through continued institutional development.

4.2.2 National mission

All over the world it is recognised that the effective functioning of a country's economic and social system is the basis for attacking poverty. Several studies in Uganda have indicated the multi-dimensional nature of poverty including low and highly variable levels of income and consumption, physical insecurity, poor health, low levels of education, powerlessness, unemployment, and isolation, both socially and geographically. All these dimensions influence one another in a manner that perpetuates the cycle of poverty at the individual, household and community levels.

- *Hence, the Government of Uganda will promote policies and programmes to eradicate income poverty and improve the health status and educational achievement of Ugandans while ensuring the poor have an effective voice in the design and implementation of public policy. The strategy emphases poverty eradication through agricultural modernisation, employment creation and industralisation.*
- In specific terms, the Government has s*et itself the objective of reducing the headcount of income poverty to 10 percent of the population by 2017.*

4.2.3 Overall national objectives

It is on the basis of the national vision and mission that the Government of Uganda has formulated an overall strategy based around four primary goals that are mutually reinforcing:

1) Creating a framework for economic growth and structural transformation

This goal emphasizes economic growth and employment generation as necessary conditions for poverty eradication. Economic growth in Uganda requires an enabling environment within which the private sector can expand. Key elements of this strategy include maintenance of *macroeconomic discipline*, setting of appropriate *macroeconomic incentives* such as export promotion and encouraging labour-intensive investments, and ensuring *equitable and efficient collection and use of public resources*. And in order to promote economic transformation, the *constraints to the private sector performance*, such as poor infrastructure and power shortage, need to be addressed.

2) Ensuring good governance and security

Good governance has increasingly been recognised as a prerequisite to economic development. In our country, various consultations with the poor have indicated insecurity as one their most pressing problems. This goal, therefore, emphasizes *conflict resolution and effective support to conflict-afflicted* areas. *Democratisation* is another key element under this strategy and this has been, in the case of Uganda, pursued in the context of decentralisation. The process involves the transfer of responsibilities to district level and restructuring of government ministries. Good governance also involves making *public expenditure transparent and accountable* and improvement in the *quality of service delivery*. Enforcement of *law and order* and increasing accessibility to *public information* are necessary conditions for good governance.

3) Actions which directly increase the ability of the poor to raise their incomes

Most Ugandans are self-employed mainly in agriculture. This therefore gives the Plan for Modernization of Agriculture (PMA), which was launched recently, a central role in poverty eradication. Despite the constraints of limited technology and market access, the potential of raising agricultural incomes is considerable. The PMA seeks to raise the incomes of the poor by increasing their productivity in existing activities, increasing output prices and enabling them enter new productive activities and wage employment. Emphasis has been placed on research and extension, market access, rural financial services, sustainable natural resource utilization and management, and improving the country's rural roads.

Other measures aimed at increasing the poor's incomes include the forthcoming implementation of the Land Act that is designed to strengthen the land rights of the poor and nurturing of appropriate institutions.. Employment outside agriculture will be promoted by microfinance, advisory services and vocational training. It is also evident that rural electrification affects poverty mainly through its impact on employment opportunities and market access. Government is therefore promoting the expansion of the grid and development of off-grid electrification

4) Actions which directly enhance the quality of life of the poor

This goal emphasizes the need to increase the poor's access to services that improve the quality of their life. The introduction of free primary education for four children per family has led to a dramatic increase in school enrollment. The priority now is to improve the quality of education while maintaining the increased number of children in school. Adult literacy is an area that features strongly with considerable potential benefits. Provision of sufficient low-cost classrooms, teachers and scholastic materials as well as ensuring that access to secondary education is more equitable remain major challenges. Increasing access to proper health care, and improved water supply and sanitation are integral components of this strategy.

4.3 Framework for implementation of the strategic objectives

Implementation of the strategic objectives, as stated in the PEAP and other accompanying policy documents, demands sector-wide programming to determine sector objectives, outputs and outcomes expected from sector expenditures, and the activities which the expenditures will fund in order to achieve the desired outputs and outcomes. The public expenditure priorities articulated in the Plan are implemented through sectoral plans and the Medium Term Expenditure Framework (MTEF) and financed through the annual budget. It is important to note that these elements interact in an ongoing participatory ***process*** that is illustrated in Chart 1.

4.3.1 Sector-wide programmes

The implementation of the PEAP primarily operates through the actions of each sector and the annual budgeting exercise. Past attempts to implement plans have often been frustrated by a lack of capacity or resources. The proposed implementation strategy for the PEAP has been deliberately designed to overcome these past problems. The Sector Action Plans of the 1997 PEAP have been followed by further development of sector wide programming for all sectors to specify for each sector, the mission and objectives of the sector in relation to poverty eradication, the outputs and the outcomes which are expected to result from sectoral expenditures, and the activities which the inputs will fund in order to get the predetermined outputs and outcomes.

Detailed sector-wide plans and investment programmes have reached varying stages of completion, set within an overall medium term expenditure framework (MTEF). Already completed are: the 10-year Main Road Sector Development Plan (1996); Education Sector Investment Plan (1998); Health Sector Strategic Plan (1999); National Strategic Framework for Control of HIV/AIDS and the Plan for Modernisation of Agriculture (2000). Still under preparation are: the Land Act Implementation Plan; Environment Sector Plan; Justice/Law and Order Sector Plan, Plans for Social Development, combating corruption and accountability and separate plans for rural and urban feeder roads and water. The level of detail of these plans varies among sectors, but in all cases, sectors are moving towards fully costed programmes with well-defined targets. These detailed sector plans have helped guide the medium term expenditure framework and priority actions within the Poverty Action Fund (explained below).

