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UGANDA

FIRST DRAFT OF THE NATIONAL PROGRAMME OF ACTION

(Summary)

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I. INTRODUCTION

1. Uganda is a landlocked country in East Africa with a relatively large population. It is basically an agrarian economy with over 80% of the population deriving their livelihood from the agricultural sector. Uganda is well endowed in natural resources. Its extensive water resource provides power for domestic and export consumption and is also an important resource for the fishing industry. The country is endowed with minerals although not yet fully exploited. Major minerals of economic importance are gold, copper, limestone, volcanic ash, cobalt and iron ore. Petrol 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. Over the past 10 years, Uganda 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. However, despite these encouraging trends, poverty remains endemic in Uganda. While strong economic growth is a major force in reducing poverty, it is not sufficient to ensure that all segments in society benefit fully.

II. UGANDAN ECONOMY DURING THE 1990s

Performance in the 1990s: Economic and Social Aspects

2. 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 and targeting public investment to infrastructure development. This effort succeeded in reversing the negative trend of the economic growth performance experienced through out the 1980s. During the 1990s, the economy expanded at an average rate of 6.0% per annum. Although this performance is 1.0 percentage point lower than the target, it is still above the average growth rate of the sub-Saharan African economies. The growth rates of Ugandan per capita GDP have been higher than in comparator countries during 1993-98.

3. Uganda has also witnessed considerable improvement in its overall investment rates. Gross domestic investment has averaged 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 inflows in recent years is largely attributed to the more favourable business environment in the country. Apart from improvements in tax administration, recent tax reforms such as the introduction of VAT in July 1996 and the enactment of a new Income Tax Act in 1997 have made an important contribution to the improved revenue performance. Tax revenue has improved since 1991 to about 11 percent of GDP presently. 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 GDP over the same period. The overall balance of payments position improved from an overall deficit of 3.4 percent of GDP in 1990/91 to a small surplus of 0.6 percent of GDP in 1997/98. 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.

4. The decomposition of real GDP growth by sector reveals significant progress registered in most sectors of the economy. The agriculture sector performed poorly, with a peak of 9.3% growth registered in 1992/93 fiscal year from a slump of -1.4% in the previous year. The fluctuation in the performance path was largely influenced by weather conditions, aggravated by low-level imports of agricultural inputs dictated by poor export performance. The food crop subsector followed the same trend as the overall agricultural sector performance, being influenced again by the same external shocks. In contrast, the mining and quarrying sector performed well. This was due to the heavy rehabilitation and renovations that took place during the decade. The manufacturing sector also registered high growth rates. This is attributed to operationalization of the rehabilitated industries and new entrants into the manufactured goods market. The electricity sector equally performed well, owing to increased demand for electricity in production processes. The construction sector was one of the sectors that led in growth. This performance is mainly attributable to the rehabilitation and renovation of physical infrastructure. In addition, increased demand for housing for both office and residence contributed to rapid expansion of the sector. With revitalisation of the economy, activities under commerce, transport and community services sectors recovered and grew at high and positive rates. Similarly, the demand for residential premises increased owing to economic recovery and peace in most parts of the country. Construction of owner occupied dwellings in both urban and rural areas boomed during the past 10 years or so.

5. In contrast to real improvements in the economic sphere, social provisions have performed very poorly over the past ten years, lagging significantly behind those in the sub-Saharan region and elsewhere in Africa. In the health sector, life expectancy in Uganda has been estimated at 42 years in 1997 having fallen from 50.0 in 1995, 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. Child mortality is still high, though it fell significantly from 180 per thousand in 1989 to 147 in 1994. While the infant mortality rate has greatly improved over the past few years, falling from 121 per 1000 live births in 1994 to 88 per 1000 in 1996, it remains significantly higher than that of comparator countries like Kenya (61/1000), Ghana (70/1000) and Zimbabwe (49/1000). Other health and education 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 46.6 percent in 1999. 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.