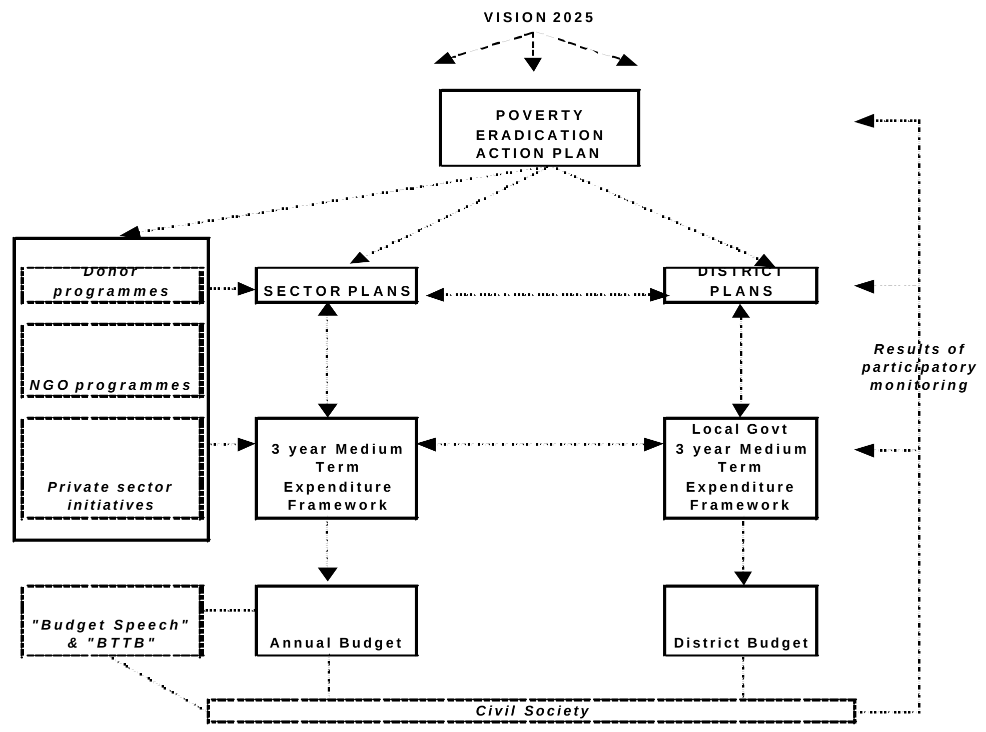
Given capacity constraints within the sector ministries, the support of donors in helping to bring together both other donors and relevant Government agencies (through sector "sub-groups") has been an extremely valuable mechanism for strengthening sector planning. Donor partners and the Ministry of Finance, Planning and Economic Development are increasingly being involved at the early stages of each sector plan to ensure that all plans are based on a realistic view of what can be afforded. As planning capacity improves in line Ministries, more sector-wide investment programmes and plans will be developed. Some plans involve many sectors and are of a cross-cutting nature such that one of the key challenges will be to ensure full consistency.

4.3.2 The Medium Term Expenditure Framework (MTEF)

In the preparation and prioritisation of sector plans, it is critical that ministries have a clear idea, not only of the macroeconomic resource envelope, but also of the likely level of resources available to their sector consistent with Government - and donor - commitments to all the other sectors. Therefore, since 1992, the Government of Uganda has been developing the Medium Term Expenditure Framework (MTEF), which is a three-year budget plan that ensures comparability of Government expenditure with Government strategic priorities, with the objective of maintaining macroeconomic stability over time. The MTEF is itself fully integrated into a macroeconomic framework which is designed to ensure low inflation of no more than 5% and to support rapid broad based real GDP growth of 7% per annum.

The purpose of the MTEF is the design of all public expenditure by a clear analysis of the links between inputs, outputs and outcomes, in a framework that ensures consistency of sectoral expenditure levels with the overall resource constraints. It is intended to guide all public expenditure and optimise scarce budgetary resources towards the sectoral priorities set out in the PEAP. The highest priorities for the medium-term expenditure framework are: security, roads, agricultural research and extension, primary education, primary health, HIV/AIDS, and water and sanitation. Other priority areas include promotion of good governance, increased access to justice especially by the poor, ensuring accountability and environmental sustainability of economic development. Annexes 3 and 4 provide the summary and detailed MTEF for the period 1999/2000 to 2003/04, respectively.

Chart 1: Overview of planning / information flows



Quick guide to planning processes

Vision 2025: an overview of long term goals and aspirations by the year 2025

The PEAP: the national planning framework on which to develop detailed sector strategies

Sector Planning: technical specifications of sector policies and priorities and investment programmes disciplined by hard budget constraints

District Planning: implementation plans for sector strategies based on local priorities / needs

MTEF: annual, rolling 3 year expenditure planning, setting out the medium term expenditure priorities and hard budget constraints against which sector plans can be developed and refined

District MTEF: setting out the medium term expenditure priorities and hard budget constraints against which district plans can be developed and refined

National & District Budgets: annual implementation of the three year planning framework

Donor; NGO; private sector: participating and sharing information / ideas in developing sector plans and budgets

Participatory processes: bottom-up participation of districts in the planning and monitoring process, as well as participatory poverty assessments, providing essential feedback on progress towards poverty eradication goals

4.3.3 The Poverty Action Fund (PAF)

The Poverty Action Fund (PAF), that was created in 1998 as an integral part of Government's budget, has been a very successful initiative in enabling Government to double the resources available to finance the PEAP objectives. It is another important initiative that ensures that policy priorities, as stated in the PEAP, are translated into programmes that directly impact the poorest. The resources in the PAF were initially limited to debt relief savings from the HIPC initiative. However, they have since increased in scope as bilateral donors and Government continue adding additional budget support to this fund.

The PAF (summarised in Table 4.1) includes the most high-priority public expenditures from the poverty-eradication perspective that are ring fenced from normal budgetary cuts. Inclusion of a particular sector or programme in the PAF is justified by the high economic and/or social returns to the form of expenditure, by the fact that a substantial proportion of the benefits of expenditure in that area are received by the poor. Areas already included in the PAF include rural roads, agricultural extension, primary health, primary education, water supply, and equalisation grants whose purpose (defined in the Constitution) is to make the quality of service delivery more even across different districts. A number of new priority areas that receive funding from the PAF include the Judiciary system (clearance of Case Backlog), control of HIV/AIDS, adult literacy, protection of wetlands, Commercial Justice Reform, and the Uganda Human Rights Commission.

In the current financial year (2000/01), the PAF accounts for 30% of the total Government Budget, up from 17% in 1997/98, and forecast to grow to 33% by 2002/03. Government has acted with remarkable speed to transfer increased inflows to local government and the PAF conditional grant mechanism has enabled a very substantial growth in primary service provision. In the current financial year, 73% of the budgeted UgSh. 462 bn ($256m) available to the PAF is for transfer to local governments for expenditure on the recurrent and capital costs for service delivery in the PAF priority areas. This is in conformity with the Government's commitment to the decentralization process.

The priorities embodied in the PAF will evolve as the PEAP is implemented and the economic and social structure of the country evolves. For instance, secondary education will become a higher priority as more students graduate from the universal primary education programme, especially from poorer backgrounds. Equally, there are areas of high priority that are not included in PAF because their benefits for the poor are indirect rather than direct.

Most spending under the PAF is undertaken at district level. The main mechanism used to ensure that national priorities are observed at district level has so far been conditional grants. Over time, as planning capacity is built up, it is envisaged that the bottom-up setting of priorities by communities will become more important, reducing the need for top-down determination of priorities and allowing more scope for local diversity to be reflected in local expenditure allocations. In the short run, it is envisaged that the proposed introduction of a non-sectoral conditional grant at subcounty level (LC3) will allow more flexible attention to local priorities.

The use of funds in the PAF is subject to particularly stringent monitoring procedures in which civil society actively participates. Special measures have been taken to strengthen the accountability of the high-priority expenditures managed under PAF. Funds are released either as conditional grants to the Districts or through the development budget. Five percent of PAF resources are set aside for enhancing existing monitoring, accounting and auditing procedures.

Table 4.1 Summary of PAF budget in the medium term (billion shillings)

	Budget		Projections		
	1999/2000	**2000/1**	**2001/2**	**2002/3**	**2003/4**
Directly increasing incomes of the poor	**52.9**	**52.1**	**63.4**	**74.0**	**86.6**
Rural roads	24.5	30.5	34.8	39.8	45.6
Land Act	3.0	3.0	6.5	10.0	15.0
Agricultural extension	6.1	8.3	8.8	9.3	10.3
Micro finance/restocking	19.3	10.3	13.3	14.9	15.7
Directly improving quality of life of the poor	**268.7**	**372.5**	**415.3**	**493.0**	**559.8**
Primary Health Care	28.8	60.9	81.8	122.6	145.1
Water and sanitation	17.5	35.6	39.4	41.4	43.6
Primary education	222.4	274.5	290.1	323.0	363.1
Adult literacy	0.0	1.5	4.0	6.0	8.0
New areas	**0.8**	**2.3**	**7.6**	**14.8**	**15.1**
Reduction of Case Backlog	0.8	1.0	1.1	1.1	1.2
Environment (Wetlands)	0.0	0.3	0.5	0.8	1.0
Studies for implementation of PEAP[1]	0.0	1	6.0	12.9	12.9
Other district grants	**2.0**	**17.3**	**20.1**	**21.9**	**24.2**
Improving monitoring and accountability	**11.3**	**18.6**	**21.3**	**24.6**	**27.1**
Key Accountability Institutions	6.6	7.3	8.0	9.3	10.2
PAF Programmes	4.7	11.3	13.3	15.3	16.9
Total budgeted expenditure	**335.7**	**462.8**	**527.7**	**628.3**	**712.7**

[1] This is for underfunded areas such as vocational training, criminal justice system reform and environment. The allocation increases substantially over the medium term to allow for growth of funding to these areas.

4.3.4 Institutional setup

For proper and effective implementation of the national strategy, there is need for an efficient institutional framework. This implies a strong and serious partnership with the various development actors including the local governments, civil society, NGOs, private sector and donors. Several initiatives are being undertaken by government to ensure that such partnerships develop and are continuously strengthened for the purpose of implementing the goals of the PEAP. Responsibility for developing and implementing the detailed sector plans is increasingly decentralised to the line ministries, districts and urban authorities in order to increase people's participation in the decision making process, and to make decisions more transparent and public officers more accountable. Technical expertise is being provided by the central ministries to help district administrations to prepare their own three-year expenditure planning frameworks consistent with resource availability. Involvement of communities in the planning framework is also being strengthened.