Factors that enhanced Uganda's development in the 1990s

6. Uganda's development in the 1990s was influenced by a number of factors. Internally, these include stable macroeconomic environment, consistent policy reforms covering broad areas including trade policy, the financial sector, fiscal and monetary policies and investment policy. The Government of Uganda has introduced a number of wide ranging measures to attract Foreign Direct Investment (FDI) and create a domestic economic climate conducive to private sector development and local technological capability-building. These reforms in conjunction with the political stability that Uganda enjoyed under the current leadership have contributed to positive development trends.

7. Externally, consistent support by development partners and favourable performance in the export sector have contributed to positive developments in Uganda. Like many other developing countries in Sub-Saharan Africa, Uganda depends heavily on external donor assistance to finance development programmes. Mobilisation of domestic resources in Uganda, for most of the 1990's, has been below both the desired and predicted levels. External sources of finance, especially through FDI and Official Development Assistance (ODA), have been the main sources of investment in Uganda. 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 financing accounting for over 35% of total flows. On average, external donor inflows have financed 81.4% of the country's development expenditure for the 9 years since 1990. ODA played a key role in the stabilisation efforts of the country, especially in the first half of the 1990s. It 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 in securing the raw material and capital goods imports necessary for production. In addition, the debt relief initiative introduced recently has helped Uganda to reduce the debt burden, although the total debt owned by Uganda still remains high. Owing to its consistency in pursuing sound policies and commitment to structural adjustment, Uganda became the first country to receive assistance under the HIPC initiative. The relief worth US \$ 347 million was availed to Uganda in 1998.

Factors that constrained Uganda's development in the 1990s

8. Although Uganda has enjoyed political stability in the last decade or so, armed conflict remains a major concern especially in the northern part of the country. Uganda has hosted and continues to host refugees from a number of neighbouring countries. In 1999, the internally displaced population of Uganda was estimated at 622,000 with spillover effects on many who are actually not displaced. Regional conflict troop movement and resulting refugee movements are likely to impose on public expenditure and exacerbate social problems, for instance, in terms of HIV transmission within Uganda and the region. Poor infrastructure in the single most important constraint to private sector development in Uganda. Frequent power cuts and the poor road network and telecommunications create a high risk in terms of delays and extra costs for production, imports and exports and pose serious constraints to private sector growth.

9. Mobilization of domestic resources in Uganda has remained below the desired levels. This has meant that current and future investments would have to rely on FDI and ODA flows. Domestic savings have been constrained by problems in the banking sector and the low or negative interest rates. In the social sector, major constraints are observed in the area of health service delivery. Uganda's health service delivery capacity is the worse than most of the neighbouring countries and far worse than those in developing countries in other continents. The Participatory Poverty Assessment identified health as the most frequently cited cause and consequence of poverty. So improving health outcomes is essential to reducing poverty. Another area, which is a constraint, and may require attention, is the availability and use of land. Inequality and access to land, both across localities and within them, need to be addressed.

III. PROGRAMME OF ACTION FOR UGANDA: 2001-2010

10. Uganda's programme of action is clearly articulated in the Poverty Eradication Action Plan (PEAP) which 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. After a wider consultation through participatory process, involving a cross-section of stakeholders and based on natural development vision, the Government of Uganda has formulated an overall strategy based around four primary goals for the next decade that are mutually reinforcing. These are:

(1) Creating a framework for economic growth and structural transformation

This goal emphasises 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 *macroeconomic discipline*, setting up appropriate *macroeconomic incentives* 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

Various consultations with the poor have indicated insecurity as one of their most pressing problems. This goal, therefore, emphasises *conflict resolution and effective support to conflict-afflicted* areas. Democratization is another key element under this strategy and this has been, in the case of Uganda, pursued in the context of decentralisation. Good governance also involves making public expenditure transparent and accountable, improvement in the quality of service delivery, enforcement of law and order and increasing accessibility to public information.

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

The central thrust of Government policy in this area is contained in the Plan for Modernisation of Agriculture (PMA) whose principal aim is to eradicate poverty by improving the natural

resource-based livelihoods of the Ugandan population in a sustainable manner. The PMA identifies six areas for public action in agriculture: research and technology, advisory services, education, access to rural finance, access to markets, and sustainable natural resource utilisation and management.

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

This goal emphasises the need to increase the poors' 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 enrolment. The priority now is to improve the quality of education as well as ensuring that access to primary and 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.