4.4 Intermediate output targets in the medium-term

For the purposes of monitoring the evolution of the PEAP, the following key targets (Table 4.2) have been identified as performance indicators for the whole programme. They are considered to be achievable within the resource ceilings under the MTEF.

Table 4.2: PEAP monitoring indicators

Sector/indicator	1998/99	1999/00	2000/01	2001/02	2002/03
Education					
Average pupil-teacher ratio	68	58	48	45	45
Average pupil:classroom ratio	130	125	116	102	91
Average pupil-book ratio	6	6	4	3	3
Health					
Immunisation rates (DPT3)	35%	45%	60%	70%	80%
% of health centers with at least minimum staffing norms	33%	40%			
Water					
Boreholes drilled		1060	1100	1280	1500
Springs protected		900	900	800	700
Shallow wells protected		1000	1100	1420	1700

All indicators in the education sector are expected to improve in the medium term with the continued implementation of the three-year Education Sector Investment Plan (ESIP). Universal Primary Education (UPE) is the priority policy over the medium term and the major strategy for poverty eradication in the long-term. The intention is to maintain universal primary school enrolment (including poor households), reduce drop out rates and raise completion rates and raise the cognitive skills of primary school graduates.

In the health sector, indicators such as the immunization rates will more than double and the number of health centers with at least minimum staffing norms will gradually increase. In addition, Government has set targets of reducing child mortality from 147 to 103 per thousand, maternal mortality from 506 to 354 per 100,000, reducing HIV prevalence by 35%, total fertility rate to 5.4, and reducing stunting to 28% by 2004/5. All this is to be achieved within the framework of the new National Health Policy and Health Sector Strategic Plan (HSSP), which is already under implementation. The HSSP is designed around a basic minimum package that is based on the predicted impact of cost effective interventions for the prevention and control of the major causes of the burden of disease.

In order to deliver the minimum health care package and to address the existing impediments to utilisation by the poor, the HSSP has embraced additional strategies of strengthening the Health Care delivery system, operationalising a strengthened legal and regulatory framework, providing integrated support systems consolidating human resources, financing and infrastructure management, and strengthening the overarching management functions of policy and planning, quality assurance, health information management and research and development.

Similar to the other two sectors, the water sector is also expected to experience an improvement in the medium term as indicated in Table 4.2.

4.5 Long-run resource estimates

This section presents approximate costings and the long-run resource estimates for the main objectives of the PEAP. It is expected that Government will formally review these costings and resource projections in the context of developing the Long Term Expenditure Framework, which will in turn inform the annual discussions on the Budget and the MTEF.

4.5.1 Overall summary estimates

Table 4.3 shows the summary estimates of costings of the PEAP objectives as identified in existing sectoral plans. These costings are given in real constant Shs billion and assume a constant real exchange rate for ease of presentation. The costings are all on an annual basis with investment costs included as the annual cost of delivering programmes over a five or ten year period. Estimates of recurrent costs assume a similar long-term perspective and in particular assume that any current capacity or absorptive constraints can be essentially overcome in the next five years. For example the figure used for the cost of delivering the National Agriculture Advisory Service is the estimated level of spending after five years that is required to deliver services to 80% of all households.

Table 4.3: Summary of costs of sector plans/targets compared with 2000/01 budget provision

Summary Of Sector Costs Shs bn a year	**PEAP requirement (spending on annual basis)**	**Current spending (2000/01)**	**Increase required**	**Current (2000/01) as % of PEAP**
Roads	**359**	**283**	**76**	**79%**
of which Rural feeder roads	*88*	*47*	*41*	*54%*
Plan for Modernisation of Agriculture	**268**	**107**	**161**	**40%**
o/w National Agricultural Advisory Service	*65*	*8*	*57*	*12%*
o/w Land Act	*21*	*3*	*30*	*13%*
o/w Adult literacy	*23*	*1*	*22*	*4%*
Education	**788**	**413**	**375**	**52%**
o/w Primary Education	*519*	*236*	*283*	*45%*
Health	**421**	**226**	**195**	**54%**
o/w Village Health committees				
o/w Health Centre IIs				
Water and sanitation	**212**	**89**	**123**	**42%**
Law and Order	**175**	**91**	**84**	**52%**
Other costed PEAP programmes	**107**	**49**	**58**	**46%**
Other MTEF programmes	**912**	**758**	**154**	**83%**
o/w Defence	*269*	*192*	*77*	*71%*
Total All Programmes	**3240**	**2016**	**1225**	**[63]%**
o/w Pay reform	*746*	*447*	*323*	
Total as % of GDP (2000/01)	**[33]%**	**21%**	**[12]%**	
o/w Govt Tax/non-tax revenue		**11%**		

Notes
All figures in real Shs bn (constant 2000/01); & assume constant real exchange rate
Budget figures include budgeted donor project spending
Historical national average implementation rate of 75%
Costs of capital investment plans assumed to be spread over 5 or 10 years
Estimates assume capacity constraints (including availability of trained staff) overcome in 5-10 years
Above figures exclude spending by districts financed by their own revenues/user charges/
Miscellaneous sources/donations; Outturn in 1997/98 = Shs 108 bn (1.5% of GDP)

For the first time the costs of pay reform (essentially the costs of implementing Job Evaluation recommendations) are included within each sector rather than being treated as a separate sector. Thus for example one of the single largest cost items in the PEAP is the cost of implementing the recommended 72% pay increase for primary teachers, which would require an extra Shs 99 bn a year.

The costings presented here are necessarily just a statement of what is currently known and provided in the various sector programmes. The costs of each programme are compared with budgeted levels of spending for 2000/01 (including donor funded project spending) to assess the size of the required increase. Two sectors stand out as receiving significantly less than half of their PEAP estimated requirements – the Plan for the Modernisation of Agriculture and the Water and Sanitation sector.

4.5.2 Overview of individual sector targets and costs

The major costs and outputs in each sector are described below. The detailed figures are the result of extensive consultation with the relevant line Ministries and all the estimates have been discussed with senior management teams of the relevant Ministries. Table 4.4 summarises the main medium/long term output/outcome targets for each sector and assesses the implications of what would happen if funding for a particular programme remains at the 2000/01 budgeted level.

Roads

With major budget increases over the last three years, funding for the main road programme is now 90% of the level envisaged in the original ten year road programme. However the rural road programme is currently underfunded. If there is no increase in the provision made in the 2000/01 Budget then only 75% of the network would be rehabilitated/maintained over the next five years.

Plan for Modernisation of Agriculture

The main programmes requiring additional funding are the National Agriculture Advisory Services; adult literacy programme; the administrative costs involved in implementing the Land Act and a range of Environment projects - these are currently being reassessed on a sector basis. Only a part of these funding requirements can be met by refocusing existing donor spending within the sector.

Education

Despite the more than threefold increase in funding for primary education in the last three years and the doubling of the number of primary teachers, the two largest programmes in the education sector still requiring additional funding are both in primary education, namely primary classroom construction (the current ratio is 2 classes per room compared to a target of 1:1) and pay reform for primary teachers (the Job Evaluation Study recommended a 72% increase). The requirements for secondary education are much less as with the new workload and minimum class targets the current teaching establishment could absorb the 120% increase in secondary enrolment that is expected to occur over the next ten years.

Table 4.4 Summary of sector targets and implication of remaining at 2000/01 level of activity/investment

Main Sector Target Outputs/Outcomes	**Implications Of Remaining At 2000/01 Levels Of Activity/Investment ***
Roads	
Ten year main road programme fully implemented	Only 90% achieved
Rural network fully rehabilitated and maintained within 5 years	Only 75% rehabilitated/maintained
Plan for Modernisation of Agriculture	
Agricultural advisory service to reach 80% of all households	Only 10-20% of households benefit
Fully fund administrative structures required by Land Act	Implemented in only 6 districts
Reduce adult illiteracy from 48% to 15-20% within 5 yrs	No significant reduction
Output targets not yet available for rural electrification; water for production; environment; forestry; outputs	
Education	
Primary pupil:teacher ratio 40:1	Ratio remains at 50:1
Each primary class to have own classroom within 5 yrs	10-15 years to complete
Job Evaluation pay increase for primary teachers (72%)	No pay increase
One set of textbooks/pupil (Vol. I and Vol. II) within 5 yrs	More than 20 years
One government aided secondary school per sub county	
Construction of 850 community polytechnics within 5 yrs	More than 20 yrs
Health	
Support every village health committee	Only 10% of villages
Health Centre II in every parish within 5 years	50% without centre
Health Centre II fully staffed (1 nurse; 2 aides); full drug	Only 1 nurse & 1 aide
Job Evaluation pay increase for medical workers (44%)	No pay increase
Renovation/rehabilitation of hospitals; further upgrade of HC IVs	
Increase spending to $11/person (WHO target $12)	Only $6 per person
Water and sanitation	
100% rural/urban safe water coverage within 10 yrs	75% safe water coverage after 10yrs
Justice/Law and Order	
Doubling police/prisons numbers	No increase
Job evaluation pay increase (83%)	No increase
More detailed output/outcome targets under preparation	
All other sectors in MTEF	
Defence spending remains at 2% of GDP	
Public administration grows in line with population	

* (i.e. in the absence of any increase in funding or reallocation of existing funds or adoption of cheaper alternative approach (incl user fees))

Some additional funding is required to fulfil the plans to have one Government aided secondary school in every sub county. Substantial additional funding is required if the original Education Strategic Investment Plan targets for vocational and higher education are to be fulfilled.

Health

The recent substantial increases in debt relief and donor budget support have enabled a large part of the Essential Minimum Health Care Package to be financed. However there are still major shortfalls in the funding for the construction and recurrent costs for lower level Health Centres.

Water

Despite the increase in funding from the enhanced debt relief initiative, investment in water supply remains way below the level necessary to deliver 95-100% safe water targets in the next ten years. Current spending levels instead are compatible with delivering just 75% coverage although the recent work on the options for urban water supply may reduce the estimated costs for this sector dramatically.

Justice/Law and Order

Work on this sector has only started recently. However just the costs of implementing the planned doubling in size of the police force and awarding the recommended average pay increase of 83% would require a doubling of the total resources going to the sector.

Other costed PEAP programmes

These include a range of multisectoral interventions including restocking; the equalisation grant; district development grants; support for orphans; HIV/AIDS programme costs not included elsewhere (in particular programmes directly administered by Uganda Aids Commission) and accountability sector interventions.

All other MTEF programmes

As the PEAP is the Government's comprehensive planning document it necessarily must cover all sectors. The maintenance of external and internal security is essential if the poor are to be able to develop and increase their incomes. In line with past trends, spending on Defence is assumed to remain constant at 2% of GDP. Funding for other economic functions/social services and public administration costs not included elsewhere are assumed to grow in real terms in line with population (2%). Wage costs in these sectors (including the wage element of the unconditional block grant) are assumed to grow in line with Job Evaluation recommended increase for the Traditional Civil Service (24% on average).

4.6 Long Term Expenditure Framework resource projections

In order to make a preliminary assessment of the affordability of the PEAP two resource scenarios have been developed – ***a low and a high scenario***, presented in Table 4.5.

In the ***low resource case,*** real GDP growth is assumed to be just 5% (compared with an average growth rate of 7% over the last five years and a population growth rate of 2.9%). Tax revenues are assumed to grow by 0.2% of GDP a year (rising from 11.4% now to 15% of GDP by 2018). Aid resources (including highly concessional lending) are assumed to grow in real terms in line with developed world GDP i.e. 2.5% pa (which is close to the average rate of growth in the last five years).

The fiscal deficit (including grants and the concessional element of any borrowing) is assumed in both scenarios to remain in surplus. Appreciating the concessional element of any borrowing is essential to understanding the long term financial stability implications. Any concessional lending at less than the normal market interest rate is financially equivalent to a grant and a much smaller loan at market interest rates. It is only the loan element that has an impact on future debt repayments. Under the debt strategy of the last five years, the Government has committed itself not to borrow unless the term are equivalent to receiving a grant of 75% of the value of the total loan, with the market interest rate bearing component being no more than 25% of the face value of the loan. [This approach focuses on the Net Present Value of any borrowing which is the basis of the whole approach adopted in the Highly Indebted Poor Countries debt initiative].

Given the growth in GDP in both scenarios, the implication of a continued fiscal surplus is a steady reduction in the debt/GDP ratio and so more than ensures macroeconomic stability and debt sustainability targets are satisfied.

In the ***high scenario case***, GDP growth is assumed to be 8% and aid resources grow by 5% pa [i.e. significantly faster than over the last five years]. As both GDP and aid are assumed to grow faster, aid dependency continues to fall in this scenario as well.

Table 4.5 Long Term Expenditure Framework resource projections: low and high scenarios

Resource Scenarios	**Low**	**High**
Key assumptions		
Real GDP growth	5%	8%
Memo Population growth rate	2.9%	2.9%
Increase in tax/GDP ratio pa	0.2 % points	0.2 % points
Increase in aid (real US$)	2.5%	5%
Resource implications (Shs bn real)		
Increase in resources after 5 yrs [2000/01 baseline = 2,120 bn]	600	950
Increase in resources after 10 yrs	1400	2400
Memo		
Tax/GDP ratio after 5 yrs [2000/01= 11.8%]	12.8%	12.8%
Aid/GDP ratio after 5 yrs [2000/01 = 12%]	10.6%	10.4%
Of which grants [2000/01 = 7.8%]	6.9%	6.8%
Of which grant element of concessional loans [2000/01 = 75% of 5.5% = 4.1%]	3.7%	3.6%
Deficit (including grants) [2000/01 = deficit 2.3%]	deficit 2.3%	deficit 2.3%
Deficit (including grants and grant element of concessional loans) [2000/01 = surplus 1.8%]	surplus 1.3%	surplus 1.3%

Footnotes

Aid figures just include aid to central government (and excludes aid to parastatals e.g UEB)

Revenue and expenditure figures exclude local government own revenues (and expenditure financed by these revenues) including Graduated Personal Tax, user charges; miscellaneous source and donations [latest outturn figures [1997/98] = Shs 108 bn; 1.5% of GDP]

There are four major uncertainties relating to the long-run availability of resources. First, revenue growth largely depends on GDP growth. Secondly, the share of revenues is intended to rise, but the speed at which this will be achieved in the medium term is hard to predict exactly. Thirdly, the foreign exchange rate will affect the domestic value of foreign inflows and will have different effects on the effective deflator for different sectors of government expenditure. Finally, the level of external flows will be important.

4.7 Implications of cost and resource projections – scale and nature of challenge

The previous sections represent the first attempt made at bringing together in a systematic manner all the information available on the costs of all the various PEAP sector programmes, drawing on existing plans and as well as the latest budget submissions. There are tremendous difficulties involved in attempting to cost the PEAP due to the limited expertise in each sector. But despite all the difficulties, the limited exercise that has been possible to undertake gives a helpful first picture of the *scale* and the *nature* of the expenditure challenges that the PEAP will pose in successive budgets and in developing realistic medium term sector plans.

First as to **the scale of the expenditure challenges** posed by the PEAP. In FY2000/01, the combined total spending by Government and by donors is budgeted to be 2,120 billion shillings (excluding arrears and amortisation payments). If all the PEAP plans that have been costed were to start being implemented this year – if the proposed pay reform increases were awarded immediately in full and provision made for every capital programme (assuming an even rate of spending over the five or ten years envisaged) – this would require an additional 1,200 billion shillings – an increase of 60% or some $750 million on what is currently provided for in the 2000/01 Budget.

In the low resource scenario the amount available increases by around Shs 120 billion a year in real terms. This would imply waiting for at least ten years until there were sufficient resources to even start all the five/ten year investment plans referred to in the PEAP. Even in the high resource scenario full implementation of PEAP programmes could only be afforded after seven years.

The preliminary conclusion is that the **PEAP is affordable – but not immediately.** There is an urgent need to start to consider the priorities not only within sectors but also across sectors. There is need to examine the possibility of funding PEAP programmes by reallocating existing spending. The experience of the health sector and the Plan for Modernisation of Agriculture suggest that there is considerable scope for refocusing current spending.

The costing exercise has also given some information about the **nature of the expenditure challenges to be faced** in implementing PEAP. Of the extra Shs 1,200 bn that could be required, for example:

- nearly Shs 400 bn - a third of the total – could be for education. If each primary class is to have its own classroom within the next five years then an extra Shs 100 bn a year needs to be spent. This is over and above next years planned levels which have already benefited from enhanced HIPC funds. Pay reform just for existing primary school teachers would cost another Shs 100 bn.

- health (the latest draft of the Health Sector Strategic Plan leaves major gaps in rural health care provision after five years);

- rural water (even with the massive increase next year due to enhanced HIPC a further 140% increase is necessary if 100% safe water coverage is to be achieved within ten years)

- implementation of the Plan for the Modernisation of Agriculture

- pay reform cuts across all the sectors and in aggregate amounts to Shs 300 bn – a quarter of the total. Of this half would be needed to fund the proposed pay increase for teachers. Less than Shs 10 bn would be needed to fund the option of a hardship allowance for teachers and health workers in isolated areas with limited supporting infrastructure (eg no access to secondary schools) and where there are proven recruitment and retention problems. (Costs above assume that up to 10% of workers might benefit from an allowance worth 20% of their salary)

4.8 Options for bridging the gap between costs and resources

Given the existing gap between costs and resources, two sets of measures will have to be taken to bridge the gap: those that aim at increasing resources versus those aimed at reducing costs.

Increasing resources

- Donor project resources have been estimated on the basis of national historical average implementation rate of 75%. However, the average implementation rate for donor budget support under PAF have been much higher. If the proportion of budgetary support rises, donors may correspondingly reduce their commitments to keep disbursements roughly constant: or they may allow commitments to increase. If the latter happens, then resources available could be significantly increased by a shift to budgetary support.
- Improvements in tax administration would make a significant difference.
- It may be possible to make efficiency savings in lower priority areas and transfer spending to areas that are more directly poverty-reducing.
- The move towards budget support should make it easier to co-ordinate efforts and focus spending on PEAP priorities

Reducing costs

- Cost-sharing is an option for a number of areas including health care, secondary education and urban water supply. This could have a major impact on the costs to the Government.

- Adopting more cost effective structures or approaches is another option (for example the Land Act Implementation study identified various alternative options for the precise administrative structure required).
- Phasing implementation is possible, by revising the targets downwards in the short term.
- On pay reform, better information about recruitment difficulties should allow more precise targeting of pay increases to sectors currently facing recruitment or retention difficulties.

4.9 Monitoring the implementation of the Action Plan

It is now clear that if the goals of the Uganda Action Plan are to be realised in the medium to long-term, monitoring of poverty trends is a critical element of the poverty reduction strategy. However, cooperation between institutions involved in monitoring is essential to ensure that all aspects are covered and that needless duplication is avoided. For this reason Government is in the process of defining a Poverty Monitoring Strategy that outlines a clear structure for the public institutions involved in monitoring, and for other institutions which collaborate with Government.

The monitoring strategy is designed for two main purposes. First, it monitors progress while encouraging a two-way flow of information between beneficiaries, service providers and policy makers. Thus, implementation strategies can be continually modified to build on what works and avoid repeating mistakes. Secondly, the monitoring strategy will help to build accountability in the sense that Government will expect to account for its successes or failures in achieving set targets, although this may sometimes depend on externalities. The monitoring system consists of analysing indicators at three levels: ***outcomes, outputs*** and ***inputs***. It also analyses the causal relations between the indicators at the different levels, in particular the ***impact*** of public programmes on outcomes.

A large number of institutions, generating data on a quarterly, annual, bi-annual, or for 5-10 year period are involved in monitoring the progress in implementation of the Action Plan. These are coordinated by the Poverty Monitoring Network, with the Poverty Monitoring and Analysis Unit (PMAU) in the MFPED as the Secretariat Regular household surveys are being used in preparing high quality estimates of trends in poverty complemented by participatory work, mainly by the Uganda Participatory Poverty Assessment Project (UPPAP), that has shed light on the various dimensions of poverty in Uganda. The Plan is also monitored by the Poverty Status Report (PSR) which was first prepared in 1999 and is being prepared this year, a summary of which has already served as the country's PRSP for 2001. The PSR synthesizes information on recent poverty trends and makes recommendations on the poverty eradication strategy.

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Annex 1: Trends in Selected Macroeconomic Indicators

Indicator	1991/92	1992/93	1993/94	1994/95	1995/96	1996/97	1997/98	1998/99	1999/00
Annual average inflation (%)	42.4	30.0	6.5	6.1	7.5	7.8	5.8	-0.2	6.3
National Accounts, % growth rates:									
Agriculture	-1.0	9.3	1.8	5.9	4.3	1.1	1.9	6.9	3.0
Industry	8.4	8.4	13.0	20.3	16.6	11.4	11.5	9.1	8.6
Services	7.3	7.1	7.8	13.2	8.6	5.7	6.6	7.2	5.6
GDP at factor cost	3.1	8.4	5.4	10.6	7.8	4.5	5.4	7.4	5.1
Real per capita GDP	0.2	4.5	2.2	7.3	4.7	1.7	2.5	4.5	2.1
National accounts, % GDP at factor cost:									
Gross domestic investment	16.9	16.3	15.9	17.9	17.7	17.8	16.5	18.0	18.9
Public investment	7.8	7.2	5.9	5.9	5.9	5.2	5.1	5.1	7.6
Private investment	9.0	9.1	9.9	11.2	12.5	12.8	11.5	12.8	11.3
Gross domestic savings	0.4	1.2	4.7	8.1	5.1	8.8	6.1	5.3	4.1
Balance of payments, % of GDP at factor cost:									
Current account balance, excluding grants	-12.5	-13.1	-7.2	-8.4	-9.1	-9.1	-11.4	-12.8	-14.2
External Indicators:									
Debt service/exports (% before HIPC rescheduling)	127.7	73.8	53.9	25.8	23.1	20.3	27.2	24.6	28.2
Debt service/exports (% after HIPC rescheduling)	127.7	62.9	49.0	23.5	21.8	17.9	26.4	18.4	15.3
Debt stock/GDP at factor cost	9.5	5.2	2.3	0.7	0.6	0.4	0.6	0.6	0.6
Reserves in Months of Imports	1.5	1.9	3.1	3.4	3.6	4.5	4.8	4.9	5.0
Government Finance, % of GDP at factor cost:									
Domestic Revenue	7.2	7.8	8.9	10.7	11.3	12.1	11.3	11.9	11.6
Public Expenditure	22.5	19.8	20.1	18.2	17.8	18.5	17.4	18.4	22.1
Overall deficit excluding grants	-15.3	-12.0	-11.1	-7.5	-6.5	-6.4	-6.1	-6.4	-10.5
External borrowing, net	5.3	4.5	5.3	4.8	3.5	3.4	2.7	3.0	4.3
Domestic borrowing, net	2.5	-1.1	-1.3	-2.0	-1.5	-1.9	-2.3	-1.6	-0.3

Annex 2: Government of Uganda Key External Debt Indicators

Variables	**1992/93**	**1993/94**	**1994/95**	**1995/96**	**1996/97**	**1997/98**	**1998/99**	**1999/00**
External Debt Ratios (%)								
Debt Stock/Exports of Goods & services	1566.6%	1038.3%	449.6%	468.3%	437.0%	573.0%	487.7%	462.8%
Debt Stock/GDP	87.8%	71.5%	57.0%	61.6%	64.3%	59.5%	63.5%	62.8%
Total Debt Service (excl IMF)/ Domestic Revenue	50.3%	42.7%	21.1%	16.0%	13.6%	14.0%	15.0%	15.4%
Total Debt Service/ Exports of Goods and Services	83.2%	66.1%	22.6%	19.7%	18.6%	24.4%	21.8%	21.5%
TDS excl IMF (post-HIPC)/Domestic Revenue	---	---	---	---	---	---	8.5%	9.4%
TDS (post-HIPC)/XGS	---	---	---	---	---	---	15.8%	16.0%
Memo items (US$ millions)								
Debt Stock (including arrears)	2,648	2,637	2999	3387	3660	3631	3650	3680
Total Debt Service (including arrears)	141	168	151	142	156	155	163	171
Total Debt Service excl IMF (including arrears)	121	155	116	97	94	96	103	113
GDP (Shs billion)	3,626	4,069	4922	5565	6023	7104	7887	8790
GDP	3,017	3,689	5265	5494	5693	6099	5745	5860
Exports of Goods & Non-Factor Services	169.00	254.00	667	723	838	634	748	795
Domestic Revenue (Shs bn)	288.50	399.50	514	618	735	794	948	1100
Domestic Revenue	240.02	362.19	550	610	695	681	690	733
Exchange Rate (Avg mid rate Shs/US$)	1202	1103	935	1013	1058	1165	1373	1500
HIPC Relief	---	---	---	---	---	---	45	44

Source: Background to the Budget (GDP, Domestic Revenue), Bank of Uganda (Debt Stock, Debt Service, Exports, Exchange Rate)

Annex 3: Summary Indicative Medium Term Expenditure Framework 2000/01 – 2003/04 (Excluding Arrears, Promissory Notes, Taxes and Appropriation in Aid) in billions of Ush.

Wage, Non-Wage and Government-Financed Development										
	1994/95	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04
Sector	Outturn	Outturn	Outturn	Outturn	Revised	Revised	Draft	Projected	Projected	Projected
					Outturn	Outturn	Estimates			
Roads and Works	25.78	27.48	53.93	39.99	63.06	100.74	137.72	148.20	159.88	172.82
Agriculture	15.15	9.38	10.80	9.21	9.75	17.75	24.12	25.46	26.91	28.91
Education	117.02	118.62	174.16	212.42	275.01	321.69	402.42	433.58	482.86	537.91
Health	47.36	62.30	57.34	54.15	68.22	78.32	113.73	137.99	182.69	211.09
Security	116.20	118.86	145.44	120.77	203.06	191.00	209.75	226.21	241.50	265.04
Water				3.99	12.75	15.98	36.39	40.29	42.39	44.63
Law and Order	52.42	61.54	69.12	72.84	73.40	90.52	94.46	100.17	107.51	117.65
Accountability				4.09	6.24	7.79	16.55	18.74	21.79	23.99
Economic Functions and Social Services	51.78	38.58	50.55	33.63	28.00	56.88	93.92	99.40	113.09	127.28
Public Administration	119.11	140.96	174.23	203.92	211.86	251.94	265.32	301.44	308.47	336.43
Interest Payments Due	47.32	54.28	55.74	62.41	72.13	94.70	107.10	118.10	131.90	145.09
All Sectors	592.1335	631.9978	791.3159	817.4227	1023.487	1227.309	1501.482	1649.566	1818.997	2010.825